

City of Leon, Iowa

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

June 30, 2005

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**City of Leon, Iowa
OFFICIALS**

	<u>Term expires</u>
MAYOR AND MEMBERS OF CITY COUNCIL	
Doug Kouba, Mayor	January 2008
Charles Decker, Mayor Pro-Tem	January 2006
Keith Hinds, Council Member	January 2006
Larry Moffett, Council Member	January 2006
Micki Horn, Council Member	January 2008
Jim Lane, Council Member	January 2008
CITY CLERK	
Angela Blades	Indefinite
CITY ATTORNEY	
Pat Greenwood	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Leon, Iowa

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, 2005, which collectively comprise the City's basic financial statements as listed on the contents page of this report. 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 auditing standards generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Leon as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 13, during the year ended June 30, 2005, the City adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; Statement No. 40, *Deposit and Investment Risk Disclosures*; and Statement No. 41, *Budgetary Comparison Schedule - Perspective Differences*.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2005 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 11 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied 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. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2003 (which are not presented herein) and expressed an unqualified opinion on those financial statements. The financial statements for the two years ended June 30, 2002 (none of which are presented herein) were audited by other auditors whose report dated September 25, 2002 stated that they expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The supplementary information for the year ended June 30, 2004 has not been audited by us and, accordingly, we express no opinion on it.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
July 27, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Leon, Iowa 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, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2005 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 177.6%, or approximately \$1,405,000, from fiscal 2004 to fiscal 2005. Intergovernmental receipts increased approximately \$1,357,000.
- Disbursements increased 191.9%, or approximately \$1,463,000, in fiscal 2005 from fiscal 2004. Public safety, public works and capital projects disbursements increased approximately \$40,000, \$27,000 and \$1,437,000, respectively.
- The City's total cash basis net assets increased 8.7%, or approximately \$73,000, from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities decreased approximately \$44,000 and the assets of the business type activities increased by approximately \$117,000.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets--Cash Basis. 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. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader 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--Cash Basis reports information which helps answer this question.

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

- **Governmental Activities** include public safety, public works, culture and recreation, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- **Business Type Activities** include the waterworks, the sanitary sewer system, and the 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 and Employee Benefits, 3) the Debt Service Fund and 4) the Capital Projects Fund. 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 statements for governmental funds include 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 two Enterprise Funds to provide separate information for the water and refuse disposal funds, considered to be major funds of the City.

The required financial statements for proprietary funds include 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, increasing from \$839,176 to \$912,590. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	Year ended <u>June 30,</u> <u>2005</u>
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 36,237
Operating grants, contributions and restricted interest	228,896
Capital grants, contributions and restricted interest	1,324,752
General receipts:	
Property tax	440,897
Local option sales tax	95,134
Unrestricted investment earnings	7,083
Bond proceeds	84,000
Other general receipts	63,425
Transfers, net	<u>(98,100)</u>
Total receipts and transfers	<u>2,182,324</u>
Disbursements:	
Public safety	219,713
Public works	221,672
Culture and recreation	151,050
General government	72,983
Debt service	118,828
Capital projects	<u>1,441,886</u>
Total disbursements	<u>2,226,132</u>
Decrease in cash basis net assets	(43,808)
Cash basis net assets beginning of year	<u>486,257</u>
Cash basis net assets end of year	<u>\$ 442,449</u>

The City's total receipts for governmental activities increased by 177.6%, or \$1,405,000. The total cost of all programs and services increased by approximately \$1,463,000, or 191.9%, with no new programs added this year. The significant increase in receipts was primarily the result of grants received to fund the construction of the water plant renovation project.

The cost of all governmental activities this year was \$2,226,132 compared to \$762,694 last year. However, as shown in the Statement of Activities and Net Assets on pages 14-15, the amount taxpayers ultimately financed for these activities was only \$636,247 because some of the cost was paid by those directly benefited from the programs (\$36,237) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$1,553,648). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2005 from approximately \$791,000 to approximately \$2,196,000, principally due to receiving grant proceeds to complete the water plant renovation project. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$592,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30, 2005
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 383,106
Sewer	89,818
Refuse disposal	175,980
General receipts:	
Unrestricted interest on investments	5,658
Transfers	98,100
Other general receipts	<u>21,992</u>
Total receipts and transfers	<u>774,654</u>
 Disbursements and transfers:	
Water	381,035
Sewer	91,065
Refuse disposal	<u>185,332</u>
Total disbursements and transfers	<u>657,432</u>
 Increase in cash balance	117,222
 Cash basis net assets beginning of year	<u>352,919</u>
 Cash basis net assets end of year	\$ <u>470,141</u>

Total business type activities receipts for the fiscal year were \$774,654 compared to \$710,940 last year. This increase was due primarily to a transfer from other funds. The cash balance increased by approximately \$117,000 from the prior year. Total disbursements and transfers for the fiscal year decreased by 9.1% to a total of \$657,432 due to a transfer out of \$75,000 in the prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

Governmental Fund Highlights

As the City completed the year, its governmental funds reported a combined fund balance of \$442,449, a decrease of approximately \$44,000 from last year's total of \$486,257. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$44,536 from the prior year to \$119,058. The decrease was due to the transfer of funds to the water fund.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$118,572 to \$397,648, due primarily to a transfer of funds from the general fund.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The amendments resulted in a decrease in operating disbursements by approximately \$281,000.

DEBT ADMINISTRATION

At June 30, 2005, the City had approximately \$1,364,000 in bonds and other long-term debt, compared to approximately \$712,000 last year, as shown below.

**Outstanding Debt at Year End
(Expressed in Thousands)**

	<u>June 30,</u>	
	<u>2005</u>	<u>2004</u>
General obligation bonds and notes	\$ 379,000	\$ 362,000
Revenue bonds and notes	<u>985,000</u>	<u>350,000</u>
Total	<u>\$ 1,364,000</u>	<u>\$ 712,000</u>

Debt increased as a result of issuing a general obligation note for two police cars and a dump truck. In addition, the City issued revenue notes for the purpose of defraying a portion of the costs of constructing a water treatment facility.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy.

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, 104 West 1st Street, Leon, Iowa.

BASIC FINANCIAL STATEMENTS

City of Leon, Iowa
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
As of and for the year ended June 30, 2005

		Program receipts		
	Disbursements	Charges for services	Operating grants, contributions, and restricted interest	Capital grants, contributions, and restricted interest
FUNCTIONS/PROGRAMS				
Governmental activities				
Public safety	\$ 219,713	\$ 33,078	\$ 54,333	\$ -
Public works	221,672	-	164,878	-
Culture and recreation	151,050	-	6,025	-
General government	72,983	3,159	3,660	-
Debt service	118,828	-	-	-
Capital projects	<u>1,441,886</u>	<u>-</u>	<u>-</u>	<u>1,324,752</u>
Total governmental activities	<u>2,226,132</u>	<u>36,237</u>	<u>228,896</u>	<u>1,324,752</u>
Business type activities				
Water	381,035	383,106	-	-
Refuse disposal	185,332	175,980	-	-
Sewer	<u>91,065</u>	<u>89,818</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>657,432</u>	<u>648,904</u>	<u>-</u>	<u>-</u>
Total	<u>\$2,883,564</u>	<u>\$ 685,141</u>	<u>\$ 228,896</u>	<u>\$1,324,752</u>
GENERAL RECEIPTS				
Property and other city tax levied for				
General purposes				
Debt service				
Employee benefits				
Local option sales and services tax				
Unrestricted interest on investments				
Bond proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
CASH BASIS NET ASSETS, beginning of year				
CASH BASIS NET ASSETS, end of year				
CASH BASIS NET ASSETS				
Restricted				
Debt service				
Employee benefits				
Streets				
Equipment replacement				
Other				
Unrestricted				
Total cash basis net assets				

See Notes to Financial Statements.

**Net (disbursements) receipts and
changes in cash basis net assets**

<u>Governmental activities</u>	<u>Business type activities</u>	<u>Total</u>
\$ (132,302)	\$ —	\$ (132,302)
(56,794)	—	(56,794)
(145,025)	—	(145,025)
(66,164)	—	(66,164)
(118,828)	—	(118,828)
<u>(117,134)</u>	<u>—</u>	<u>(117,134)</u>
<u>(636,247)</u>	<u>—</u>	<u>(636,247)</u>
—	2,071	2,071
—	(9,352)	(9,352)
<u>—</u>	<u>(1,247)</u>	<u>(1,247)</u>
<u>—</u>	<u>(8,528)</u>	<u>(8,528)</u>
<u>\$ (636,247)</u>	<u>\$ (8,528)</u>	<u>\$ (644,775)</u>
\$ 285,736	\$ —	\$ 285,736
73,796	—	73,796
81,365	—	81,365
95,134	—	95,134
7,083	5,658	12,741
84,000	—	84,000
63,425	21,992	85,417
<u>(98,100)</u>	<u>98,100</u>	<u>—</u>
592,439	125,750	718,189
<u>(43,808)</u>	<u>117,222</u>	<u>73,414</u>
<u>486,257</u>	<u>352,919</u>	<u>839,176</u>
<u>\$ 442,449</u>	<u>\$ 470,141</u>	<u>\$ 912,590</u>
\$ 63,568	\$ —	\$ 63,568
51,044	—	51,044
49,959	—	49,959
4,550	—	4,550
77,079	—	77,079
<u>196,249</u>	<u>470,141</u>	<u>666,390</u>
<u>\$ 442,449</u>	<u>\$ 470,141</u>	<u>\$ 912,590</u>

City of Leon, Iowa
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the year ended June 30, 2005

	Special revenue			Capital Projects	Other nonmajor governmental funds	Total
	General	Road use tax	Employee Benefits	Economic development		
RECEIPTS						
Property tax	\$ 242,652	\$ -	\$ 81,365	\$ -	\$ 75,827	\$ 399,844
Other city taxes	30,298	-	5,592	-	100,297	136,187
Licenses and permits	1,799	-	-	-	-	1,799
Use of money and property	4,507	-	638	658	2,640	8,443
Intergovernmental	64,018	164,878	-	1,324,752	-	1,553,648
Charges for service	33,078	-	-	-	-	33,078
Miscellaneous	62,020	-	-	-	1,405	63,425
Total receipts	<u>438,372</u>	<u>164,878</u>	<u>87,595</u>	<u>1,325,410</u>	<u>180,169</u>	<u>2,196,424</u>
DISBURSEMENTS						
Operating						
Public safety	186,365	-	33,348	-	-	219,713
Public works	19,151	167,634	34,887	-	-	221,672
Culture and recreation	139,539	-	7,027	-	4,484	151,050
General government	69,697	-	3,286	-	-	72,983
Debt service	-	-	-	-	118,828	118,828
Capital projects	-	-	-	1,441,886	-	1,441,886
Total disbursements	<u>414,752</u>	<u>167,634</u>	<u>78,548</u>	<u>1,441,886</u>	<u>123,312</u>	<u>2,226,132</u>
Excess (deficiency) of receipts over (under) disbursements	<u>23,620</u>	<u>(2,756)</u>	<u>9,047</u>	<u>(116,476)</u>	<u>56,857</u>	<u>(29,708)</u>
OTHER FINANCING SOURCES (USES)						
Bond proceeds	-	-	-	84,000	-	84,000
Operating transfers in (out)	<u>(68,156)</u>	<u>-</u>	<u>-</u>	<u>1,900</u>	<u>(31,844)</u>	<u>(98,100)</u>
Total other financing sources (uses)	<u>(68,156)</u>	<u>-</u>	<u>-</u>	<u>85,900</u>	<u>(31,844)</u>	<u>(14,100)</u>
Net change in cash balances	(44,536)	(2,756)	9,047	(30,576)	25,013	(43,808)
CASH BALANCES,						
beginning of year	<u>163,594</u>	<u>52,715</u>	<u>41,997</u>	<u>73,991</u>	<u>153,960</u>	<u>486,257</u>
CASH BALANCES, end of year	<u>\$ 119,058</u>	<u>\$ 49,959</u>	<u>\$ 51,044</u>	<u>\$ 43,415</u>	<u>\$ 178,973</u>	<u>\$ 442,449</u>
CASH BASIS FUND BALANCES						
Reserved						
Debt service	\$ -	\$ -	\$ -	\$ -	\$ 63,568	\$ 63,568
Equipment replacement	4,550	-	-	-	-	4,550
Unreserved						
General fund	114,508	-	-	-	-	114,508
Special revenue funds	-	49,959	51,044	-	32,471	133,474
Capital project funds	-	-	-	43,415	5,855	49,270
Expendable trust funds	-	-	-	-	15,116	15,116
Nonexpendable trust funds	-	-	-	-	61,963	61,963
Total cash basis fund balances	<u>\$ 119,058</u>	<u>\$ 49,959</u>	<u>\$ 51,044</u>	<u>\$ 43,415</u>	<u>\$ 178,973</u>	<u>\$ 442,449</u>

See Notes to Financial Statements.

City of Leon, Iowa
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
 CHANGES IN CASH BALANCES
 PROPRIETARY FUNDS**
 As of and for the year ended June 30, 2005

	<u>Water</u>	<u>Refuse disposal</u>	<u>Other nonmajor enterprise fund</u>	<u>Total</u>
RECEIPTS				
Use of money and property	\$ 4,787	\$ 634	\$ 237	\$ 5,658
Charges for service	383,106	175,980	89,818	648,904
Miscellaneous	13,614	8,328	50	21,992
Total receipts	<u>401,507</u>	<u>184,942</u>	<u>90,105</u>	<u>676,554</u>
DISBURSEMENTS				
Water	381,035	-	-	381,035
Sewer	-	-	91,065	91,065
Refuse disposal	-	185,332	-	185,332
Total disbursements	<u>381,035</u>	<u>185,332</u>	<u>91,065</u>	<u>657,432</u>
Excess (deficiency) of receipts over (under) disbursements	<u>20,472</u>	<u>(390)</u>	<u>(960)</u>	<u>19,122</u>
OTHER FINANCING SOURCES				
Operating transfers in	<u>98,100</u>	-	-	<u>98,100</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	118,572	(390)	(960)	117,222
FUND BALANCES				
Beginning	<u>279,076</u>	<u>49,730</u>	<u>24,113</u>	<u>352,919</u>
Ending	<u>\$ 397,648</u>	<u>\$ 49,340</u>	<u>\$ 23,153</u>	<u>\$ 470,141</u>

City of Leon, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Leon (the City) 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, recreation, public improvements and general administrative services.

Reporting Entity

For financial reporting purposes, the City 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 that 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 E911 Service Board, and the Wayne-Ringgold-Decatur County Solid Waste Management Commission.

Basis of Presentation

Government-wide Financial Statements

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 services.

The statement of activities and net assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. 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.

City of Leon, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation (continued)

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:

General Fund

The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are 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 that are not paid through other funds.

Special Revenue

The road use tax fund is used to account for road construction and maintenance.

The employee benefit fund is used to pay the payroll taxes and related employee benefits of the City that are not paid through the enterprise funds.

Capital Projects

The economic development fund is utilized to account for all resources used in the acquisition and construction of capital facilities with the exception of those that are financed through enterprise funds.

The City reports the following major proprietary funds:

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

The refuse disposal fund accounts for the operation and maintenance of the City's sanitary disposal services.

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 generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from nonoperating 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 nonoperating receipts and disbursements.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the capital projects function.

City of Leon, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 2 CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2005 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.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

NOTE 3 BONDS AND NOTES PAYABLE

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

<u>Year ending</u> <u>June 30</u>	<u>General Obligation Bonds and Notes</u>			<u>Revenue Bonds</u>			
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Total</u>
2006	\$ 89,583	\$ 18,329	\$ 107,912	\$ 62,000	\$ 47,315	\$ 109,315	\$ 217,227
2007	90,539	13,993	104,532	63,000	45,055	108,055	212,587
2008	94,035	9,603	103,638	69,000	42,715	111,715	215,353
2009	88,468	4,782	93,250	71,000	40,045	111,045	204,295
2010	16,800	714	17,514	72,000	37,255	109,255	126,769
2011-2015	—	—	—	414,000	139,200	553,200	553,200
2016-2019	—	—	—	<u>233,701</u>	<u>64,935</u>	<u>298,636</u>	<u>298,636</u>
Totals	<u>\$ 379,425</u>	<u>\$ 47,421</u>	<u>\$ 426,846</u>	<u>\$ 984,701</u>	<u>\$ 416,520</u>	<u>\$1,401,221</u>	<u>\$1,828,067</u>

In April, 2005, the City entered into an agreement with the Iowa Department of Natural Resources and Wells Fargo to issue \$998,000 of Drinking Water Revenue Bonds. The outstanding balance as of June 30, 2005 was \$659,701. The bonds bear interest at 3.0% and mature in 2025. The bonds are to be paid solely from the revenue of the drinking water system and is not a general obligation of the City.

In May 2002, \$400,000 in local option sales and services tax revenue bonds were issued in anticipation of the collection of the local option sales and services tax revenues, which were allocated 100 percent to construction and equipment and a new municipal swimming pool. The bonds are payable solely from the proceeds of the local option sales and services tax in accordance with Chapter 422B.12 of the Code of Iowa, and are not a general obligation of the city. These bonds are not subject to the constitutional debt limitation of the city pursuant to Section 422B.12(6) of the Code of Iowa.

The resolutions providing for the issuance of the local option sales and services tax revenue bonds include the following provisions.

- (a) The notes will only be redeemed from future local option sales and services tax revenues and by a reserve fund of \$40,000 funded from local option sales and services tax revenues on hand.
- (b) Sufficient monthly transfers shall be made to a revenue note sinking account for the purpose of making the note principal and interest payments when due.

City of Leon, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 3 BONDS AND NOTES PAYABLE (continued)

(c) Additional monthly transfers will be required to the reserve fund when the sum on deposit in the reserve fund has been reduced to less than the required reserve fund balance. This account is restricted to the purpose of paying principal and interest when the funds on reserve in the sinking fund are insufficient to pay such amounts.

NOTE 4 RENTALS UNDER OPERATING LEASES

The City leases equipment under an operating lease. The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2005:

Year ending June 30

2006	\$ 1,946
2007	2,005
2008	2,065
2009	<u>1,048</u>
Total minimum lease payments required	<u>\$ 7,064</u>

Lease expense for the year ended June 30, 2005 totaled \$1,889.

NOTE 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.

Plan members are required to contribute 3.70 percent of their annual salary and the City is required to contribute 5.75 percent of annual covered payroll except for police employees, in which case the percentages are 6.16 percent and 9.23 percent, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$28,509, \$27,607 and \$28,518, respectively, equal to the required contributions for each year.

NOTE 6 COMPENSATED ABSENCES

City employees accumulate a limited amount earned but unused vacation, sick leave, and compensatory 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, sick leave, and compensatory termination payments payable to employees at June 30, 2005, primarily relating to the general fund, is as follows:

<u>Type of benefit</u>	<u>Amount</u>
Vacation	\$ 17,100
Sick leave	18,300
Compensatory	<u>7,900</u>
Total	<u>\$ 43,300</u>

The liability has been computed based on rates of pay in effect at June 30, 2005.

City of Leon, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 7 INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue Emergency	\$ 7,194
Debt Service Local option sinking	Special Revenue Local option sales and services tax	48,000
Capital Projects Economic development	Enterprise Water	1,900
Enterprise Water	General Special Revenue Local option sales and services tax	75,000 25,000
Fiduciary Cemetery perpetual care	General	<u>350</u>
Total		<u>\$ 157,444</u>

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

NOTE 8 JOINT VENTURE

The City of Leon, Wayne, Ringgold, and Decatur Counties, and several other cities in the area have entered into an intergovernmental agreement (Chapter 28E of the Iowa Code) for solid waste disposal. The Wayne-Ringgold-Decatur County Solid Waste Management Commission was created to provide economical and environmentally responsible disposal of all residential and commercial solid waste for and on behalf of the member units of government.

The annual budget for the Commission is funded by determining a per capita cost based on the total population of the Commission's members. The City's annual budget is based on its population. In addition, the City pays normal tonnage fees to the Commission based on the usage by the City's refuse disposal operations. The following amounts were paid by the City to the Commission for the year ended June 30, 2005:

	<u>Amount</u>
Per capita contribution	\$ 15,864
Tonnage use fees	\$ 27,731

City of Leon, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 8 JOINT VENTURE (continued)

The City and all commission members also have a perpetual obligation to fund their share of the landfill closure and post-closure costs that have been estimated to provide for: (1) the cost of equipment and facilities used in post-closure monitoring and care, (2) the cost of final cover, (3) the cost of monitoring the landfill during the post-closure period, and (4) the cost of any environmental cleanup required after closure. The estimate of the Solid Waste Commission's closure and post-closure costs for the year ended June 30, 2004, the most recent date for which information is available, was \$676,048. Other selected information of the Solid Waste Commission for the year ended June 30, 2004 on a cash basis of accounting is as follows:

Results of operations	
Operating receipts	\$ 398,479
Operating disbursements	(238,403)
Nonoperating receipts	50,079
Nonoperating disbursements	<u>(259,246)</u>
Change in cash basis net assets	<u>\$ (49,091)</u>
Cash basis net assets	
Restricted for	
Closure/postclosure cash	\$ 568,325
Retainage	107,331
Unrestricted	<u>1,430,721</u>
Total	<u>\$2,106,377</u>

The financial statements of the Wayne-Ringgold-Decatur County Solid Waste Management Commission can be obtained from its administrative offices.

NOTE 9 WATER PURCHASE CONTRACT

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 or 175 gallons per minute to SIRWA. The rate effective as of September 1, 2004 was \$1.57/1,000 gallons. The agreement covers a 35-year period ending in 2026 with the rate/thousand gallons of water subject to an annual review based on and subject to various changes in production costs.

NOTE 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, however, is not financially accountable for the Agency.

NOTE 11 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 from independent third parties. 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.

City of Leon, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 12 GENERAL FUND BALANCE

A capital loan note agreement, dated October 1, 1998, with the U.S.D.A. Rural Development requires the City to establish a funded depreciation account for equipment replacement. The agreement requires \$650 per year be set aside from the General Fund in order to fund this reserve. The City has set up a separate account within the General Fund to comply with the provisions of the loan agreement. Accordingly, the composition of the General Fund balance is as follows:

Available for operations	\$ 114,508
Designated equipment reserve	<u>4,550</u>
	<u>\$ 119,058</u>

NOTE 13 ACCOUNTING CHANGE

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*, and Statement No. 41, *Budgetary Comparison Schedule – Perspective Differences*, were implemented for the year ended June 30, 2005. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The City also adopted Statement No. 40, *Deposit and Investment Risk Disclosures*, during the current fiscal year. This Statement established and modified disclosure requirements related to deposit risks and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk.

REQUIRED SUPPLEMENTARY INFORMATION

City of Leon, Iowa
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
Year ended June 30, 2005

	Governmental funds actual	Proprietary funds actual	Less funds not required to be budgeted
RECEIPTS			
Property tax	\$ 399,844	\$ -	\$ -
Other city taxes	136,187	-	-
Licenses and permits	1,799	-	-
Use of money and property	8,443	5,658	1,333
Intergovernmental	1,553,648	-	-
Charges for service	33,078	648,904	-
Miscellaneous	63,425	21,992	1,405
Total receipts	2,196,424	676,554	2,738
DISBURSEMENTS			
Public safety	219,713	-	-
Public works	221,672	-	-
Culture and recreation	151,050	-	-
Community and Economic Development	-	-	-
General government	72,983	-	4,484
Debt service	118,828	-	-
Capital projects	1,441,886	-	-
Business type activities	-	657,432	-
Total disbursements	2,226,132	657,432	4,484
Excess (deficiency) of receipts over (under) disbursements	(29,708)	19,122	(1,746)
OTHER FINANCING SOURCES (USES), net			
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(14,100)	98,100	350
BALANCES, beginning of year	486,257	352,919	78,475
BALANCES, end of year	\$ 442,449	\$ 470,141	\$ 77,079

See accompanying independent auditor's report.

<u>Net</u>	<u>Budgeted amounts</u>		<u>Final to net variance</u>
	<u>Original</u>	<u>Final</u>	
\$ 399,844	\$ 407,240	\$ 407,240	\$ (7,396)
136,187	103,965	119,965	16,222
1,799	13,950	13,950	(12,151)
12,768	45,635	48,006	(35,238)
1,553,648	2,587,735	2,190,876	(637,228)
681,982	717,150	717,150	(35,168)
<u>84,012</u>	<u>6,100</u>	<u>15,865</u>	<u>68,147</u>
<u>2,870,240</u>	<u>3,881,775</u>	<u>3,513,052</u>	<u>(642,812)</u>
219,713	199,616	222,316	2,603
221,672	214,971	230,971	9,299
146,566	148,607	153,437	6,871
—	3,388	3,388	3,388
72,983	73,610	73,610	627
118,828	139,776	139,776	20,948
1,441,886	423,990	84,250	(1,357,636)
<u>657,432</u>	<u>2,735,690</u>	<u>2,751,690</u>	<u>2,094,258</u>
<u>2,879,080</u>	<u>3,939,648</u>	<u>3,659,438</u>	<u>780,358</u>
<u>(8,840)</u>	<u>(57,873)</u>	<u>(146,386)</u>	<u>137,546</u>
<u>83,650</u>	<u>—</u>	<u>84,000</u>	<u>(350)</u>
74,810	(57,873)	(62,386)	137,196
<u>760,701</u>	<u>644,484</u>	<u>644,484</u>	<u>116,217</u>
<u>\$ 835,511</u>	<u>\$ 586,611</u>	<u>\$ 582,098</u>	<u>\$ 253,413</u>

City of Leon, Iowa
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
June 30, 2005

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

Formal and legal budgetary control is based upon eight major classes of disbursements known as functions, not by fund or fund type. These eight functions are: public safety, public works, 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, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary 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 decreased budgeted disbursements by \$280,210. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the capital projects functions.

OTHER SUPPLEMENTARY INFORMATION

City of Leon, Iowa
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
Nonmajor Governmental Funds
As of and for the year ended June 30, 2005

	Special Revenue		Debt Service		
	Emergency	Local Option sales and services tax	Debt service	Local Option sinking fund	Local Option reserve
RECEIPTS					
Property tax	\$ 6,732	\$ -	\$ 69,095	\$ -	\$ -
Other city tax	462	95,134	4,701	-	-
Use of money and property	-	658	338	281	-
Miscellaneous	-	-	-	-	-
Total receipts	<u>7,194</u>	<u>95,792</u>	<u>74,134</u>	<u>281</u>	<u>-</u>
DISBURSEMENTS					
Operating					
Culture and recreation	-	-	-	-	-
Debt service	-	-	<u>75,178</u>	<u>43,650</u>	-
Total disbursements	<u>-</u>	<u>-</u>	<u>75,178</u>	<u>43,650</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>7,194</u>	<u>95,792</u>	<u>(1,044)</u>	<u>(43,369)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in	-	-	-	48,000	-
Operating transfers (out)	<u>(7,194)</u>	<u>(73,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(7,194)</u>	<u>(73,000)</u>	<u>-</u>	<u>48,000</u>	<u>-</u>
Net change in cash balances	-	22,792	(1,044)	4,631	-
CASH BALANCES , beginning of year	<u>-</u>	<u>9,679</u>	<u>6,367</u>	<u>13,614</u>	<u>40,000</u>
CASH BALANCES , end of year	<u>\$ -</u>	<u>\$ 32,471</u>	<u>\$ 5,323</u>	<u>\$ 18,245</u>	<u>\$ 40,000</u>
CASH BASIS FUND BALANCES					
Reserved					
Debt service funds	\$ -	\$ -	\$ 5,323	\$ 18,245	\$ 40,000
Unreserved					
Special revenue funds	-	32,471	-	-	-
Capital project fund	-	-	-	-	-
Expendable trust funds	-	-	-	-	-
Nonexpendable trust funds	-	-	-	-	-
Total cash basis fund balances	<u>\$ -</u>	<u>\$ 32,471</u>	<u>\$ 5,323</u>	<u>\$ 18,245</u>	<u>\$ 40,000</u>

Schedule 1

<u>Capital Project</u>	<u>Expendable Trust</u>		<u>Nonexpendable Trust</u>		
<u>Municipal Pool Project</u>	<u>Cemetery Paving Fund</u>	<u>Library Gift Fund</u>	<u>Cemetery Perpetual Care</u>	<u>Library Bequest</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 75,827
-	-	-	-	-	100,297
30	315	1,018	-	-	2,640
<u>-</u>	<u>598</u>	<u>357</u>	<u>450</u>	<u>-</u>	<u>1,405</u>
<u>30</u>	<u>913</u>	<u>1,375</u>	<u>450</u>	<u>-</u>	<u>180,169</u>
-	3,353	1,131	-	-	4,484
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>118,828</u>
<u>-</u>	<u>3,353</u>	<u>1,131</u>	<u>-</u>	<u>-</u>	<u>123,312</u>
<u>30</u>	<u>(2,440)</u>	<u>244</u>	<u>450</u>	<u>-</u>	<u>56,857</u>
-	-	-	350	-	48,350
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(80,194)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>350</u>	<u>-</u>	<u>(31,844)</u>
<u>30</u>	<u>(2,440)</u>	<u>244</u>	<u>800</u>	<u>-</u>	<u>25,013</u>
<u>5,825</u>	<u>17,125</u>	<u>187</u>	<u>43,461</u>	<u>17,702</u>	<u>153,960</u>
<u>\$ 5,855</u>	<u>\$ 14,685</u>	<u>\$ 431</u>	<u>\$ 44,261</u>	<u>\$ 17,702</u>	<u>\$ 178,973</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 63,568
-	-	-	-	-	32,471
5,855	-	-	-	-	5,855
-	14,685	431	-	-	15,116
<u>-</u>	<u>-</u>	<u>-</u>	<u>44,261</u>	<u>17,702</u>	<u>61,963</u>
<u>\$ 5,855</u>	<u>\$ 14,685</u>	<u>\$ 431</u>	<u>\$ 44,261</u>	<u>\$ 17,702</u>	<u>\$ 178,973</u>

City of Leon, Iowa
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
Nonmajor Proprietary Fund
Year ended June 30, 2005

	Sewer
RECEIPTS	
Use of money and property	\$ 237
Charges for service	89,818
Miscellaneous	50
Total receipts	90,105
DISBURSEMENTS	
Business type activities	91,065
Total disbursements	91,065
(Deficiency) of revenues (under) expenditures	(960)
CASH BALANCES , beginning of year	24,113
CASH BALANCES , end of year	\$ 23,153

City of Leon, Iowa
SCHEDULE OF INDEBTEDNESS
Year ended June 30, 2005

<u>Obligation</u>	<u>Date of issue</u>	<u>Interest rates</u>	<u>Amount originally issued</u>
General Obligation Bonds and Notes			
Street improvement	July 1, 1998	4.85%	\$ 500,000
Fire truck	October 1, 1998	4.75%	72,500
Garbage packer	July 1, 2002	5.75%	60,000
Police car and dump truck	October 7, 2004	4.25%	<u>84,000</u>
			<u>\$ 716,500</u>
Revenue Bonds/Obligations			
Local option sales and services tax bonds	May 1, 2002	4.60% - 5.80%	\$ 400,000
Drinking water revenue	April 22, 2005	3.00%	<u>998,000</u>
			<u>\$1,398,000</u>

See accompanying independent auditor's report.

Schedule 3

<u>Balance beginning of year</u>	<u>Issued during year</u>	<u>Redeemed during year</u>	<u>Balance end of year</u>	<u>Interest paid</u>	<u>Interest due and unpaid</u>
\$ 280,000	\$ -	\$ 50,000	\$ 230,000	\$ 13,580	\$ -
31,001	-	7,808	23,193	1,469	-
51,357	-	9,125	42,232	2,985	-
<u>-</u>	<u>84,000</u>	<u>-</u>	<u>84,000</u>	<u>2,322</u>	<u>-</u>
<u>\$ 362,358</u>	<u>\$ 84,000</u>	<u>\$ 66,933</u>	<u>\$ 379,425</u>	<u>\$ 20,356</u>	<u>\$ -</u>
\$ 350,000	\$ -	\$ 25,000	\$ 325,000	\$ 18,650	\$ -
<u>-</u>	<u>659,701</u>	<u>-</u>	<u>659,701</u>	<u>1,879</u>	<u>-</u>
<u>\$ 350,000</u>	<u>\$ 659,701</u>	<u>\$ 25,000</u>	<u>\$ 984,701</u>	<u>\$ 20,529</u>	<u>\$ -</u>

City of Leon, Iowa
BOND AND NOTE MATURITIES
June 30, 2005

GENERAL OBLIGATION BONDS AND NOTES

Year ending June 30	Street Improvement Issued July 1, 1998		Fire Truck Issued October 1, 1998		Garbage Packer Issued July 1, 2002		Police Cars and Dump Truck Issued October 7, 2004		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2006	4.85%	\$ 55,000	4.75%	\$ 8,174	5.75%	\$ 9,609	4.25%	\$ 16,800	\$ 89,583
2007	4.85%	55,000	4.75%	8,562	5.75%	10,177	4.25%	16,800	90,539
2008	4.85%	60,000	4.75%	6,457	5.75%	10,778	4.25%	16,800	94,035
2009	4.85%	60,000		—	5.75%	11,668	4.25%	16,800	88,468
2010		—		—		—	4.25%	16,800	16,800
Total		<u>\$ 230,000</u>		<u>\$ 23,193</u>		<u>\$ 42,232</u>		<u>\$ 84,000</u>	<u>\$ 379,425</u>

REVENUE BONDS

Year ending June 30	Local Option Sales and Services Tax Issued May 1, 2002		Drinking Water Issued April 22, 2005		Total
	Interest Rates	Amount	Interest Rates	Amount	
2006	4.60%	\$ 25,000	3.00%	\$ 37,000	\$ 62,000
2007	4.80%	25,000	3.00%	38,000	63,000
2008	5.00%	30,000	3.00%	39,000	69,000
2009	5.20%	30,000	3.00%	41,000	71,000
2010	5.30%	30,000	3.00%	42,000	72,000
2011	5.40%	35,000	3.00%	43,000	78,000
2012	5.50%	35,000	3.00%	44,000	79,000
2013	5.60%	35,000	3.00%	46,000	81,000
2014	5.70%	40,000	3.00%	47,000	87,000
2015	5.80%	<u>40,000</u>	3.00%	<u>282,701</u>	<u>322,701</u>
Total		<u>\$ 325,000</u>		<u>\$ 659,701</u>	<u>\$ 984,701</u>

City of Leon, Iowa
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION
 All Governmental Funds
 For the last four years

	Year ended June 30			
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
RECEIPTS				
Property tax	\$ 399,844	\$ 403,556	\$ 403,887	\$ 437,582
Other city taxes	136,187	126,328	130,446	108,154
Licenses and permits	1,799	2,170	1,825	2,290
Use of money and property	8,443	5,100	15,044	20,222
Intergovernmental	1,553,648	196,728	383,113	259,171
Charges for service	33,078	35,320	27,560	11,276
Miscellaneous	<u>63,425</u>	<u>22,151</u>	<u>48,741</u>	<u>56,279</u>
Total receipts	<u>\$2,196,424</u>	<u>\$ 791,353</u>	<u>\$1,010,616</u>	<u>\$ 894,974</u>
DISBURSEMENTS				
Operating				
Public safety	\$ 219,713	\$ 179,844	\$ 249,633	\$ 190,985
Public works	221,672	194,631	205,086	199,697
Culture and recreation	151,050	160,822	131,133	109,360
General government	72,983	75,103	99,255	78,185
Debt service	118,828	147,044	148,095	192,062
Capital projects	<u>1,441,886</u>	<u>5,250</u>	<u>692,749</u>	<u>103,462</u>
Total disbursements	<u>\$2,226,132</u>	<u>\$ 762,694</u>	<u>\$1,525,951</u>	<u>\$ 873,751</u>

City of Leon, Iowa
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2005

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency Pass-through Number</u>	<u>Program Expenditures</u>
Direct			
<i>Department of Agriculture</i>			
Community Facilities Loans and Grants	10.766		\$ 22,389
Indirect			
<i>U.S. Department of Housing and Urban Development</i>			
<i>Iowa Department of Economic Development</i>			
Community Development Block Grants/State's Program	14.228	04-US-053	470,518
 <i>Department of Homeland Security</i>			
<i>Office for Domestic Preparedness</i>			
Assistance to Firefighters Grant	97.044	EMW-2004-FG-15055	<u>16,560</u>
Total			<u>\$ 509,467</u>

Basis of Presentation

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

**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
Leon, Iowa

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, 2005, which collectively comprise the City's basic financial statements as listed on the contents page of this report and have issued our report thereon dated July 27, 2005. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Leon's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be 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, noncompliance 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 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.

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


DENMAN & COMPANY, LLP

West Des Moines, Iowa
July 27, 2005

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the Honorable Mayor and
Members of the City Council
Leon, Iowa

Compliance

We have audited the compliance of the City of Leon, Iowa, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2005. City of Leon's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Leon's management. Our responsibility is to express an opinion on the City of Leon's compliance based on our audit.

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

In our opinion, the City of Leon complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the City of Leon is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Leon's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
July 27, 2005

City of Leon
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2005

Part I—Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.
- (b) One reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program was noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 14.228 - Community Development Block Grants/State's Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Leon did not qualify as a low-risk auditee.

Part II - Findings Related to the Financial Statements

INSTANCES OF NONCOMPLIANCE

No instances of noncompliance were noted.

REPORTABLE CONDITIONS

I-A-05 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.

Recommendation

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

Response

We will consider this.

Conclusion

Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

City of Leon, Iowa
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
Year ended June 30, 2005

Part III - Findings for Federal Awards

Instances of Noncompliance

No matters were noted.

Reportable Conditions

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

Part IV—Other Findings Related to Statutory Reporting

IV-A-05 OFFICIAL DEPOSITORIES

A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

IV-B-05 CERTIFIED BUDGET

Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the capital projects functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation

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

Response

The budget will be amended in the future, if applicable.

Conclusion

Response accepted

IV-C-05 QUESTIONABLE DISBURSEMENTS

We noted no disbursements for parties, banquets or other entertainment expenses that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-05 TRAVEL EXPENSE

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Leon, Iowa
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
Year ended June 30, 2005

Part IV—Other Findings Related to Statutory Reporting (continued)

IV-E-05 BUSINESS TRANSACTIONS

No business transactions between the City and City officials or employees were noted.

IV-F-05 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 insure that the coverage is adequate for current operations.

IV-G-05 COUNCIL MINUTES

No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-H-05 DEPOSITS AND INVESTMENTS

Instances of noncompliance with the deposits and investment provisions of Chapter 12B and 12C of the Code of Iowa were noted. Certificates of deposit were purchased that were below the allowed public funds rate in accordance with Chapter 12C.6 of the Code of Iowa

Recommendation

Investments should be purchased with rates of return that are at or above the minimum public rate as published monthly by the State Treasurer.

Response

The rates will be checked more closely when renewing and purchasing investments.

Conclusion

Response accepted.

IV-I-05 REVENUE BONDS

The City has complied with all provisions of the revenue bond indentures.