



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE February 12, 2010

Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$1,921,531 for the year ended June 30, 2009. The receipts included \$475,882 in property tax, \$1,043,789 from charges for service, \$264,762 from operating grants, contributions and restricted interest, \$1,898 from capital grants, contributions and restricted interest, \$91,648 from local option sales tax, \$8,880 from unrestricted interest on investments, \$27,000 from note proceeds and \$7,672 from other general receipts.

Disbursements for the year totaled \$1,750,430, and included \$215,241 for public works, \$201,300 for public safety and \$201,278 for culture and recreation. Also, disbursements for business type activities totaled \$928,755.

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/index.html>.

###

CITY OF LEON

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

JUNE 30, 2009

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	14-15
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16-17
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	19
Notes to Financial Statements		20-26
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		28-29
Notes to Required Supplementary Information – Budgetary Reporting		30
Other Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	32-33
Schedule of Indebtedness	2	34-35
Bond and Note Maturities	3	36-37
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 <u>Government Auditing Standards</u>		39-40
Schedule of Findings		41-44
Staff		45

City of Leon

Officials

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

City of Leon



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Leon, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Leon's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

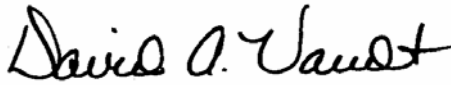
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2008.

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, 2008, 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, 2009, and the respective changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

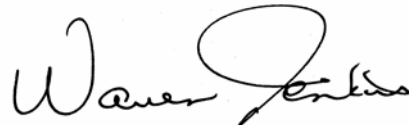
In accordance with Government Auditing Standards, we have also issued our report dated January 15, 2010 on our consideration of the City of Leon's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Leon's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, 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, 2008, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 15, 2010

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, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2009 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental funds increased approximately \$98,000 due primarily to receipts in excess of disbursements in the General Fund and the Special Revenue, Local Option Sales Tax Fund.
- The City's total cash basis net assets for the City's business type activities increased approximately \$73,000 due to increases in water, sewer and refuse disposal charges.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system and refuse disposal. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Employee Benefits and Local Option Sales Tax, 3) the Debt Service Fund and 4) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

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

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

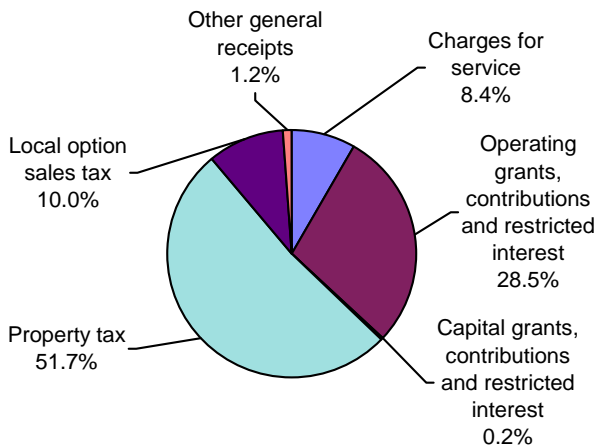
GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from approximately \$652,000 to approximately \$750,000.

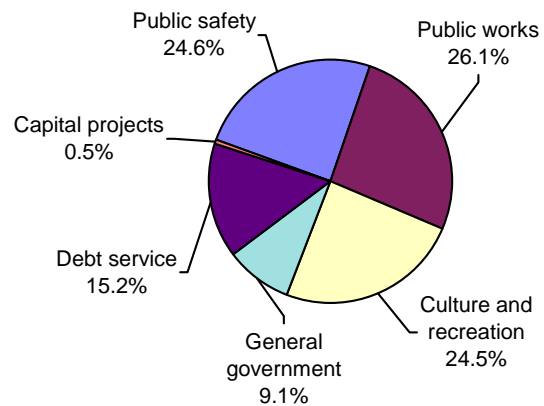
Changes in Cash Basis Net Assets of Governmental Activities
(Expressed in Thousands)

	Year ended June 30, 2009
Receipts:	
Program receipts:	
Charges for service	\$ 77
Operating grants, contributions and restricted interest	262
Capital grants, contributions and restricted interest	2
General receipts:	
Property tax	476
Local option sales tax	92
Other general receipts	11
Total receipts	920
Disbursements:	
Public safety	202
Public works	215
Culture and recreation	201
General government	75
Debt service	125
Capital projects	4
Total disbursements	822
 Change in cash basis net assets	98
Cash basis net assets beginning of year	652
Cash basis net assets end of year	\$ 750

Receipts by Source



Disbursements by Function



The cash basis net assets of the City's governmental activities increased 15%, or approximately \$98,000, due primarily to increases in the cash balances of the General Fund and the Special Revenue, Local Option Sales Tax Fund.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		Year ended June 30, 2009
Receipts:		
Program receipts:		
Charges for service:		
Water	\$	547
Sewer		175
Refuse disposal		245
Operating grants, contributions and restricted interest		3
General receipts:		
Unrestricted interest on investments		5
Note proceeds		27
Total receipts		<u>1,002</u>
Disbursements:		
Water		535
Sewer		162
Refuse disposal		232
Total disbursements		<u>929</u>
Change in cash basis net assets		73
Cash basis net assets beginning of year		<u>574</u>
Cash basis net assets end of year	\$	<u>647</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Leon completed the year, its governmental funds reported a combined fund balance of approximately \$750,000, an increase of approximately \$98,000 above last year's total of approximately \$652,000. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased approximately \$29,000 from the prior year to approximately \$221,000.
- The Special Revenue, Road Use Tax Fund cash balance decreased approximately \$4,000 to approximately \$3,000 during the year. The decrease was due to spending a portion of the accumulated balance in the Special Revenue, Road Use Tax Fund.
- The Special Revenue, Employee Benefits Fund cash balance increased approximately \$19,000 to approximately \$75,000 during the year, due in part to an increase in the tax levy in fiscal 2009.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased approximately \$52,000 to approximately \$292,000 during the year. The increase was due to local option sale tax receipts exceeding amounts paid on the revenue bond.
- The Special Revenue, Economic Development Fund cash balance increased approximately \$5,000 to a balance of approximately \$69,000 at June 30, 2009.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased approximately \$19,000 to approximately \$452,000, due primarily to a rate increase.
- The Sewer Fund cash balance increased approximately \$40,000 to approximately \$146,000, due primarily to a rate increase.
- The Refuse Disposal Fund cash balance increased approximately \$14,000 to approximately \$48,000, due primarily to a rate increase.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The amendments were approved on January 14, 2009 and May 26, 2009. The amendments resulted in an increase in operating disbursements of \$133,700. The City had sufficient cash balances to absorb these additional costs. The City's receipts were \$25,308, or 1.3%, less than budgeted. Total disbursements were \$121,801, or 6.5%, less than the amended budget.

DEBT ADMINISTRATION

At June 30, 2009, the City had approximately \$1,013,000 in bonds, notes and other long-term debt outstanding compared to \$1,128,590 last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30,	
	2009	2008
General obligation notes	\$ 17	94
Local option sales tax revenue bonds	215	245
Water revenue bonds	754	790
Sewer interim project note	27	-
Total	\$ 1,013	1,129

Debt decreased as a result of the City paying down general obligation notes and revenue bonds. During the year, the City received \$27,000 from a \$400,000 sewer interim project note for renovation of the wastewater treatment plant.

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 \$231,790, which includes local option sales tax revenue bonds of \$215,000, is less than its constitutional debt limit of approximately \$2,478,000.

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 2010 budget, tax rates and fees charged for various City activities.

The fiscal year 2010 budget contains total receipts of approximately \$1,848,000 and disbursements of approximately \$1,774,000. This is comparable to fiscal year 2009 actual receipts of approximately \$1,895,000 and disbursements of approximately \$1,750,000.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Angela Blades, City Clerk/Treasurer, P.O. Box 210, Leon, Iowa 50144.

Basic Financial Statements

City of Leon

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2009

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 201,300	6,398	30,754	-
Public works	215,241	8,427	192,701	-
Culture and recreation	201,278	31,069	33,661	-
General government	75,313	31,276	772	-
Debt service	125,043	-	3,947	-
Capital projects	3,500	-	-	1,898
Total governmental activities	821,675	77,170	261,835	1,898
Business type activities:				
Water	535,173	546,878	2,927	-
Sewer	161,933	174,686	-	-
Refuse disposal	231,649	245,055	-	-
Total business type activities	928,755	966,619	2,927	-
Total	\$ 1,750,430	1,043,789	264,762	1,898

General Receipts:

Property and other city tax levied for:
 General purposes
 Debt service
 Local option sales tax
 Unrestricted interest on investments
 Note proceeds
 Miscellaneous

Total general receipts

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

Nonexpendable:

Permanent funds

Expendable:

Debt service

Sewer replacement

Other purposes

Unrestricted

Total cash basis net assets

See notes to financial statements.

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

Governmental Activities	Business Type Activities	Total
(164,148)	-	(164,148)
(14,113)	-	(14,113)
(136,548)	-	(136,548)
(43,265)	-	(43,265)
(121,096)	-	(121,096)
(1,602)	-	(1,602)
(480,772)	-	(480,772)
-	14,632	14,632
-	12,753	12,753
-	13,406	13,406
-	40,791	40,791
(480,772)	40,791	(439,981)
385,946	-	385,946
89,936	-	89,936
91,648	-	91,648
3,826	5,054	8,880
-	27,000	27,000
7,672	-	7,672
579,028	32,054	611,082
98,256	72,845	171,101
651,723	573,716	1,225,439
\$ 749,979	646,561	1,396,540

\$ 63,427	-	63,427
56,788	5,731	62,519
-	75,890	75,890
409,262	-	409,262
220,502	564,940	785,442
\$ 749,979	646,561	1,396,540

City of Leon

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

As of and for the year ended June 30, 2009

	Special		
	General	Road Use Tax	Employee Benefits
Receipts:			
Property tax	\$ 261,280	-	101,257
Other city tax	16,835	-	6,574
Licenses and permits	22,240	-	-
Use of money and property	9,164	-	772
Intergovernmental	66,048	164,529	-
Charges for service	28,289	-	-
Miscellaneous	45,772	-	-
Total receipts	<u>449,628</u>	<u>164,529</u>	<u>108,603</u>
Disbursements:			
Operating:			
Public safety	156,246	-	45,054
Public works	14,501	168,961	31,779
Culture and recreation	187,005	-	7,493
General government	70,172	-	5,141
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	<u>427,924</u>	<u>168,961</u>	<u>89,467</u>
Excess (deficiency) of receipts over (under) disbursements	<u>21,704</u>	<u>(4,432)</u>	<u>19,136</u>
Other financing sources (uses):			
Operating transfers in	7,662	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	<u>7,662</u>	<u>-</u>	<u>-</u>
Net change in cash balances	29,366	(4,432)	19,136
Cash balances beginning of year	191,136	7,736	55,401
Cash balances end of year	<u>\$ 220,502</u>	<u>3,304</u>	<u>74,537</u>
Cash Basis Fund Balances			
Reserved for debt service	\$ -	-	-
Unreserved:			
General fund	220,502	-	-
Special revenue funds	-	3,304	74,537
Permanent funds	-	-	-
Total cash basis fund balances	<u>\$ 220,502</u>	<u>3,304</u>	<u>74,537</u>

See notes to financial statements.

Revenue			
Local			
Option	Economic		
Sales Tax	Development	Nonmajor	Total
-	-	84,510	447,047
91,648	-	5,426	120,483
-	-	-	22,240
3,836	1,898	1,492	17,162
-	-	-	230,577
-	-	-	28,289
-	7,000	1,361	54,133
95,484	8,898	92,789	919,931
-	-	-	201,300
-	-	-	215,241
-	-	6,780	201,278
-	-	-	75,313
43,925	-	81,118	125,043
-	3,500	-	3,500
43,925	3,500	87,898	821,675
51,559	5,398	4,891	98,256
-	-	-	7,662
-	-	(7,662)	(7,662)
-	-	(7,662)	-
51,559	5,398	(2,771)	98,256
240,705	63,283	93,462	651,723
292,264	68,681	90,691	749,979
43,398	-	13,390	56,788
-	-	-	220,502
248,866	68,681	13,874	409,262
-	-	63,427	63,427
292,264	68,681	90,691	749,979

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, 2009

	Enterprise			
	Water	Sewer	Refuse Disposal	Total
Operating receipts:				
Charges for service	\$ 546,878	174,686	245,055	966,619
Miscellaneous	2,927	-	-	2,927
Total operating receipts	549,805	174,686	245,055	969,546
Operating disbursements:				
Business type activities	473,498	134,933	231,649	840,080
Excess of operating receipts over operating disbursements	76,307	39,753	13,406	129,466
Non-operating receipts (disbursements):				
Interest on investments	3,968	735	351	5,054
Note proceeds	-	27,000	-	27,000
Debt service	(61,675)	-	-	(61,675)
Capital projects	-	(27,000)	-	(27,000)
Net non-operating receipts (disbursements)	(57,707)	735	351	(56,621)
Net change in cash balances	18,600	40,488	13,757	72,845
Cash balances beginning of year	433,260	105,878	34,578	573,716
Cash balances end of year	\$ 451,860	146,366	48,335	646,561
Cash Basis Fund Balances				
Reserved for:				
Debt service	\$ 5,731	-	-	5,731
Capital improvements	-	75,890	-	75,890
Unreserved	446,129	70,476	48,335	564,940
Total cash basis fund balances	\$ 451,860	146,366	48,335	646,561

See notes to financial statements.

City of Leon

Notes to Financial Statements

June 30, 2009

(1) Summary of Significant Accounting Policies

The City of Leon is a political subdivision of the State of Iowa located in Decatur County. It was first incorporated in 1867 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation and general government services. The City also provides water, sewer and refuse disposal utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

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

B. Basis of Presentation

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

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

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

Restricted expendable net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Net assets restricted through enabling legislation consist of \$75,890 for sewer replacement.

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

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining funds are aggregated and reported as nonmajor governmental or proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Employee Benefits Fund is used to pay payroll taxes and employee benefits of the City that are not paid through an enterprise fund.

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

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

The City reports the following major proprietary funds:

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

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

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

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the programs. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Notes		Local Option Sales Tax Revenue Bonds		Water Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 16,790	713	30,000	11,965	37,000	22,620	83,790	35,298
2011	-	-	35,000	10,375	39,000	21,510	74,000	31,885
2012	-	-	35,000	8,485	40,000	20,340	75,000	28,825
2013	-	-	35,000	6,560	41,000	19,140	76,000	25,700
2014	-	-	40,000	4,600	42,000	17,910	82,000	22,510
2015 - 2019	-	-	40,000	2,320	230,000	69,870	270,000	72,190
2020 - 2024	-	-	-	-	267,000	33,240	267,000	33,240
2025	-	-	-	-	58,000	1,740	58,000	1,740
Total	\$ 16,790	713	215,000	44,305	754,000	206,370	985,790	251,388

Local Option Sales Tax Revenue Bonds

The City has pledged future local option sales tax revenue to repay \$400,000 in swimming pool revenue bonds issued May 1, 2002. Proceeds from the bonds were used to construct and equip a new municipal swimming pool and associated facility. The bonds are payable solely from the 1% local option sales tax and are payable through 2015. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City. The total principal and interest remaining to be paid on the bonds is \$259,305. For the year ended June 30, 2009, principal and interest paid and local option sales tax receipts were \$43,525 and \$91,648, respectively. Annual principal and interest payments on the bonds required 47% of local option sales tax receipts.

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

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

Water Revenue Bonds

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$896,000 of water revenue bonds issued April 22, 2005. Proceeds from the bonds provided financing for water treatment plant improvements. The bonds are payable solely from water customer net receipts and are payable through 2025. The total principal and interest remaining to be paid on the bonds is \$960,370. For the year ended June 30, 2009, principal and interest paid and total customer net receipts were \$59,700 and \$76,307, respectively. During the current year, annual principal and interest payments on the bonds required 78% of net receipts.

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

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

Sewer Interim Project Note

On April 15, 2009, the City entered into an agreement with the Iowa Finance Authority for issuance of an interest free interim project note not to exceed \$400,000. The principal on the note is payable solely and only from the future proceeds of an authorized loan and disbursement agreement and the corresponding issuance of sewer revenue bonds within three years of the date of the agreement. The agreement was executed pursuant to provisions of Sections 76.13 and 384.24A of the Code of Iowa for the purpose of paying the costs of planning and designing improvements to the sanitary sewer system. The City receives drawdowns from the Iowa Finance Authority for costs as they are incurred. At June 30, 2009, the City had drawn \$27,000 of the \$400,000 authorized.

(4) Operating Lease Agreement

The City entered into a lease during the year end June 30, 2009. The City is leasing a copier, printer and fax machine. The lease has been classified as an operating lease and, accordingly, all rents are charged to expense as incurred. The lease expires March 5, 2014.

The following is a schedule of future minimum rental payments required under the operating lease which has an initial or remaining non-cancelable lease term in excess of one year as of June 30, 2009:

Year Ending June 30,	Amount
2010	\$ 1,157
2011	1,157
2012	1,157
2013	1,157
2014	772
Total	<u>\$ 5,400</u>

(5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial

report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of covered salary. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2009 was \$34,358, equal to the required contribution for the year.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, compensatory and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, compensatory and sick leave payable to employees at June 30, 2009, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 26,300
Compensatory	17,900
Sick leave	<u>6,600</u>
Total	<u>\$ 50,800</u>

This liability has been computed based on rates of pay in effect at June 30, 2009.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Emergency	<u>\$ 7,662</u>

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

(8) 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.

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

The City has entered into an agreement with Southern Iowa Rural Water Association (SIRWA) to sell up to 250,000 gallons of water per day to SIRWA. The rate effective at June 30, 2009 is \$1.69/1000 gallons, with the provision the rate per 1000 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 to the City. The Agency was created by resolution of the City Council as a public body corporate and politic as provided in Section 403A.5 of the Code of Iowa. The City appoints all of the Low Rent Housing Agency's governing board, but the City is not financially accountable for the Agency.

(11) Subsequent Event

In December 2009, the City entered into a contract for \$4,878,700 for the construction of a wastewater treatment facility. The City will issue sewer revenue bonds in the future to fund the project.

Required Supplementary Information

City of Leon
 Budgetary Comparison Schedule
 of Receipts, Disbursements and Changes in Balances –
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2009

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 447,047	-
Other city tax	120,483	-
Licenses and permits	22,240	-
Use of money and property	17,162	5,054
Intergovernmental	230,577	-
Charges for service	28,289	966,619
Miscellaneous	54,133	2,927
Total receipts	<u>919,931</u>	<u>974,600</u>
Disbursements:		
Public safety	201,300	-
Public works	215,241	-
Culture and recreation	201,278	-
General government	75,313	-
Debt service	125,043	-
Capital projects	3,500	-
Business type activities	-	928,755
Total disbursements	<u>821,675</u>	<u>928,755</u>
Excess of receipts over disbursements	98,256	45,845
Other financing sources, net	-	27,000
Excess of receipts and other financing sources over disbursements and other financing uses	98,256	72,845
Balances beginning of year	<u>651,723</u>	<u>573,716</u>
Balances end of year	<u>\$ 749,979</u>	<u>646,561</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
447,047	443,589	443,589	3,458
120,483	131,115	131,115	(10,632)
22,240	14,710	14,710	7,530
22,216	11,170	12,569	9,647
230,577	195,705	249,869	(19,292)
994,908	1,014,158	1,014,158	(19,250)
57,060	16,795	53,829	3,231
<u>1,894,531</u>	<u>1,827,242</u>	<u>1,919,839</u>	<u>(25,308)</u>
201,300	209,373	220,188	18,888
215,241	207,965	233,096	17,855
201,278	156,245	212,390	11,112
75,313	78,835	81,680	6,367
125,043	125,063	125,063	20
3,500	3,500	30,500	27,000
928,755	957,550	969,314	40,559
<u>1,750,430</u>	<u>1,738,531</u>	<u>1,872,231</u>	<u>121,801</u>
144,101	88,711	47,608	96,493
27,000	-	27,650	(650)
171,101	88,711	75,258	95,843
<u>1,225,439</u>	<u>1,085,830</u>	<u>1,085,830</u>	<u>139,609</u>
<u>1,396,540</u>	<u>1,174,541</u>	<u>1,161,088</u>	<u>235,452</u>

City of Leon

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2009

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$133,700. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements did not exceed the amounts budgeted.

Other Supplementary Information

City of Leon

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2009

	Special Revenue			
	Cemetery Trust	Library Trust	Parks and Recreation	Emergency
Receipts:				
Property tax	\$ -	-	-	7,196
Other city tax	-	-	-	466
Use of money and property	145	1,142	93	-
Miscellaneous	1,000	-	-	-
Total receipts	1,145	1,142	93	7,662
Disbursements:				
Operating:				
Culture and recreation	-	1,838	4,942	-
Debt service	-	-	-	-
Total disbursements	-	1,838	4,942	-
Excess (deficiency) of receipts over (under) disbursements	1,145	(696)	(4,849)	7,662
Other financing uses:				
Operating transfers out	-	-	-	(7,662)
Net change in cash balances	1,145	(696)	(4,849)	-
Cash balances beginning of year	8,657	2,015	7,602	-
Cash balances end of year	\$ 9,802	1,319	2,753	-
Cash Basis Fund Balances				
Reserved for debt service	\$ -	-	-	-
Unreserved:				
Special revenue funds	9,802	1,319	2,753	-
Permanent funds	-	-	-	-
Total cash basis fund balances	\$ 9,802	1,319	2,753	-

See accompanying independent auditor's report.

Debt Service	Permanent		Total
	Cemetery Perpetual Care	Library	
77,314	-	-	84,510
4,960	-	-	5,426
112	-	-	1,492
-	361	-	1,361
<u>82,386</u>	<u>361</u>	<u>-</u>	<u>92,789</u>
-	-	-	6,780
<u>81,118</u>	<u>-</u>	<u>-</u>	<u>81,118</u>
<u>81,118</u>	<u>-</u>	<u>-</u>	<u>87,898</u>
1,268	361	-	4,891
-	-	-	(7,662)
<u>1,268</u>	<u>361</u>	<u>-</u>	<u>(2,771)</u>
<u>12,122</u>	<u>45,361</u>	<u>17,705</u>	<u>93,462</u>
<u>13,390</u>	<u>45,722</u>	<u>17,705</u>	<u>90,691</u>
13,390	-	-	13,390
-	-	-	13,874
<u>-</u>	<u>45,722</u>	<u>17,705</u>	<u>63,427</u>
<u>13,390</u>	<u>45,722</u>	<u>17,705</u>	<u>90,691</u>

City of Leon
 Schedule of Indebtedness
 Year ended June 30, 2009

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Street improvement note	Jul 1, 1998	4.85%	\$ 500,000
Equipment note	Oct 7, 2004	4.25	84,000
Total			
Local option sales tax revenue bonds	May 1, 2002	3.00%	\$ 400,000
Water revenue bonds	Apr 22, 2005	3.50 - 5.80%	\$ 896,000
Sewer interim project note	Apr 15, 2009	0.00%	\$ 400,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
60,000	-	60,000	-	2,894
33,590	-	16,800	16,790	1,424
<u>\$ 93,590</u>	<u>-</u>	<u>76,800</u>	<u>16,790</u>	<u>4,318</u>
<u>245,000</u>	<u>-</u>	<u>30,000</u>	<u>215,000</u>	<u>13,525</u>
<u>790,000</u>	<u>-</u>	<u>36,000</u>	<u>754,000</u>	<u>23,700</u>
<u>-</u>	<u>27,000</u>	<u>-</u>	<u>27,000</u>	<u>-</u>

City of Leon
 Bond and Note Maturities
 June 30, 2009

Year Ending June 30,	General Obligation Notes Equipment Issued October 7, 2004		Local Option Sales Tax Revenue Bonds Issued May 1, 2002	
	Interest		Interest	
	Rates	Amount	Rates	Amount
2010	4.25%	\$ 16,790	5.30%	\$ 30,000
2011		-	5.40	35,000
2012		-	5.50	35,000
2013		-	5.60	35,000
2014		-	5.70	40,000
2015		-	5.80	40,000
2016		-		-
2017		-		-
2018		-		-
2019		-		-
2020		-		-
2021		-		-
2022		-		-
2023		-		-
2024		-		-
2025		-		-
Total		<u>\$ 16,790</u>		<u>\$ 215,000</u>

See accompanying independent auditor's report.

Water Revenue Bonds	
Issued April 22, 2005	
Interest	
Rates	Amount
3.00%	\$ 37,000
3.00	39,000
3.00	40,000
3.00	41,000
3.00	42,000
3.00	43,000
3.00	45,000
3.00	46,000
3.00	47,000
3.00	49,000
3.00	50,000
3.00	52,000
3.00	53,000
3.00	55,000
3.00	57,000
3.00	58,000
	<hr/>
	\$ 754,000

City of Leon



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Leon, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 15, 2010. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2008. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Leon's ability to initiate, authorize, record, process or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Leon's financial statements that is more than inconsequential will not be prevented or detected by the City of Leon's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Leon's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items (A) and (B) are material weaknesses.

Compliance and Other Matters

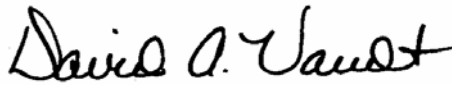
As part of obtaining reasonable assurance about whether the City of Leon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material 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.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

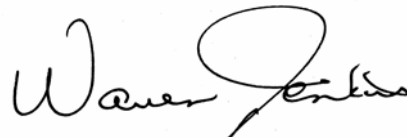
The City of Leon's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Leon's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Leon and other parties to whom the City of Leon may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Leon during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 15, 2010

City of Leon
Schedule of Findings
Year ended June 30, 2009

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One employee has control over each of the following areas:
- (1) Receipts – opening mail, collecting, depositing, posting and reconciling.
 - (2) Disbursements – check writing, recording disbursements and recording accounts receivable.
 - (3) Utilities – billing, collecting, posting and recording accounts receivable.
 - (4) Payroll – recording leave, preparation and distribution.

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

Response – The office at City Hall is looking at implementing new or amending current procedures regarding the four items listed above. Some of the ideas that have been discussed thus far for receipts include: one person separating the mail, a different person enters payments, while duties are already separated when balancing-once a deposit is made another person will check to make sure that the actual deposit matches the records at City Hall.

All disbursements require duplicate signatures and books of all disbursements are kept in the safe for Council and Mayor for viewing at any time. The City Council and the Mayor has available to them Expenditure and Revenue Reports of all incoming and outgoing of monies on a monthly basis. We will also be providing a copy of the bank statement to the Council and Mayor every month for review.

Our utility billing and payroll records are available for viewing by the City Council and the Mayor at anytime.

Each Superintendent signs off on employees payroll sheets and the mayor reviews and signs off on all Superintendents payroll sheets. We will also be looking to establish a procedure for overseeing payroll records after every pay period. These records are also available for Council and Mayor review.

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

City of Leon

Schedule of Findings

Year ended June 30, 2009

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

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

Response – The City will prepare a reconciliation monthly as recommended and the reconciliation will be reviewed by an independent person.

Conclusion – Response accepted.

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

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

Response – All of the employees in the office share in responsibility for accepting payments at City Hall. As stated in the response to finding (A), one person could receive and separate the mail, another person could enter payments, and each of the three share a responsibility in balancing and deposits.

Conclusion – Response accepted.

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

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

Response – The City of Leon is in the process of establishing a disaster recovery plan with the County Emergency Management Coordinator. It has recently been requested that a decision maker from the City of Leon be present at the Emergency Management meetings so all of the cities in the area can establish proper disaster recovery measures. We are currently looking to implement a new password security policy. Once established it will be provided to the Council for review and implemented.

Conclusion – Response accepted.

- (E) Timely Deposits – Certain State warrants sent to the City were not deposited timely.

Recommendation – The City should develop policies to ensure all receipts are deposited timely.

Response – We will be developing measures as stated in the findings (A & C) responses in order to help ensure deposits are more timely filed.

Conclusion – Response accepted.

City of Leon

Schedule of Findings

Year ended June 30, 2009

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

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

Response - The City will discuss with the current software company to assist in resolving some of the matters identified above. Let it be noted with the current financial software not matching up with the State Chart of Accounts and when doing the state annual financial report the information has to be manually separated out and try to be input and matched up with the annual financial report as best as possible. The City will also review the annual financial report for fiscal 2009 in comparison to the information provided through the audit to see what issues may or may not need to be resolved or amended.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Leon
Schedule of Findings
Year ended June 30, 2009

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2009 did not exceed the amounts budgeted.
- (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) Council Minutes – No transactions were found that we believe should have been approved in the 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 – No instances of non-compliance with the revenue bond resolution were noted.

City of Leon

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager
Karen J. Kibbe, Senior Auditor
Casey L. Johnson, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State