

CITY OF LENOX  
LENOX, IOWA

INDEPENDENT AUDITOR'S REPORT  
FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
ADDITIONAL REQUIRED AUDITOR'S REPORTS

Year Ended June 30, 2011

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CITY OF LENOX, IOWA  
OFFICIALS  
June 30, 2011

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Glenn Grout	Mayor	December, 2011
Mike Bowman	Council Member	December 31, 2011
Sandra Donaldson	Council Member	December 31, 2013
Brent Wise	Council Member	December 31, 2011
Glenn Norton	Council Member	December 31, 2011
Robert Halligan	Council Member	December 31, 2013
Karen Zabel	Clerk	December, 2011
Jon Noble	Attorney	December, 2011

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Lenox  
Lenox, 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 Lenox, Iowa, as of and for the year ended June 30, 2011, 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 Lenox'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, 2010.

The financial statements referred to above include only the primary government of the City of Lenox, Iowa, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. As a result, the financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the City of Lenox, Iowa, as of June 30, 2011, and the changes in its financial position, for the year then ended in conformity with U.S. generally accepted accounting principles. In accordance with U.S. generally accepted accounting principles, the Lenox Municipal Light and Power has issued separate reporting entity financial statements.

To the Honorable Mayor and  
Members of the City Council  
City of Lenox

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 primary government of the City of Lenox, Iowa, as of June 30, 2011, 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.

In accordance with Government Auditing Standards, we have also issued our report dated October 25, 2011, on our consideration of City of Lenox, Iowa'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 4 through 8 and 19 through 20 are not required parts of the primary government 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 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 primary government financial statements that collectively comprise the City of Lenox, Iowa's primary government 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 primary government financial statements. Such information has been subjected to the auditing procedures applied in our audits of the primary government financial statements and, in our opinion, is fairly stated in all material respects in relation to the primary government financial statements taken as a whole.

*Drapen, Smedgras, Mickelson & Co., P.C.*

October 25, 2011

CITY OF LENOX  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2011

The City of Lenox 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 ending June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements which follow.

**Basis of Accounting**

The City has elected to present its financial statements on a cash basis of accounting. The cash basis of accounting is a basis other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses and their related assets and liabilities. Under the City's cash basis of accounting, revenues and expenses are recorded when they result from cash transactions. As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods and services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. 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.

**Report Layout**

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34. Besides the Management's Discussion and Analysis (MD&A), the report consists of government-wide statements, fund financial statements, notes to the financial statements, combining schedules of non-major funds and supplementary information. The first several statements are highly condensed and present a government-wide view of the City's finances. Within this view, all City operations are categorized and reported as either governmental or business-type activities. Governmental activities include basic services such as public safety, public works, health and social services, culture and recreation, community and economic development, general government administration, debt service, and capital projects. Business-type activities are gas and sewer.

**Statement of Activities**

The focus of the Statement of Activities is to present the major program costs and match major resources with each. To the extent a program's cost is not recovered by grants, donations and direct charges, it is paid from general taxes and other resources. This statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues. The MD&A is intended to explain the significant changes in financial position and differences in operations between the current and prior years.

## Reporting the City as a whole

### Government-Wide Financial Statements

To aid in the understanding of the Statement of Activities, some additional explanation is given. First all receipts and disbursements are categorized as either governmental activities or business-type activities. These are defined as follows:

**Governmental funds** - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The City's major governmental functions are:

**Public Safety:** This category includes police operations, fire protections, emergency management, ambulance service and animal control.

**Public Works:** This category includes roads, bridges, sidewalks, street lighting, shop, equipment repair and snow removal.

**Culture and Recreation:** This category includes recreation, park, pool, golf, library and tennis court.

**Community and Economic Development:** This category includes economic development, planning and zoning, community center and industrial site.

**General Government:** This category includes mayor, city council, city clerk, administrator, treasurer, elections, legal services, city hall, insurance, employee benefits and other general government.

**Debt Service:** This category includes general debt service for the city.

**Capital Projects:** This category would include any large project the city would be entering into on a given year.

**Business-Type (Proprietary) Funds:** When the City charges customers for the services it provides, these services are generally reported in business-type or proprietary funds. These are self-sufficient funds. The City's business-type funds are gas and sewer utility. This also includes all debt service and capital projects associated specifically with these utilities which includes Sewer Reserve and Sewer Bond & Interest.

### 2011 Financial Highlights

Revenues of the City's governmental activities increased by \$244,524 from fiscal 2010 to fiscal 2011. Property tax increased by \$32,018. Proprietary activities revenues decreased by \$3,706,229 due to refunding note for a sewer bond.

Governmental activities disbursements increased by \$249,691 from fiscal year 2010 to fiscal year 2011.

The City's total cash balance increased by \$118,215.

**Sources of Funds for Governmental Activities**

	<u>FY 2010</u>	<u>FY 2011</u>
Receipts		
Property tax	\$ 405,189	\$ 437,207
Other city taxes	66,982	77,596
Licenses and permits	4,523	4,950
Use of money and property	8,214	11,106
Intergovernmental	154,613	158,369
Charges for services	252,583	255,377
Miscellaneous	<u>42,642</u>	<u>234,665</u>
Total receipts	<u>\$ 934,746</u>	<u>\$1,179,270</u>
Disbursements:		
Public Safety	\$ 273,288	\$ 230,640
Public Works	267,811	411,532
Culture and Recreation	186,210	184,766
Community and Economic Development	20,767	4,831
General Government	118,634	140,733
Debt Service	79,811	76,991
Capital Project	<u>16,047</u>	<u>162,766</u>
Total disbursements	<u>\$ 962,568</u>	<u>\$1,212,259</u>
Excess of receipts over(under) disbursements	\$ (27,822)	\$ (32,989)
Total other financing sources	<u>2,500</u>	<u>50,000</u>
Net change in cash balances	<u>\$ (25,322)</u>	<u>\$ 17,011</u>
Cash balances beginning of year	<u>\$1,094,372</u>	<u>\$1,069,050</u>
Cash balances end of year:		
Debt service	\$ 18,750	\$ 16,418
Streets	202,913	93,858
Other purposes	204,166	281,939
Unassigned	<u>643,221</u>	<u>693,846</u>
Total	<u>\$1,069,050</u>	<u>\$1,086,061</u>

## Proprietary Fund Activities

	<u>FY 2010</u>	<u>FY 2011</u>
Receipts		
Use of money and property	\$ 45,744	\$ 38,667
Charges for services	1,828,331	1,693,492
Miscellaneous	<u>872,351</u>	<u>885,962</u>
Total receipts	<u>\$ 2,746,426</u>	<u>\$2,618,121</u>
Disbursements:		
Business type activities	<u>\$ 6,047,846</u>	<u>\$2,466,917</u>
Excess of receipts over/(under) disbursements	\$(3,301,420)	\$ 151,204
Other financing sources, net	<u>3,527,924</u>	<u>(50,000)</u>
Excess of receipts and other financing sources over (under) disbursements and other financing uses	\$ 226,504	\$ 101,204
Cash balance beginning of year	<u>2,384,110</u>	<u>2,610,614</u>
Cash balances end of year	<u>\$2,610,614</u>	<u>\$2,711,818</u>

## Individual Major Governmental Fund Analysis

As the City of Lenox completed the year, its governmental funds reported a combined fund balance of \$3,797,879, an increase of \$118,215 over the June 30, 2010 balance of \$3,679,664. The following are the major reasons for the changes in fund balances of the major funds from the prior year. An increase in monthly bond payments from a local industry.

General Fund: The General Fund cash balance increased \$43,413 from the previous year mostly due to interest added and tax dollars.

Road Use Fund: The Road Use Fund cash balanced decreased by \$109,055 due to the street project.

Local Option Sales Tax Fund: This Local Option Sales Tax increased by \$69,012.

Capital Projects: The Capital Project funds increased by \$7,212 new community center funds.

## Individual Major Business Type Fund Analysis

Sewer Fund: The Sewer Fund cash balance increased by \$66,775.

Gas Fund: The Gas Fund cash balance increased by \$34,429.

### **Budgetary Highlights**

Over the course of the year, the City amended its budget twice. The amendments were approved on October 20, 2010 and June 1, 2011.

The proposed fiscal year 2012 levy is \$8.10 per \$1,000 of assessed property valuation, which is unchanged from fiscal year 2011.

Those parameters were taken into account when adopting the budget for fiscal year.

### **Debt Administration**

There was no new debt incurred by the City in the 2010-2011 fiscal year.

### **Economic Factors and Next Year's Budget and Rates**

The City of Lenox's elected and appointed officials and citizens considered many factors when setting the fiscal year 2010 budget, tax rates and fees that will be charged for various city activities. The City's fiscal year 2011 assessed values increased by \$2,931,848 from the fiscal year 2010.

### **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 Karen Zabel, City Administrator, 200 S. Main, Lenox, Iowa 50851.

## FINANCIAL STATEMENTS

CITY OF LENOX, IOWA  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
As of and for the Year Ended June 30, 2011

Exhibit A

		PROGRAM RECEIPTS		
	Disbursements	Charges For Services	Operating Grants Contributions, and Restricted Interest	Capital Grants Contributions and Restricted Interest
<b>FUNCTIONS/PROGRAMS:</b>				
Governmental activities:				
Public safety	\$ 222,056	\$ 82,582	\$ -	\$ -
Public works	324,493	-	135,106	-
Health and social services	-	-	-	-
Culture and recreation	193,351	100,093	3,261	-
Community/economic development	4,831	-	-	-
General government	140,734	27,302	-	-
Debt service	76,991	-	-	-
Capital projects	162,766	-	169,500	-
Total governmental activities	\$ 1,125,222	\$ 209,977	\$ 307,867	
Business type activities:				
Sewer	\$ 989,174	\$ 1,034,335	\$ -	\$ -
Gas	1,498,898	1,566,273	-	-
Total business type activities	\$ 2,488,072	\$ 2,600,608	\$ -	\$ -
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 3,613,294</b>	<b>\$ 2,810,585</b>	<b>\$ 307,867</b>	
<b>GENERAL RECEIPTS:</b>				
Property taxes levied for:				
General purposes				
Debt service				
Local option sales tax				
Interest on investments				
Miscellaneous				
Sale of assets				
Transfers				
<b>TOTAL GENERAL RECEIPTS</b>				
<b>CHANGE IN CASH BASIS NET ASSETS</b>				
<b>CASH BASIS NET ASSETS, BEGINNING OF YEAR</b>				
<b>CASH BASIS NET ASSETS, END OF YEAR</b>				
<b>CASH BASIS NET ASSETS:</b>				
Restricted				
Expendable:				
Streets				
Debt service				
Other purposes				
Unrestricted				
<b>TOTAL CASH BASIS NET ASSETS</b>				

The Notes to Financial Statements are an integral part of this statement.

NET (DISBURSEMENTS) RECEIPTS AND  
CHANGES IN CASH BASIS NET ASSETS

Governmental Activities	Business Type Activities	Total
\$ (139,474)	\$ -	\$ (139,474)
(189,387)	-	(189,387)
-	-	-
(89,997)	-	(89,997)
(4,831)	-	(4,831)
(113,432)	-	(113,432)
(76,991)	-	(76,991)
6,734	-	6,734
<u>\$ (607,378)</u>	<u>\$ -</u>	<u>\$ (607,378)</u>
\$ -	\$ 45,161	\$ 45,161
-	67,375	67,375
<u>\$ -</u>	<u>\$ 112,536</u>	<u>\$ 112,536</u>
\$ (607,378)	\$ 112,536	\$ (494,842)
\$ 362,548	\$ -	\$ 362,548
74,659	-	74,659
77,596	-	77,596
11,107	38,668	49,775
45,479	-	45,479
3,000	-	3,000
50,000	(50,000)	-
<u>\$ 624,389</u>	<u>\$ (11,332)</u>	<u>\$ 613,057</u>
\$ 17,011	\$ 101,204	\$ 118,215
1,069,050	2,610,614	3,679,664
<u>\$ 1,086,061</u>	<u>\$ 2,711,818</u>	<u>\$ 3,797,879</u>
\$ 93,858	\$ -	\$ 93,858
16,418	738,329	754,747
281,939	700,562	982,501
693,846	1,272,927	1,966,773
<u>\$ 1,086,061</u>	<u>\$ 2,711,818</u>	<u>\$ 3,797,879</u>

CITY OF LENOX, IOWA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS

As of and for the Year Ended June 30, 2011

Exhibit B

	General	Debt Service	Other Nonmajor Governmental Funds	Total
<b>RECEIPTS:</b>				
Property taxes	\$ 279,484	\$ 74,659	\$ 83,064	\$ 437,207
Tax increment financing collections	-	-	-	-
Other city taxes	-	-	77,596	77,596
Licenses and permits	4,950	-	-	4,950
Use of money and property	9,406	-	1,700	11,106
Intergovernmental	23,263	-	135,106	158,369
Charges for services	255,377	-	-	255,377
Special assessments	-	-	-	-
Miscellaneous	41,687	-	192,978	234,665
Total receipts	<u>\$ 614,167</u>	<u>\$ 74,659</u>	<u>\$ 490,444</u>	<u>\$ 1,179,270</u>
<b>DISBURSEMENTS:</b>				
Operating:				
Public safety	\$ 180,697	\$ -	\$ 49,943	\$ 230,640
Public works	95,248	-	316,284	411,532
Health and social services	-	-	-	-
Culture and recreation	163,469	-	21,297	184,766
Community/economic development	4,831	-	-	4,831
General government	126,509	-	14,224	140,733
Debt service	-	76,991	-	76,991
Capital projects	-	-	162,766	162,766
Total disbursements	<u>\$ 570,754</u>	<u>\$ 76,991</u>	<u>\$ 564,514</u>	<u>\$ 1,212,259</u>
<b>EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	<u>\$ 43,413</u>	<u>\$ (2,332)</u>	<u>\$ (74,070)</u>	<u>\$ (32,989)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Short term note proceeds	\$ -	\$ -	\$ -	\$ -
Sale of capital assets	-	-	-	-
Operating transfers in	-	-	50,000	50,000
Operating transfers out	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 50,000</u>
<b>NET CHANGE IN CASH BALANCES</b>	<u>\$ 43,413</u>	<u>\$ (2,332)</u>	<u>\$ (24,070)</u>	<u>\$ 17,011</u>
<b>CASH BALANCES, BEGINNING OF YEAR</b>	<u>621,905</u>	<u>18,750</u>	<u>428,395</u>	<u>1,069,050</u>
<b>CASH BALANCES, END OF YEAR</b>	<u>\$ 665,318</u>	<u>\$ 16,418</u>	<u>\$ 404,325</u>	<u>\$ 1,086,061</u>
<b>CASH BASIS FUND BALANCES:</b>				
Restricted for:				
Debt service	\$ -	\$ 16,418	\$ -	\$ 16,418
Streets	-	-	93,858	93,858
Other purposes	-	-	281,939	281,939
Unassigned	665,318	-	28,528	693,846
<b>TOTAL CASH BASIS FUND BALANCES</b>	<u>\$ 665,318</u>	<u>\$ 16,418</u>	<u>\$ 404,325</u>	<u>\$ 1,086,061</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF LENOX, IOWA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES  
As of and for the Year Ended June 30, 2011

Exhibit C

	Enterprise		Total
	Sewer	Gas	
OPERATING RECEIPTS:			
Charge for service	\$ 163,718	\$ 1,529,774	\$ 1,693,492
Total operating receipts	\$ 163,718	\$ 1,529,774	\$ 1,693,492
OPERATING DISBURSEMENTS:			
Business type activities	\$ 137,009	\$ 1,498,898	\$ 1,635,907
Total operating disbursements	\$ 137,009	\$ 1,498,898	\$ 1,635,907
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS (OVER) UNDER OPERATING DISBURSEMENTS	\$ 26,709	\$ 30,876	\$ 57,585
NON-OPERATING RECEIPTS (DISBURSEMENTS)			
Interest on investments	\$ 21,613	\$ 17,054	\$ 38,667
Miscellaneous	870,617	15,345	885,962
Debt service	(831,010)	-	(831,010)
TOTAL NON-OPERATING RECEIPTS (DISBURSEMENTS)	\$ 61,220	\$ 32,399	\$ 93,619
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ 87,929	\$ 63,275	\$ 151,204
OTHER FINANCING SOURCES (USES):			
Operating transfers in	\$ -	\$ 21,154	\$ 21,154
Operating transfers out	(21,154)	(50,000)	(71,154)
TOTAL OTHER FINANCING SOURCES (USES)	\$ (21,154)	\$ (28,846)	\$ (50,000)
NET CHANGE IN CASH BALANCES	\$ 66,775	\$ 34,429	\$ 101,204
CASH BALANCES, BEGINNING OF YEAR	1,513,561	1,097,053	2,610,614
CASH BALANCES, END OF YEAR	\$ 1,580,336	\$ 1,131,482	\$ 2,711,818
CASH BASIS FUND BALANCES:			
Reserved for debt service	\$ 738,329	\$ -	\$ 738,329
Reserved for capital replacement	700,562	-	700,562
Unreserved	141,445	1,131,482	1,272,927
Total cash basis fund balances	\$ 1,580,336	\$ 1,131,482	\$ 2,711,818

The Notes to Financial Statements are an integral part of this statement.

CITY OF LENOX, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

Note 1. Significant Accounting Policies

The City of Lenox is a political subdivision of the State of Iowa located in Taylor County. It was first incorporated in 1872 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 of Lenox has included all funds, organizations, agencies, boards, commissions and authorities, except for its component unit, the Lenox Municipal Light and Power. 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 primary government 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.

These primary government financial statements present the City of Lenox (the primary government) and exclude the component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. It has not been included in these primary government financial statements, which present the primary government only. Complete financial statements of the individual component unit, which issued separate financial statements as noted below, can be obtained from its administrative office.

Component Unit

The Lenox Municipal Light and Power is a component unit of the City of Lenox and is not presented in these primary government financial statements. It is legally separate from the City, but is financially accountable to the City. The Utilities is governed by a three-member board appointed by the City Council and the Utilities' operating budget is subject to the approval of the City Council.

CITY OF LENOX, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

Note 1. Summary of Significant Accounting Policies (continued)

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:

Expendable 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 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 governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

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

CITY OF LENOX, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

Note 1. Summary of Significant Accounting Policies (continued)

Debt Service:

The General Obligation Bonds/Notes Fund is used to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

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

The Gas Fund accounts for the operation and maintenance of the City's natural gas system.

Measurement Focus and Basis of Accounting

The City of Lenox, Iowa maintains its financial records on the basis of cash receipts and disbursements and the primary government 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 primary government financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

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.

Governmental Cash Basis Fund Balances:

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

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

Unassigned – All amounts not included in other spendable classifications.

CITY OF LENOX, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

Note 1. Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Note 2. Deposits and Investments

The City's deposits in banks at June 30, 2011, 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 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's investments are normally categorized to give an indication of the level of risk assumed by the City at year end. At June 30, 2011, the City's investments consisted of certificates of deposit and were not subject to risk categorization.

Note 3. Notes Payable

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

Year Ending <u>June 30,</u>	General Obligation Notes		Revenue Notes	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 60,000	\$ 4,985	\$ 735,000	\$ 95,629
2013	25,000	2,288	755,000	74,366
2014	25,000	1,163	785,000	48,149
2015	---	---	<u>815,000</u>	<u>16,911</u>
Total	<u>\$ 110,000</u>	<u>\$ 8,436</u>	<u>\$3,090,000</u>	<u>\$ 235,055</u>

CITY OF LENOX, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

Note 3. Notes Payable (continued)

Year Ending <u>June 30,</u>	Other Debt		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 11,873	\$ 594	\$ 806,873	\$ 101,208
2013	---	---	780,000	76,654
2014	---	---	810,000	49,312
2015	---	---	815,000	16,911
Total	<u>\$ 11,873</u>	<u>\$ 594</u>	<u>\$3,211,873</u>	<u>\$244,085</u>

The resolutions providing for the issuance of the sewer revenue refunding notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to the sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers shall be made to the sewer revenue reserve account until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying principal and interest on the note in the event that funds in the sinking fund account are insufficient.

Note 4. Pension and Retirement Benefits

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

Plan members are required to contribute 4.50% of their annual salary and the City is required to contribute 6.95%. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2011 was \$30,385, equal to the required contribution for the year.

CITY OF LENOX, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

Note 5. Compensated Absences

City employees accumulate a limited amount of earned but unused vacation 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 payments payable to employees at June 30, 2011, primarily relating to the General Fund is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation Pay	<u>\$ 21,675</u>

This liability has been computed based on rates of pay in effect as of June 30, 2011.

Note 6. Risk Management

The City of Lenox 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.

Note 7. Gas Distribution and Operating Agreements

The City has agreements with the cities of Clearfield, Lorimor, Prescott and Bedford, Iowa to provide wholesale gas and billing services to these communities in return for a distribution system fee established in each agreement. The agreements extend automatically in intervals of one year unless intent of termination is indicated by either party.

Note 8. Jointly Governed Organization

The City also participates in one jointly governed organization for which the City is not financially accountable or that the nature and significance of the relationship with the City is such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the Taylor County Assessor's Conference Board.

CITY OF LENOX, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

Note 9. Major Utility Customer

The City provides natural gas service utility within the City and is a supplier to three other cities. A material part of the gas service revenue is from a single industrial customer which represents approximately 39% of the total gas service revenue of the City.

Note 10. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue: Road Use	Enterprise: Gas	<u>\$ 50,000</u>
Enterprise: Gas	Enterprise: Sewer	<u>\$ 21,154</u>
		<u>\$ 71,154</u>

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

Note 11. Subsequent Events

On May 11, 2011, a tornado damaged portions of the City including City property. The damages were covered by insurance and the City received an advance payment for those damages prior to June 30, 2011. On August 12, 2011, the City received an additional insurance payment of \$50,226 for the insured tornado damages.

In September 2011, the City awarded a contract for sanitary sewer improvements to be made within the City for an estimated project cost of \$216,189.

Management has evaluated subsequent events through October 25, 2011, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LENOX, IOWA  
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS,  
 AND CHANGES IN CASH BALANCES - ACTUAL TO BUDGET (CASH BASIS) -  
 ALL GOVERNMENTAL AND PROPRIETARY FUNDS

As of and for the Year Ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Net
<b>RECEIPTS:</b>			
Property tax	\$ 437,207	\$ -	\$ 437,207
Tax increment financing collections	-	-	-
Other city tax	77,596	-	77,596
Licenses and permits	4,950	-	4,950
Uses of money and property	11,106	38,667	49,773
Intergovernmental	158,369	-	158,369
Charges for services	255,377	1,693,492	1,948,869
Special assessments	-	-	-
Miscellaneous	234,665	885,962	1,120,627
<b>TOTAL RECEIPTS</b>	<b>\$ 1,179,270</b>	<b>\$ 2,618,121</b>	<b>\$ 3,797,391</b>
<b>DISBURSEMENTS:</b>			
Public safety	\$ 230,640	\$ -	\$ 230,640
Public works	411,532	-	411,532
Health and social services	-	-	-
Culture and recreation	184,766	-	184,766
Community and economic development	4,831	-	4,831
General government	140,733	-	140,733
Debt service	76,991	-	76,991
Capital projects	162,766	-	162,766
Business type activities	-	2,466,917	2,466,917
<b>TOTAL DISBURSEMENTS</b>	<b>\$ 1,212,259</b>	<b>\$ 2,466,917</b>	<b>\$ 3,679,176</b>
<b>EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	<b>\$ (32,989)</b>	<b>\$ 151,204</b>	<b>\$ 118,215</b>
<b>OTHER FINANCING SOURCES, NET</b>	<b>50,000</b>	<b>(50,000)</b>	<b>-</b>
<b>EXCESS OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES</b>	<b>\$ 17,011</b>	<b>\$ 101,204</b>	<b>\$ 118,215</b>
<b>CASH BALANCES, BEGINNING OF YEAR</b>	<b>1,069,050</b>	<b>2,610,614</b>	<b>3,679,664</b>
<b>CASH BALANCES, END OF YEAR</b>	<b>\$ 1,086,061</b>	<b>\$ 2,711,818</b>	<b>\$ 3,797,879</b>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Net
		Variance
\$ 450,710	\$ 450,710	\$ (13,503)
-	-	-
67,063	67,063	10,533
4,650	4,650	300
110,040	110,040	(60,267)
308,419	308,419	(150,050)
3,791,021	3,816,021	(1,867,152)
-	-	-
26,100	626,100	494,527
<u>\$ 4,758,003</u>	<u>\$ 5,383,003</u>	<u>\$ (1,585,612)</u>
\$ 245,317	\$ 255,317	\$ 24,677
319,590	519,590	108,058
-	-	-
206,514	825,514	640,748
32,750	37,750	32,919
149,328	209,828	69,095
77,000	77,000	9
400,000	600,000	437,234
3,183,871	3,208,871	741,954
<u>\$ 4,614,370</u>	<u>\$ 5,733,870</u>	<u>\$ 2,054,694</u>
\$ 143,633	\$ (350,867)	\$ 469,082
-	307,000	(307,000)
\$ 143,633	\$ (43,867)	<u><u>\$ (162,082)</u></u>
<u>3,613,840</u>	<u>3,613,840</u>	
<u><u>\$ 3,757,473</u></u>	<u><u>\$ 3,569,973</u></u>	

CITY OF LENOX, IOWA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING  
June 30, 2011

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. 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 increased budgeted disbursements by \$1,119,500. The budget amendments are reflected in the final budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

CITY OF LENOX, IOWA  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
As of and for the Year Ended June 30, 2011

Schedule 1

	Special Revenue		
	Road Use	Employee Benefits	Library
RECEIPTS:			
Property tax	\$ -	\$ 83,064	\$ -
Tax increment financing collections	-	-	-
Other city tax	-	-	-
Licenses and permits	-	-	-
Uses of money and property	1,010	-	212
Intergovernmental	135,106	-	-
Charges for services	-	-	-
Special assessments	-	-	-
Miscellaneous	-	10,378	4,970
<b>TOTAL RECEIPTS</b>	<b>\$ 136,116</b>	<b>\$ 93,442</b>	<b>\$ 5,182</b>
DISBURSEMENTS:			
Operating:			
Public safety	\$ -	\$ 40,235	\$ -
Public works	295,171	21,113	-
Health and social services	-	-	-
Culture and recreation	-	4,701	9,648
Community and economic development	-	-	-
General government	-	14,224	-
Debt service	-	-	-
Capital projects	-	-	-
<b>TOTAL DISBURSEMENTS</b>	<b>\$ 295,171</b>	<b>\$ 80,273</b>	<b>\$ 9,648</b>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<b>\$ (159,055)</b>	<b>\$ 13,169</b>	<b>\$ (4,466)</b>
OTHER FINANCING SOURCES (USES):			
Short term note proceeds	\$ -	\$ -	\$ -
Sale of capital assets	-	-	-
Operating transfers in	-	-	-
Operating transfers out	50,000	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ 50,000</b>	<b>\$ -</b>	<b>\$ -</b>

See accompanying independent auditor's report.

Special Revenue

Cemetery	Police	Local Option Sales Tax	Capital Projects	Total
\$ -	\$ -	\$ -	\$ -	\$ 83,064
-	-	-	-	-
-	-	77,596	-	77,596
-	-	-	-	-
-	-	-	478	1,700
-	-	-	-	135,106
-	-	-	-	-
-	-	-	-	-
8,130	-	-	169,500	192,978
<u>\$ 8,130</u>	<u>\$ -</u>	<u>\$ 77,596</u>	<u>\$ 169,978</u>	<u>\$ 490,444</u>
\$ -	\$ 1,124	\$ 8,584	\$ -	\$ 49,943
-	-	-	-	316,284
-	-	-	-	-
6,948	-	-	-	21,297
-	-	-	-	-
-	-	-	-	14,224
-	-	-	-	-
-	-	-	162,766	162,766
<u>\$ 6,948</u>	<u>\$ 1,124</u>	<u>\$ 8,584</u>	<u>\$ 162,766</u>	<u>\$ 564,514</u>
<u>\$ 1,182</u>	<u>\$ (1,124)</u>	<u>\$ 69,012</u>	<u>\$ 7,212</u>	<u>\$ (74,070)</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	-	50,000
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,000</u>

CITY OF LENOX, IOWA  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
As of and for the Year Ended June 30, 2011

Schedule 1

	Special Revenue		
	Road Use	Employee Benefits	Library
NET CHANGE IN CASH BALANCE	\$ (109,055)	\$ 13,169	\$ (4,466)
CASH BALANCES, BEGINNING OF YEAR	202,913	(1,723)	19,049
CASH BALANCES, END OF YEAR	\$ 93,858	\$ 11,446	\$ 14,583
CASH BASIS FUND BALANCES:			
Reserved for:			
Streets	\$ 93,858	\$ -	\$ -
Other purposes	-	11,446	14,583
Unassigned	-	-	-
TOTAL CASH BASIS FUND BALANCES	\$ 93,858	\$ 11,446	\$ 14,583

See accompanying independent auditor's report.

Special Revenue

<u>Cemetery</u>	<u>Police</u>	<u>Local Option Sales Tax</u>	<u>Capital Projects</u>	<u>Total</u>
\$ 1,182	\$ (1,124)	\$ 69,012	\$ 7,212	\$ (24,070)
<u>14,978</u>	<u>10,203</u>	<u>161,659</u>	<u>21,316</u>	<u>428,395</u>
<u>\$ 16,160</u>	<u>\$ 9,079</u>	<u>\$ 230,671</u>	<u>\$ 28,528</u>	<u>\$ 404,325</u>
\$ -	\$ -	\$ -	\$ -	\$ 93,858
16,160	9,079	230,671	-	281,939
<u>-</u>	<u>-</u>	<u>-</u>	<u>28,528</u>	<u>28,528</u>
<u>\$ 16,160</u>	<u>\$ 9,079</u>	<u>\$ 230,671</u>	<u>\$ 28,528</u>	<u>\$ 404,325</u>

CITY OF LENOX, IOWA  
 SCHEDULE OF INDEBTEDNESS  
 Year Ended June 30, 2011

Schedule 2

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rate for Entire Issue</u>	<u>Amount Originally Issued</u>
General obligation bonds:			
Street improvement	November 1, 2002	2.25-4.60%	\$ 330,000
Street improvement	June 1, 2004	4.20-6.20%	210,000
Total			
Revenue notes:			
Sewer revenue notes	December 22, 2009	2.20-4.15%	\$ 3,795,000
Other:			
Fire truck	December 1, 2005	5.00%	\$ 83,873

See accompanying independent auditor's report.

<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>
\$ 70,000	\$ -	\$ 35,000	\$ 35,000	\$ 3,168	\$ -
95,000	-	20,000	75,000	4,205	-
<u>\$ 165,000</u>	<u>\$ -</u>	<u>\$ 55,000</u>	<u>\$ 110,000</u>	<u>\$ 7,373</u>	<u>\$ -</u>
<u>\$ 3,795,000</u>	<u>\$ -</u>	<u>\$ 705,000</u>	<u>\$ 3,090,000</u>	<u>\$ 125,810</u>	<u>\$ -</u>
<u>\$ 24,373</u>	<u>\$ -</u>	<u>\$ 12,500</u>	<u>\$ 11,873</u>	<u>\$ 1,219</u>	<u>\$ -</u>

CITY OF LENOX, IOWA  
 BOND AND OTHER DEBT PAYABLE SUMMARY SCHEDULE  
 June 30, 2011

Schedule 3

Year Ending June 30,	General Obligation Bonds				
	Street Improvements		Street Improvements		Total
	Issued November 1, 2002		Issued June 1, 2004		
	Interest	Amount	Interest	Amount	
Rates	Rates				
2012	4.60%	\$ 35,000	4.35%	\$ 25,000	\$ 60,000
2013		-	4.50%	25,000	25,000
2014		-	4.65%	25,000	25,000
Total		\$ 35,000		\$ 75,000	\$ 110,000

Year Ending June 30,	Revenue Notes		Other Debt	
	Sewer		Fire Truck Note	
	Issued August 1, 1999		Issued December 1, 2005	
	Interest	Amount	Interest	Amount
Rates	Rates			
2012	2.55%	\$ 735,000	5.00%	\$ 11,873
2013	3.15%	755,000		-
2014	3.65%	785,000		-
2015	4.15%	815,000		-
Total		\$ 3,090,000		\$ 11,873

See accompanying independent auditor's report.

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  
City of Lenox, Iowa

We have audited the financial statements of the government activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Lenox, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City of Lenox, Iowa's basic financial statements and have issued our report thereon dated October 25, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards generally 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 City of Lenox, Iowa'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 an opinion on the effectiveness of the City of Lenox, Iowa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Lenox, Iowa's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be significant deficiencies in internal control over financial reporting.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Lenox, Iowa'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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as items.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011, 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.

We noted certain matters that we reported to management of City of Lenox, Iowa, in a separate letter dated October 25, 2011.

City of Lenox, Iowa's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit City of Lenox, Iowa's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Drapen, Smidgrass, Mikkelsen + Co., P.C.*

October 25, 2011

CITY OF LENOX, IOWA  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2011

Findings Related to the Financial Statements

Significant Deficiencies:

2011-A Segregation of duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that certain functions are not entirely segregated.

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

Response - We have as much segregation as possible. For bill paying four separate people review the bills and two others who balance the list of bills with the bills to be paid.

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.

Other Findings Related to Required Statutory Reporting:

2011-1 Certified Budget - Disbursements did not exceed the budgeted amounts for the year.

2011-2 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

2011-3 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

2011-4 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amounts of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

2011-5 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

The Council minutes were maintained, however during the review of those minutes, several were not properly signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation - All minutes of meetings should be properly signed as required by Chapter 380.7 of the Code of Iowa.

CITY OF LENOX, IOWA  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2011

Response – We will make sure all minutes are signed when they are approved.

Conclusion – Response acknowledged.

- 2011-6     Business Transactions – No business transactions between the City and City officials or employees were disclosed.
- 2011-7     Deposits and Investments - No instances of non-compliance with deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy were noted, except as noted in 2003-1.
- 2011-8     Revenue Notes - The City has established the sinking and reserve accounts as required by the Sewer Revenue Note Resolution.
- 2011-9     Notice of Public Hearing for Public Improvements – The City did publish a notice of public hearing on the Community Center project as required by Chapters 26.12 and 362.3 of the Code of Iowa, however did not hold the required public hearing.

Recommendation – Before entering into a contract for a public improvement with an estimated total cost in excess of \$100,000, the Council should hold a public hearing as required by Iowa Code.

Response – The publication for the public hearing was made, however the public hearing was omitted from the meeting agenda. Future required public hearings will be closely monitored to ensure published and included on the meeting agenda.

Conclusion – Response acknowledged.

**DRAPER, SNODGRASS, MIKKELSEN & CO., P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

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MEMBERS - IOWA SOCIETY OF CPAs  
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309 EAST MONTGOMERY STREET  
CRESTON, IOWA 50801

October 25, 2011

To the Honorable Mayor and City Council  
City of Lenox  
Lenox, Iowa

In planning and performing our audit of the financial statements of the City of Lenox, Iowa, for the year ended June 30, 2011, in accordance with U.S. generally accepted auditing standards, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This communication is intended solely for the information and use of management, the finance committee, the city council, and others within the city, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*Draper, Snodgrass, Mikkelsen & Co., P.C.*

Draper, Snodgrass, Mikkelsen & Co., P.C.

CITY OF LENOX, IOWA  
MANAGEMENT LETTER MEMORANDUM

A. Accounting for City Funds

During our audit, it was noted that some funds of the City were not accounted for on the City records. These funds are held in a separate bank account in the City's name. The City should implement procedures that ensure all funds of the City are accounted for and recorded in the records of the City. These funds were included in the audited amounts as they were recorded by an approved journal entry for the year.

B. Recording of Interest Earnings

We noted during our audit and upon confirmation from the financial institutions, that several certificates of deposit had interest added to the accounts, however this interest had not been recorded on the records of the City. The interest was paid quarterly to the certificate account and is included in the account balance. This unrecorded interest was adjusted and recorded for the year by an approved journal entry for the year end. We recommend that procedures be established to ensure that interest earned is timely recorded upon notice from the financial institution of earnings added to the account.