

CITY OF DECORAH  
DECORAH, IOWA

FINANCIAL REPORT

JUNE 30, 2004

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CITY OF DECORAH

OFFICIALS  
June 30, 2004

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2004)		
Victor Fye	Mayor	01-02-06
Gerald Aulwes	First Ward	01-02-06
Ellen Cutting	Second Ward	01-02-04
Paul Wanless	Third Ward	01-02-06
Kirk Johnson	Fourth Ward	01-02-04
Donald Arendt	Fifth Ward	01-02-06
Gary Rustad	At-Large	01-02-06
Steve Matter	At-Large	01-02-04

(After January 2004)

Victor Fye	Mayor	01-02-06
Gerald Aulwes	First Ward	01-02-06
Karen Tjossem	Second Ward	01-02-08
Paul Wanless	Third Ward	01-02-06
Steve Matter	Fourth Ward	01-02-08
Donald Arendt	Fifth Ward	01-02-06
Gary Rustad	At-Large	01-02-06
Jim Dale	At-Large	01-02-08

OFFICIALS

Gerald Freund	City Manager	Appointed
Wanda Hemesath	City Clerk, Treasurer	Appointed
Richard Zahasky	City Attorney	Appointed

INDEPENDENT AUDITOR'S REPORT ON THE  
FINANCIAL STATEMENTS

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Decorah, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Decorah'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 that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Decorah, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 18, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, as of June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2004, on our consideration of the City of Decorah's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on page 4 and pages 34 through 36, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Hacker, Nelson & Co., P.C.*

Decorah, Iowa  
August 30, 2004

# CITY OF DECORAH

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the City of Decorah's financial performance provides an overview of the City's financial activities for the fiscal year ending June 30, 2004. Please read this in conjunction with the Transmittal Letter and the City's financial statements contained within this Audit Report.

Because the City of Decorah is implementing new reporting standards with significant changes in both content and structure, some of the information is not easily comparable to the Reports provided in prior years. However, in future years, comparisons will be more meaningful and will also be more extensive with regard to explaining the City's financial position and results of operations.

### 2004 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased \$116,301 or approximately 2.07% from FY 2003 to FY 2004. Property taxes for all purposes increased \$15,262.
- Program expenditures excluding debt service and capital projects increased \$399,448.
- The City's total net assets are \$40,531,295. Of this amount, the governmental activities claim net assets of \$29,660,452.

### USING THIS ANNUAL REPORT

This 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.
- Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the City as a whole and provide an overall view of the City's finances.
- The Fund Financial Statements reveal how governmental services were financed in the short term as well as what remains for future spending. The Fund Financial Statements report the City's operations in greater detail than the government-wide statements by providing information about the funds.
- Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information provides detailed information about the non-major Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

## REPORTING THE CITY'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

One of the most important questions that is asked about the City's finances is: *"Is the City, as a whole, better or worse off as a result of this year's activities?"* The Statement of Net Assets and the Statement of Activities report information to assist in answering this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus. This is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets presents a picture of all of the City's net assets and liabilities with the difference between the two reported as the net assets. When using this as a comparison to the figure for net assets over a period of time, changes in the City's net assets may serve as a useful indicator as to whether the City's financial position is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this Statement for some items that will not result in cash flows until future fiscal periods.

The Statement of Net Assets and Statement of Activities report three kinds of activities.

1. **Governmental Activities:** These include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects.
2. **Business-Type Activities:** These include the City's utilities which specifically are the water system (production, storage, transmission, distribution, treatment, and billing) and sewer system (collection, transmission, treatment and discharge). These services are primarily characterized by their reliance on user charges as opposed to property or other general tax proceeds.
3. **Component Unit:** The only component unit of this City shown in the Financial Report is that of the Volunteer Fire Department. A component unit is a legally separate entity but one whose financial and accounting practices are closely linked to those of the City.

### Fund Financial Statements

The fund financial statements provide detailed information about the City's most significant funds and not the City as a whole. Some funds are required by State law while others are required by bond covenants or Council policy. The City's two kinds of funds – Governmental and Proprietary (Business-type) – are different by definition and use somewhat different accounting approaches. These differences are summarized below.

Governmental Funds: These account for most of the City's basic services and focus on how money flows into and out of those funds as well as balances at year end that are available for spending. Governmental funds include: 1). The General Fund; 2). Special Revenue Funds (i.e., Tax Increment Financing funds, Employee Benefits tax proceeds, and Road Use Taxes); 3). The Debt Service Fund; and 4) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting which measures cash and all other financial assets that can be readily converted to cash. The governmental fund financial statements provide a detailed, short-term view of the City's general governmental 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 balance sheet and a statement of revenues, expenditures, and changes in fund balance.

Proprietary (Business-Type) Funds: These account for the City's Enterprise funds which are those for which rate payers or other customers pay for the services rendered. The major difference in the accounting for these funds versus the Governmental Funds is the level of detail and the additional information, such as the cash flows that are shown with the Proprietary Funds. This City's enterprise funds include water and sewer funds only. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purposes for the benefit of the rate payers. The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

	Condensed Statement of Net Assets			
	Governmental Activities	Business-type Activities	Total	Component Unit
Current and other assets	\$ 7,646,936	\$ 2,120,417	\$ 9,767,353	\$ 97,076
Capital assets	22,013,516	8,750,426	30,763,942	
<b>Total assets</b>	<b>29,660,452</b>	<b>10,870,843</b>	<b>40,531,295</b>	<b>97,076</b>
Long-term debt outstanding	2,248,313	615,515	2,863,828	
Other liabilities	4,043,106	404,689	4,447,795	
<b>Total liabilities</b>	<b>6,291,419</b>	<b>1,020,204</b>	<b>7,311,623</b>	<b>None</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	19,563,746	8,087,133	27,650,879	
Restricted	1,038,471	-	1,038,471	97,076
Unrestricted	2,766,816	1,763,506	4,530,322	
<b>Total net assets</b>	<b>\$ 23,369,033</b>	<b>\$ 9,850,639</b>	<b>\$ 33,219,672</b>	<b>97,076</b>

The following analysis shows the change in net assets for the year ending June 30, 2004:

	Changes in Net Assets of Governmental Activities			
	Governmental Activities	Business-type Activities	Total	Component Unit
Revenues:				
Program revenue				
Charges for service	\$ 621,099	\$ 1,236,064	\$ 1,857,163	
Operating grants	1,249,196	43,222	1,292,418	
Capital grants	82,167	133,410	215,577	68,915
General revenue				
Property taxes	2,390,720	-	2,390,720	
Tax increment financing collections	230,703	-	230,703	
Other city taxes	271,925	-	271,925	
Local option sales tax	686,273	-	686,273	
Bank franchise tax	60,197	-	60,197	
Unrestricted investment earnings	39,499	5,872	45,371	166
Gain (loss) on the sale of capital assets	22,000	-	22,000	
Other revenue	72,636	-	72,636	4,717
Total revenues	5,726,415	1,418,568	7,144,983	73,798
Program expenses:				
Public safety	1,506,107	-	1,506,107	
Public works	1,099,487	-	1,099,487	
Health & social services	11,000	-	11,000	
Culture & recreation	1,471,302	-	1,471,302	
Community & economic development	489,017	-	489,017	
General government	333,655	-	333,655	
Interest on long-term debt	151,017	-	151,017	
Other expenses	-	1,323,335	1,323,335	15,358
Total expenses	5,061,585	1,323,335	6,384,920	15,358
Increase in net assets before transfers	664,830	95,233	760,063	58,440
Transfers	(203,357)	203,357	-	
Increase in net assets	461,473	298,590	760,063	58,440
Net assets Beginning of Year	22,907,560	9,552,049	32,459,609	38,636
Net assets End of Year	\$ 23,369,033	\$ 9,850,639	\$ 33,219,672	\$ 97,076

### Individual Major Fund Analysis

At the end of FY 03-04, the City reflected a combined fund balance for its Governmental Funds of \$5,659,332. (See *Exhibit D* for details). This compares to \$5,625,565 for the combined fund balance for Governmental Funds at the end of FY 02-03. This is a modest increase of \$33,767.

The Tax Increment Financing (TIF) Fund is within the Special Revenue Fund of the City. This fund accounts for TIF revenue from the taxes authorized by Ordinances for the four projects within their respective Urban Renewal Districts from which such tax revenues were duly certified. The *Notes to the Financial Statements* fully explain the details of the tax proceeds received for the City's TIF obligations.

The Employee Benefits Fund within the Special Revenue Fund of the City is used to account for the property taxes levied for the payment of employee benefits. Again, a change in reporting procedures accounts for a significant disparity between the ending fund balance for FY 02-03 and the beginning fund balance for FY 03-04. Specifically, the City's excess funds following the State's mandated participation in its Municipal Fire and Police Retirement System (MFPRS) have been invested. Since the mandatory participation and the subsequent investment by the City of its funds that were in excess of the State's funding requirement, the City has relied on both the principal and interest to varying degrees on an annual basis to pay a portion of its share to the MFPRS. The reporting requirements with respect to these invested funds account for the fund balance disparity within the Employee Benefits Fund.

The City's obligations which are met by way of the Debt Service Fund are fully explained under the *Notes to the Financial Statements*. It should be noted here that two obligations (Water Street Improvement Project and the Aerial Ladder Truck) were retired during FY 04. Both of these debt issues were General Obligations (G.O.) debts of the City. The City's legal bonding capacity as of June 30, 2004 is \$13,293,246.

The Capital Projects Fund is perhaps the most overhauled and therefore, the least recognizable following the number of accounting and reporting changes that are reflected for the first time in this year's Financial Report. Although most of the department and function-specific subsets which were previously reported in the Capital Project Fund are now reported in the General Fund, all such individual project funds and accounts are unaffected with respect to the specified designated intended uses, the maintenance of internal records and the annual allocation of earned interest. With the changes, only the Campground Expansion and Trail Development funds are reported under the Capital Projects Fund. Please refer to page 31 of the Financial Report for a complete listing of all of the department and function-specific accounts that previously were included under the Capital Projects Fund.

### **Proprietary Fund Highlights**

The Water Fund, which accounts for the operation and maintenance of the City's water system, ended Fiscal Year 2004 with a net asset balance of \$2,304,553. This reflects a change of \$211,326 from the end of Fiscal Year 2003 when the net asset balance was \$2,093,227.

The Sewer Fund, which accounts for the operation and maintenance of the sewer system and the wastewater treatment facility, ended Fiscal Year 2004 with a net asset balance of \$7,546,086. This reflects a change of \$87,264 from the end of Fiscal Year 2003 when the net asset balance was \$7,458,822.

### **Budgetary Highlights**

The City amended its budget once during the course of the year. The major reasons for the Amendment included:

- a. The expenditures for the Debt Service Fund were exceeded as TIF revenues were above those projected and therefore, excess revenue was used to prepay some of these obligations.
- b. The Airport land acquisition project, for which ninety per cent of the costs were paid by the FAA, increased the expenditures in the Public Works Program beyond that which was budgeted.

- c. The Culture and Recreation Program exceeded its budget limit but all additional costs were covered by grants and contributions.
- d. Specific, unanticipated building needs caused the General Government Program to exceed its established limit. The additional amount was covered by available reserves.
- e. The Public Safety Program exceeded its limit due to additional personnel costs. These costs were covered by available reserves.
- f. Street construction activity recorded in the Capital Projects Program caused it to exceed the approved budget amount. G.O. Bond loan proceeds covered these improvements.

Additional details behind the approved Budget Amendment are reflected in the Amendment document as well as in the Financial Report.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### Capital Assets

The City's capital assets include land, buildings, and improvements, equipment, streets, bridges, storm sewer systems, water and wastewater systems, lighting systems, traffic signals, the swimming pool and other infrastructure. The capital assets for Governmental activities totaled \$22,013,516 (net of accumulated depreciation). The capital assets for the Business-type activities totaled \$8,750,426 (net of accumulated depreciation) as of June 30, 2004. Detailed information regarding specific capital asset categories and depreciation can be found on pages 24 and 25 under the *Notes to Financial Statements*.

The major capital outlays for this fiscal year within the governmental activities involved street improvements particularly those associated with the second phase of the Day Spring Lane Project. The major capital outlays with the business-type activities involved improvements in progress for the wastewater treatment facility.

### Long-Term Debt

The State Constitution limits the amount of general obligation debt that cities can issue to five per cent of the assessed value of all taxable property within the City. As of June 30, 2004, the City's total outstanding G.O. debt of \$2,913,255 was well below the debt margin of \$13,293,246. The City does not have a current bond rating and therefore, depending upon the size of the next issue, may wish to consider taking the steps obtain a rating.

With regard to TIF debt, the Vennehem – Highland Place project will be pre-paid to the extent that TIF proceeds exceed debt service payments as the loan agreement does not prohibit such pre-payment. Similarly, it is our intention to pay the City's obligation pursuant to the agreement for participation with a portion of the street improvement for the Decorah Business Park to the maximum extent possible based on the amount of TIF proceeds received.

The \$825,000 of G.O. debt issued for the Wastewater Treatment Facility project will be paid entirely with revenue from the Sewer Fund. Because this was approved as a G.O. issue, the City may levy for these debt service payments. However, in keeping with the nature of such business-type activities, the user fee schedule is expected to enable repayment from the Sewer Fund.

Details of the debt issued by the City's specific debt issues can be found on pages 28 and 29 under the *Notes to Financial Statements*.

## **ECONOMIC FACTORS BEARING ON THE CITY'S FUTURE**

The most pronounced among the economic factors affecting the City's immediate future involve the reduction in State-shared revenues beginning largely with the current fiscal year. A series of cost-saving measures coupled with adequate fund balances in the General Fund and several other key funds has enabled the City to proactively respond to the State's budget decisions. It is anticipated that an increasingly critical review of both operating and capital budgets affected by these reductions will be undertaken during this and future budget sessions as these reductions are expected to have an adverse cumulative affect upon the City's budget needs. This analysis may very well include an increase in and adoption fees for certain services; a more intensive review of operating procedures and expenses; and, as a last resort, reduction of specific services.

On a more positive note, preliminarily it appears that the Local Option Sales Tax proceeds are on the rise. This indication comes largely from the annual adjustment provided by the Iowa Department of Revenue to the all cities that have implemented this particular tax. The adjustment is made (either upward or downward) to the State's estimates upon which it bases its monthly remittance of this tax to participating entities. This adjustment, which is provided in November, was in the amount of \$86,457. This figure compares favorably with the adjustments of \$27,006 in 2003, \$24,525 in 2002, \$12,976 in 2001, and \$17,493 in 2000.

Every effort will be made to defer a water rate increase during FY 05. The operating fund balance for that utility has been gradually increasing but as of this writing is only marginally in the black at just over \$24,000. The Sewer Fund, on the other hand, enjoys a more comfortable operating fund balance of just over \$458,000 (again, as of this writing). The debt service payments for the improvements to the Wastewater Treatment Facility were structured to closely resemble those of the recently retired debt issue for improvements undertaken in the eighties and, as such, no rate increase is planned to cover the debt for these latest improvements.

The funds set aside for capital projects for the City's utilities, are more than adequate to meet equipment replacement needs and undertake small infrastructure projects. However, larger projects (such as the planned water main from the Ronan tanks toward Highway 9; sanitary sewer main extensions along Highway 9 East; and storage improvements) will require other funding sources.

Property taxes will again be a major focal point in the preparation of and deliberations over the FY 05-06 Budget. The recently announced residential rollback to 47.9642% is down slightly from the 48.4558 for FY 05. Perhaps, more significantly, this latest drop represents a 14.75% reduction from the 56.2651% rollback in FY 02. Unlike FY 05, there is however, no rollback to be applied to commercial property. Adjustments will certainly need to be made in balancing the level of property taxes with the City's General Fund requirements and Council goals.

Below is a summary of the tax levy rates per \$1,000 of taxable valuation for FY 04-05:

General Levy	\$ 8.10
Liability, Property Insurance	0.50674
Employee Benefits	2.79838
Debt Service	<u>1.01580</u>
 Total	 <u>\$ 12.42092</u>

Also, a rate of \$0.48194 generates \$10,000 for a Self-Supporting Municipal Improvement District in the Central Business District. Finally, the Agricultural property tax rate for such land in the City has been held constant at \$2.65055 during the last several years.

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This Management's Discussion and Analysis Letter along with the Financial Report have been designed to present our current and prospective citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and operating activities. It is our hope that such information will assist in assessing the City's achievements and challenges. If you have any questions or desire any additional information about this Report, please contact either Jerry Freund, City Administrator, or Wanda Hemesath, City Clerk, at (563) 382-3651 or visit the City Hall Offices at 400 Claiborne Drive in Decorah

## CITY OF DECORAH

STATEMENT OF NET ASSETS  
June 30, 2004

	Governmental Activities	Business-type Activities	Total	Decorah Volunteer Fire Department
<b>ASSETS</b>				
Cash and pooled investments	\$ 3,734,114	\$ 1,605,976	\$ 5,340,090	\$ 97,076
Receivables				
Accounts and unbilled usage, net	30,986	331,915	362,901	
Property tax				
Current	35,514		35,514	
Succeeding year	2,550,990		2,550,990	
Special assessments				
Current	32,700	2,457	35,157	
Deferred	257,278	8,856	266,134	
Accrued interest	7,308		7,308	
Internal balances	23,886	(23,886)	-	
Due from other governments	410,108	159,050	569,158	
Inventories	4,825	15,000	19,825	
Prepaid expenses	78,206	21,049	99,255	
Restricted assets				
Investments	481,021		481,021	
Nondepreciable assets	981,287	773,082	1,754,369	
Capital assets, net of accumulated depreciation	21,032,229	7,977,344	29,009,573	
<b>Total assets</b>	<b>\$ 29,660,452</b>	<b>\$ 10,870,843</b>	<b>\$ 40,531,295</b>	<b>\$ 97,076</b>
<b>LIABILITIES AND NET ASSETS</b>				
Accounts payable	\$ 511,788	\$ 234,600	\$ 746,388	
Salaries and benefits payable	139,299	24,949	164,248	
Accrued interest payable	11,223	1,196	12,419	
Due to other governments	5,516		5,516	
Deferred revenue	2,808,268	8,856	2,817,124	
Long-term liabilities				
Portion due within one year				
Bonds payable	407,032	37,968	445,000	
TIF revenue bonds payable	15,579		15,579	
Revolving loan payable		44,000	44,000	
Notes payable	121,090	32,254	153,344	
Compensated absences	23,311	20,866	44,177	
Portion due after one year				
Bonds payable	666,524	28,476	695,000	
TIF revenue bonds payable	210,112		210,112	
Revolving loan payable		447,943	447,943	
Notes payable	1,255,124	139,096	1,394,220	
Compensated absences	116,553		116,553	
<b>Total liabilities</b>	<b>6,291,419</b>	<b>1,020,204</b>	<b>7,311,623</b>	<b>\$ None</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	19,563,746	8,087,133	27,650,879	
Restricted for				
Police and fire retirement	481,021		481,021	
Debt service	1,267		1,267	
Other special revenue purposes	556,183		556,183	
Other purposes				97,076
Unrestricted	2,766,816	1,763,506	4,530,322	
<b>Total net assets</b>	<b>23,369,033</b>	<b>9,850,639</b>	<b>33,219,672</b>	<b>97,076</b>
<b>Total liabilities and net assets</b>	<b>\$ 29,660,452</b>	<b>\$ 10,870,843</b>	<b>\$ 40,531,295</b>	<b>\$ 97,076</b>

See Notes to Financial Statements.

## CITY OF DECORAH

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2004

Functions and Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit Decorah Volunteer Fire Department
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
<b>Primary Government</b>								
Governmental activities								
Public safety	\$ 1,506,107		\$ 7,293	\$ 3,535	\$ (1,495,279)		\$ (1,495,279)	
Public works	1,099,487	\$ 159,834	631,342	5,033	(303,278)		(303,278)	
Health and social services	11,000				(11,000)		(11,000)	
Culture and recreation	1,471,302	388,739	198,400	72,711	(811,452)		(811,452)	
Community and economic development	489,017			250	(488,767)		(488,767)	
General government	333,655	72,526	412,161	638	151,670		151,670	
Interest on long-term debt	151,017				(151,017)		(151,017)	
<b>Total governmental activities</b>	<b>5,061,585</b>	<b>621,099</b>	<b>1,249,196</b>	<b>82,167</b>	<b>(3,109,123)</b>		<b>(3,109,123)</b>	
Business-type activities								
Water utilities	491,627	540,173		32,710		\$ 81,256	81,256	
Sewer utilities	831,708	695,891	43,222	100,700		8,105	8,105	
<b>Total business-type activities</b>	<b>1,323,335</b>	<b>1,236,064</b>	<b>43,222</b>	<b>133,410</b>	<b>-</b>	<b>89,361</b>	<b>89,361</b>	
<b>Total primary government</b>	<b>\$ 6,384,920</b>	<b>\$ 1,857,163</b>	<b>\$ 1,292,418</b>	<b>\$ 215,577</b>	<b>(3,109,123)</b>	<b>89,361</b>	<b>(3,019,762)</b>	
<b>Component Unit</b>								
Decorah Volunteer Fire Department	\$ 15,358			\$ 68,915				\$ 53,557
<b>General Revenues</b>								
Property and other city taxes levied for								
General purposes					2,181,017		2,181,017	
Debt service					209,703		209,703	
Tax increment financing collections					230,703		230,703	
Other city taxes					271,925		271,925	
Local option sales tax					686,273		686,273	
Bank franchise tax					60,197		60,197	
Unrestricted investment earnings					39,499	5,872	45,371	166
Miscellaneous					72,636		72,636	4,717
Special item - gain on sale of capital asset					22,000		22,000	
Transfers					(203,357)	203,357		
<b>Total general revenues, special items and transfers</b>					<b>3,570,596</b>	<b>209,229</b>	<b>3,779,825</b>	<b>4,883</b>
Change in net assets					461,473	298,590	760,063	58,440
<b>Net assets, beginning of year, restated</b>					<b>22,907,560</b>	<b>9,552,049</b>	<b>32,459,609</b>	<b>38,636</b>
<b>Net assets, end of year</b>					<b>\$ 23,369,033</b>	<b>\$ 9,850,639</b>	<b>\$ 33,219,672</b>	<b>\$ 97,076</b>

See Notes to Financial Statements.

## CITY OF DECORAH

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2004

	General	Special Revenue		Other Governmental Funds	Total Governmental Funds
		Employee Benefits	State Road Use Tax		
<b>ASSETS</b>					
Cash	\$ 640,680	\$ 193,362	\$ 623,489	\$ 493,991	\$ 1,951,522
Investments	1,600,000	481,021		182,592	2,263,613
Receivables					
Property taxes					
Current	24,284	4,869		6,361	35,514
Succeeding year	1,756,219	570,228		224,543	2,550,990
Special assessments					
Current	32,700				32,700
Deferred	257,278				257,278
Interest	824	5,838		647	7,309
Other	29,786			1,200	30,986
Due from other funds			476,355		476,355
Due from other governments	370,262			39,846	410,108
Inventories			4,825		4,825
Prepaid expenditures	78,206				78,206
<b>Total assets</b>	<b>\$ 4,790,239</b>	<b>\$ 1,255,318</b>	<b>\$ 1,104,669</b>	<b>\$ 949,180</b>	<b>\$ 8,099,406</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Accounts payable	\$ 379,793	\$ 3,870	\$ 34,583	\$ 93,542	\$ 511,788
Salaries and benefits payable	105,494	21,045	12,760		139,299
Due to other funds	451,347			1,122	452,469
Due to other governments				5,516	5,516
Deferred revenues	2,013,497	570,228		224,543	2,808,268
Compensated absences	21,067		2,244		23,311
<b>Total liabilities</b>	<b>2,971,198</b>	<b>595,143</b>	<b>49,587</b>	<b>324,723</b>	<b>3,940,651</b>
<b>FUND BALANCES</b>					
Reserved for					
Police and fire retirement		481,021			481,021
Debt service				1,267	1,267
Other special revenue purposes		179,154		377,029	556,183
Unreserved, reported in					
General fund	1,819,041				1,819,041
Capital projects fund				234,023	234,023
Special revenue fund			1,055,082	12,138	1,067,220
<b>Total fund balances</b>	<b>1,819,041</b>	<b>660,175</b>	<b>1,055,082</b>	<b>624,457</b>	<b>4,158,755</b>
<b>Total liabilities and fund balances</b>	<b>\$ 4,790,239</b>	<b>\$ 1,255,318</b>	<b>\$ 1,104,669</b>	<b>\$ 949,180</b>	<b>\$ 8,099,406</b>

See Notes to Financial Statements.

CITY OF DECORAH

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2004

Reconciliation of governmental fund balances to net assets	
Total governmental fund balances	\$ 4,158,755
Amounts reported for governmental activities	
in the statement of net assets are different because:	
Capital assets used in governmental activities are not	
financial resources and therefore are not reported as assets	
in the governmental funds, net of accumulated depreciation of	
\$ 9,793,222	22,013,515
Accrued interest and long-term liabilities, including bonds	
payable, are not due and payable in the current period and	
therefore are not reported as liabilities in the funds	
Bonds payable	(1,073,556)
TIF revenue bonds payable	(225,691)
Notes payable	(1,376,214)
Compensated absences	(116,553)
Accrued interest	(11,223)
	<hr/>
Net assets of governmental activities	<u>\$ 23,369,033</u>

See Notes to Financial Statements.

## CITY OF DECORAH

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2004

	General	Special Revenue		Other Governmental Funds	Total Governmental Funds
		Employee Benefits	State Road Use Tax		
<b>REVENUES</b>					
Property taxes	\$ 1,746,703	\$ 417,886		\$ 216,569	\$ 2,381,158
Tax increment financing collections				230,703	230,703
Other city tax	713,109	6,429		248,223	967,761
Licenses and permits	23,165				23,165
Use of money and property	63,320	26,162	\$ 137	22,025	111,644
Intergovernmental	675,417		630,589		1,306,006
Charges for service	396,387				396,387
Miscellaneous	276,622	6,578	475	26,704	310,379
<b>Total revenues</b>	<b>3,894,723</b>	<b>457,055</b>	<b>631,201</b>	<b>744,224</b>	<b>5,727,203</b>
<b>EXPENDITURES</b>					
Current operating					
Public safety	1,062,325	311,549		1,349	1,375,223
Public works	538,912	77,651	401,455		1,018,018
Health and social services	11,000				11,000
Culture and recreation	1,099,051	140,845		131,197	1,371,093
Community and economic development	38,248		6,504	459,617	504,369
General government	290,203	38,780			328,983
Capital projects	1,402,525				1,402,525
Debt service					
Principal	740,130			161,382	901,512
Interest and other charges	43,800			89,900	133,700
<b>Total expenditures</b>	<b>5,226,194</b>	<b>568,825</b>	<b>407,959</b>	<b>843,445</b>	<b>7,046,423</b>
<b>EXCESS REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(1,331,471)</b>	<b>(111,770)</b>	<b>223,242</b>	<b>(99,221)</b>	<b>(1,319,220)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from capital assets sold	22,000				22,000
Transfers in	131,546		25,000		156,546
Transfers out	(203,356)		(150,890)	(5,657)	(359,903)
<b>Total other financing sources (uses)</b>	<b>(49,810)</b>	<b>-</b>	<b>(125,890)</b>	<b>(5,657)</b>	<b>(181,357)</b>
<b>EXCESS REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>(1,381,281)</b>	<b>(111,770)</b>	<b>97,352</b>	<b>(104,878)</b>	<b>(1,500,577)</b>
<b>FUND BALANCES, beginning of year</b>	<b>3,200,322</b>	<b>771,945</b>	<b>957,730</b>	<b>729,335</b>	<b>5,659,332</b>
<b>FUND BALANCES, end of year</b>	<b>\$ 1,819,041</b>	<b>\$ 660,175</b>	<b>\$ 1,055,082</b>	<b>\$ 624,457</b>	<b>\$ 4,158,755</b>

See Notes to Financial Statements.

CITY OF DECORAH

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2004

Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities		
Net change in fund balances - total governmental funds		\$ (1,500,577)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlay exceeds depreciation in the period.		
Depreciation	\$ (1,042,394)	
Capital outlays	<u>2,121,673</u>	1,079,279
Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.		901,513
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.		632
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated absences		<u>(19,374)</u>
Change in net assets of governmental activities		<u>\$ 461,473</u>

See Notes to Financial Statements.

## CITY OF DECORAH

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2004

	Water Utilities	Sewer Utilities	Total
<b>ASSETS</b>			
Cash	\$ 252,554	\$ 1,353,422	\$ 1,605,976
Receivables			
Accounts and unbilled usage, net	127,035	204,880	331,915
Special assessments			
Current	978	1,479	2,457
Deferred	2,934	5,922	8,856
Internal balances	(23,886)		(23,886)
Due from other governments		159,050	159,050
Inventory	15,000		15,000
Prepaid expenses	11,243	9,806	21,049
	<u>385,858</u>	<u>1,734,559</u>	<u>2,120,417</u>
<b>Total current assets</b>			
Noncurrent assets			
Land		79,775	79,775
Construction in progress		693,307	693,307
Net capital assets	2,130,689	5,846,655	7,977,344
	<u>2,130,689</u>	<u>6,619,737</u>	<u>8,750,426</u>
<b>Total noncurrent assets</b>			
	<u>\$ 2,516,547</u>	<u>\$ 8,354,296</u>	<u>\$ 10,870,843</u>
<b>LIABILITIES AND NET ASSETS</b>			
Liabilities			
Accounts payable	\$ 14,647	\$ 219,953	\$ 234,600
Salaries and benefits payable	12,042	12,907	24,949
Accrued interest payable	594	602	1,196
Deferred revenues	2,934	5,922	8,856
Long-term liabilities			
General obligation bonds payable	37,968		37,968
Revolving loan payable		44,000	44,000
Notes payable, bank	20,188	12,066	32,254
Compensated absences	8,083	12,783	20,866
	<u>96,456</u>	<u>308,233</u>	<u>404,689</u>
<b>Total current liabilities</b>			
Noncurrent liabilities			
Long-term liabilities			
General obligation bonds payable	28,476		28,476
Revolving loan payable		447,943	447,943
Notes payable, bank	87,062	52,034	139,096
	<u>115,538</u>	<u>499,977</u>	<u>615,515</u>
<b>Total long-term liabilities</b>			
<b>Total liabilities</b>	<u>211,994</u>	<u>808,210</u>	<u>1,020,204</u>
Net assets			
Invested in capital assets, net of related debt	2,023,439	6,063,694	8,087,133
Unrestricted	281,114	1,482,392	1,763,506
	<u>2,304,553</u>	<u>7,546,086</u>	<u>9,850,639</u>
<b>Total net assets</b>			
<b>Total liabilities and net assets</b>	<u>\$ 2,516,547</u>	<u>\$ 8,354,296</u>	<u>\$ 10,870,843</u>

See Notes to Financial Statements.

## CITY OF DECORAH

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 PROPRIETARY FUNDS  
 Year Ended June 30, 2004

	Water Utilities	Sewer Utilities	Total
<b>OPERATING REVENUES</b>			
Charges for service			
Sewer rental fees		\$ 682,249	\$ 682,249
Sale of water	\$ 522,964		522,964
Miscellaneous	14,910	7,579	22,489
Intergovernmental			
Freeport share		43,222	43,222
Miscellaneous	2,299	6,063	8,362
<b>Total operating revenues</b>	<b>540,173</b>	<b>739,113</b>	<b>1,279,286</b>
<b>OPERATING EXPENSES</b>			
Salaries	187,875	209,815	397,690
Payroll taxes and fringe benefits	60,920	95,754	156,674
Insurance	18,465	8,782	27,247
Training	1,511	2,757	4,268
Vehicle repair and maintenance	607	7,990	8,597
Office supplies	7,372	5,130	12,502
Sales tax	28,441	13,069	41,510
Building maintenance and utilities	72,231	90,688	162,919
Emergency expense	663	18,920	19,583
Vehicle gas and oil	1,578	5,313	6,891
Engineering expense	4,817	38,658	43,475
Operating supplies and maintenance	15,090	25,529	40,619
Chemicals and testing	17,115	10,713	27,828
Hydrants, meters, and other parts	12,500	21,756	34,256
Depreciation	61,454	248,663	310,117
<b>Total operating expenses</b>	<b>490,639</b>	<b>803,537</b>	<b>1,294,176</b>
<b>Total operating income (loss)</b>	<b>49,534</b>	<b>(64,424)</b>	<b>(14,890)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Loss on capital assets sold		(22,785)	(22,785)
Interest income	1,368	4,504	5,872
Interest and other charges	(988)	(5,386)	(6,374)
<b>Net nonoperating revenues (expenses)</b>	<b>380</b>	<b>(23,667)</b>	<b>(23,287)</b>
<b>Income (loss) before contributions and transfers</b>	<b>49,914</b>	<b>(88,091)</b>	<b>(38,177)</b>
<b>CAPITAL CONTRIBUTIONS AND TRANSFERS</b>			
Capital contributions	32,710	100,700	133,410
Transfers in	128,702	74,655	203,357
Transfers out	-	-	-
	<b>161,412</b>	<b>175,355</b>	<b>336,767</b>
<b>Change in net assets</b>	<b>211,326</b>	<b>87,264</b>	<b>298,590</b>
<b>NET ASSETS, beginning of year</b>	<b>2,093,227</b>	<b>7,458,822</b>	<b>9,552,049</b>
<b>NET ASSETS, end of year</b>	<b>\$ 2,304,553</b>	<b>\$ 7,546,086</b>	<b>\$ 9,850,639</b>

See Notes to Financial Statements.

## CITY OF DECORAH

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 For the Year Ended June 30, 2004

	Water Utilities	Sewer Utilities	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from rent		\$ 693,505	\$ 693,505
Cash received from charges for services	\$ 521,551	7,579	529,130
Cash payments to employees for services	(263,020)	(312,456)	(575,476)
Cash payments to suppliers for services	(180,989)	(157,715)	(338,704)
Net cash provided by operating activities	<u>77,542</u>	<u>230,913</u>	<u>308,455</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Operating transfers in (out)	128,702	74,655	203,357
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Principal payments on notes payable	(42,892)		(42,892)
Revolving loan proceeds		491,943	491,943
Repayment of checks issued in excess of bank balances	(97,611)		(97,611)
Proceeds of interfund borrowing	23,886		23,886
Interest paid on long-term borrowing	(394)	(4,521)	(4,915)
Acquisition of capital assets	(101,733)	(963,665)	(1,065,398)
Net cash used in capital and related financing activities	<u>(218,744)</u>	<u>(476,243)</u>	<u>(694,987)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest on investments	1,777	6,713	8,490
Sale of investments	218,679	1,181,274	1,399,953
Net cash provided by investing activities	<u>220,456</u>	<u>1,187,987</u>	<u>1,408,443</u>
Net increase in cash and cash equivalents	207,956	1,017,312	1,225,268
CASH and CASH EQUIVALENTS, beginning of year	44,598	336,110	380,708
CASH and CASH EQUIVALENTS, end of year	<u>\$ 252,554</u>	<u>\$ 1,353,422</u>	<u>\$ 1,605,976</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>			
Operating income (loss)	\$ 49,534	\$ (64,424)	\$ (14,890)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities and related financing activities			
Depreciation and depletion	61,454	248,663	310,117
(Increase) decrease in tax receivable	(978)	192	(786)
(Increase) decrease in accounts receivable	(17,644)	11,256	(6,388)
(Increase) decrease in prepaid expense	(5,572)	(6,560)	(12,132)
(Increase) decrease in inventory	(15,000)		(15,000)
(Increase) decrease in due from other governments		(159,050)	(159,050)
Increase (decrease) in accounts payable	1,508	198,941	200,449
Increase (decrease) in salaries and benefits payable	4,922	2,577	7,499
Increase (decrease) in accrued compensated absences	(682)	(682)	(1,364)
Net cash provided by operating activities	<u>\$ 77,542</u>	<u>\$ 230,913</u>	<u>\$ 308,455</u>
<b>Non-cash investing, capital, and financing activities</b>			
Capital contributions	\$ 32,710	\$ 100,700	\$ 133,410
Loss on disposal of capital assets		(22,785)	(22,785)
Total non-cash investing, capital, and financing activities	<u>\$ 32,710</u>	<u>\$ 77,915</u>	<u>\$ 110,625</u>

See Notes to Financial Statements.

CITY OF DECORAH

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Significant Accounting Policies

a. Nature of Operations

The City of Decorah is a political subdivision of the State of Iowa located in Winneshiek County. It was first incorporated in 1857 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council-Manager form of government, with the Mayor and council members elected on a non-partisan basis and the manager appointed by the Mayor. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. It also provides water, sewer and sanitation utilities.

The financial statements of the City of Decorah have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

b. Significant Accounting Policies

Reporting Entity

For financial reporting purposes, City of Decorah 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; or the organization is fiscally dependent on the primary government. Also, any other organizations that due to the nature of significance of their relationship with the City should be included in the financial statements as component units.

The City has one component unit which meets the Governmental Accounting Standards Board criteria. The Decorah Volunteer Fire Department was established to and is committed to providing rapid, high quality emergency response in fire suppression needs and fire prevention education using teamwork and leadership of highly trained volunteers dedicated to the well-being of our community. The Decorah Volunteer Fire Department is instrumental in fundraising in an effort to assist with the purchase of fire suppression equipment needed for the safety of department personnel. The activities of the Volunteer Fire Department are reported using the discrete method.

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: Winneshiek County Area Solid Waste Agency, Upper Explorerland Regional Planning Commission, Northeast Iowa Mental Health Center, Winneshiek County E-911, and Northeast Iowa Task Force.

1. Nature of Operations and Significant Accounting Policies (Continued)b. Significant Accounting Policies (Continued)*Government-wide Financial Statements*

The statement of net assets and the statement of activities report information on all of the non-fiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, or other non-exchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net assets presents the City's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

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

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues 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 restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

*Fund Financial Statements*

Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

The City reports the following major governmental funds:

*Governmental*

*General Fund*

The general fund is the chief operating fund of the City. All general tax revenues and other revenues 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 expenditures, the fixed charges and the capital improvement costs not paid from other funds.

*Special Revenue Funds*

The special revenue funds are used to account for revenues derived from specific sources which are usually required by law or regulation to be accounted for in separate funds. The major funds in this category and their purpose are as follows:

*State Road Use Tax*

To account for state revenues allocated to the City to be used to maintain and improve the City's streets.

*Employee Benefits*

To account for non-proprietary employee related benefits funded by a property tax levy.

The City reports the following major proprietary funds:

*Enterprise Funds*

Enterprise funds are used to account for operations and activities that are financed and operated in a manner similar to a private business enterprise and where the costs of providing goods or services to the general public on a continuing basis are expected to be financed or recovered primarily through user charges or where the City has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City utilizes enterprise funds to account for the operation and maintenance of the water and waste water treatment and sanitary sewer systems of the City.

*Measurement Focus*

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements.

On the government-wide statement of net assets and the statement of activities, both governmental and business-type activities are presented using the "economic resources" measurement focus as defined below in item b.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate.

1. Nature of Operations and Significant Accounting Policies (Continued)b. Significant Accounting Policies (Continued)*Measurement Focus (Continued)*

- a. All governmental fund financial statements are accounted for on current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance is considered a measure of "available spendable resources." Governmental fund operating statements present increases, revenues and other financing sources, and decreases, expenditures and other financing uses in fund balances. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.
- b. The proprietary funds are accounted for on economic resources measurement focus. This means that all assets and all liabilities, whether current or non-current, associated with their activity are included on their balance sheets. In reporting the financial activity on the Government-wide statements, the City applies all applicable GASB pronouncements. As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the City has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

*Basis of Accounting*

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide and proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized as earned, and expenses are recognized when incurred. Interest on revenue bonds, proceeds of which are used in financing the construction of certain assets, is capitalized during the construction period net of interest on the investment of unexpended bond proceeds. Property tax is recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied. This differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

1. Nature of Operations and Significant Accounting Policies (Continued)b. Significant Accounting Policies (Continued)*Basis of Accounting (Continued)*

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when they become both measurable and available. Available means collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures are recorded when the liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due. Disbursements for the purchase of assets providing future benefits are recorded as expenditures at time of purchase.

Revenues susceptible to accrual under the modified accrual basis of accounting are property tax, intergovernmental revenue (shared revenues, grants and reimbursements from other governments), and charges for service and interest revenue. Revenues from licenses and permits, fines and forfeitures, refunds and reimbursements and other miscellaneous sources are generally recognized when received in cash as they are generally not measurable until actually received.

The City maintains its financial records on the cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the cash basis financial records.

*Assets, Liabilities and Fund Equity*

The following accounting policies are followed in preparing the financial statements:

*Cash, Pooled Investments and Cash Equivalents*

The City maintains one primary demand deposit account through which the majority of the City's cash resources are processed. The funds, which have issued warrants in excess of their share of the account balance, are considered to have borrowed these amounts from other funds.

Excess of outstanding checks over bank balance represents a technical overdraft created by the amount of checks issued exceeding the balances on deposit recorded in the records of the City.

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.

All of the investments, which consist of U.S. Government securities and agencies, bank certificates, and corporate bonds, are stated at fair value, which approximates cost for investments at June 30, 2004. The deposits and investments of the police and firemen retirement which are recorded in the employee benefit fund are held separately from the other City funds.

1. Nature of Operations and Significant Accounting Policies (Continued)b. Significant Accounting Policies (Continued)*Assets, Liabilities and Fund Equity (Continued)**Cash, Pooled Investments and Cash Equivalents (Continued)*

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

*Property Tax Receivables, Including Tax Increment Financing*

Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represent taxes collected by the County but not remitted to the City at June 30, 2004 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 14 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable have been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2003.

*Customer Accounts and Unbilled Usage*

Accounts receivable are recorded in the enterprise funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

*Due from and Due to Other Funds*

During the course of its operations, the County has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2004, balances of interfund amounts receivable or payable have been recorded. Interfund payables and receivables are reported on the fund financial statements.

*Due from Other Governments*

Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

*Assets, Liabilities and Fund Equity (Continued)*

*Inventories*

Inventories are valued at cost using the first-in/first-out method. Inventories in the enterprise funds consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

*Restricted Assets*

The City previously maintained two pension funds for City employees, the police and fire retirement funds. The majority of the assets of these two funds were transferred by state mandate to the Municipal Police and Fire Retirement System of Iowa (MPFRSI) on January 1, 1992. The remaining funds were transferred to the Employee Benefits Special Revenue Fund to assist with the payment of future contributions.

*Capital Assets*

Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government) are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Capital assets in the proprietary fund are capitalized in the fund in which they are utilized. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years:

<u>Asset Class</u>	<u>Amount</u>
Land, buildings and improvements	\$ 5,000
Equipment and vehicles	5,000
Infrastructure, road networks	50,000

Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings and improvements	20-40
Land improvements	10-50
Equipment	5-20
Vehicles	5-15
Infrastructure, road network	15-75

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

*Assets, Liabilities and Fund Equity (Continued)*

*Deferred Revenue*

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, as well as delinquent property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the statement of net assets consists of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied. Also included in deferred revenue are long-term special assessments which will be recognized as revenue over the amortized period.

*Compensated Absences*

City employees earn vacation leave at the following rates:

<u>Years of Service</u>	<u>Vacation Days Earned Per Year</u>
1	5
2-6	10
7-14	15
15-19	20
20	25

Employees may carryover up to 10 days vacation each year at their anniversary date, however, the carryover must be used within 6 months. Employees who retire may use one half of their accumulated sick leave to pay for continuing health insurance coverage under City Code. Consequently, no liability for accumulated sick leave at June 30, 2004 has been determined or presented. In accordance with GASB Statement 16, the City has accrued the liability for accrued vacation leave in the accompanying fund financial statements. All full time City employees accumulate vacation, holiday and personal hours for subsequent use or for payment upon termination, retirement or death. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred. The portion of the estimated future payments for compensated absences that will use current expendable resources is reported as a liability of the governmental funds in the respective fund.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

*Compensated Absences (Continued)*

The City's approximate maximum liability for accrued compensated absences at June 30, 2004 is as follows:

Governmental	\$ 139,864
Enterprise	<u>20,866</u>
Total	<u>\$ 160,730</u>

These liabilities have been computed based on rates of pay as of June 30, 2004.

*Long-term Liabilities*

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the statement of net assets and the proprietary fund statement of net assets.

*Fund Equity*

In the governmental fund financial statements, reservation of fund balances are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subject to change.

*Budgets and Budgetary Accounting*

The budgetary comparison and related disclosures are reported as required supplementary information. During the year ended June 30, 2004, disbursements exceeded the amount budgeted in the debt service and capital projects functions.

*Revenues*

Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable but has not been collected.

Federal and state grants, primarily capital grants, are recorded as revenue when the expenditures for the purpose of the grant have been incurred. Substantially all other shared revenues are recorded during the period when received from the collecting authority, the State of Iowa.

2. Cash and Pooled Investments

The City's deposits in banks at June 30, 2004 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's deposits and investments are comprised of the following at June 30, 2004:

<u>Account</u>	<u>Amount</u>	<u>Balance Sheet Classification</u>
Cash	\$3,557,498	Cash
Certificates of deposit	1,782,592	Investments
Investments	<u>481,021</u>	Investments
	<u>\$5,821,111</u>	

Investments are made in accordance with state statutes for the investment of public funds. The City invests in GNMA mortgage-backed securities in part to maximize yields and in part to hedge against a rise in interest rates. These securities are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to pre-payments by mortgagees, which may result from a decline in interest rates.

Investments of the City are categorized to give an indication of the level of risk assumed by the City at year end. The appropriate risk categories follow:

Category 1: Investments, which are insured or registered or held by the entity or its agents in the entity's name.

Category 2: Investments which are uninsured and unregistered, with securities held by others in the entity's name.

	<u>Fair Value</u>	
	<u>Category 1</u>	<u>Category 2</u>
Treasury securities	\$ 40,386	
Other government backed securities		\$ 428,677
Diversified portfolio		<u>11,958</u>
	<u>\$ 40,386</u>	<u>\$ 440,635</u>

NOTES TO FINANCIAL STATEMENTS

3. Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital assets not being depreciated:				
Land	\$ 580,424	\$ 119,275		\$ 699,699
Infrastructure in progress	<u>2,007,399</u>	<u>281,588</u>	<u>\$2,007,399</u>	<u>281,588</u>
Total capital assets not being depreciated	<u>2,587,823</u>	<u>400,863</u>	<u>2,007,399</u>	<u>981,287</u>
Capital assets being depreciated:				
Buildings and improvements	4,825,004	83,359	22,269	4,886,094
Improvements other than buildings	1,668,461			1,668,461
Equipment	3,026,132	162,458	107,578	3,081,012
Vehicles	1,395,907	34,586	11,168	1,419,325
Infrastructure	<u>16,305,059</u>	<u>3,465,500</u>		<u>19,770,559</u>
Total capital assets being depreciated	<u>27,220,563</u>	<u>3,745,903</u>	<u>141,015</u>	<u>30,825,451</u>
Less accumulated depreciation				
Buildings and improvements	1,468,304	122,768	12,248	1,578,824
Improvements other than buildings	1,041,091	45,009		1,086,100
Equipment	1,421,039	294,796	99,905	1,615,930
Vehicles	843,257	132,620	11,168	964,709
Infrastructure	<u>4,100,458</u>	<u>447,201</u>		<u>4,547,659</u>
Total accumulated depreciation	<u>8,874,149</u>	<u>1,042,394</u>	<u>123,321</u>	<u>9,793,222</u>
Total capital assets being depreciated, net	<u>18,346,414</u>	<u>2,703,509</u>	<u>17,694</u>	<u>21,032,229</u>
Governmental activities capital assets, net	<u>\$20,934,237</u>	<u>\$3,104,372</u>	<u>\$2,025,093</u>	<u>\$22,013,516</u>

NOTES TO FINANCIAL STATEMENTS

3. Capital Assets (Continued)

BUSINESS-TYPE ACTIVITIES	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004
Capital assets not being depreciated:				
Land	\$ 79,775			\$ 79,775
Infrastructure in progress	None	\$ 693,307	\$ None	693,307
Total capital assets not being depreciated	<u>79,775</u>	<u>693,307</u>	<u>None</u>	<u>773,082</u>
Capital assets being depreciated:				
Buildings and improvements	2,003,457	4,800		2,008,257
Improvements other than buildings	2,641,678		22,500	2,619,178
Equipment	3,483,041	304,245	260,156	3,527,130
Vehicles	218,517		14,119	204,398
Infrastructure, water and sewer network	4,614,834	196,455		4,811,289
Total capital assets being depreciated	<u>12,961,527</u>	<u>505,500</u>	<u>296,775</u>	<u>13,170,252</u>
Less accumulated depreciation				
Buildings and improvements	909,901	50,300		960,201
Improvements other than buildings	1,015,354	69,035	20,250	1,064,139
Equipment	1,561,692	98,488	239,621	1,420,559
Vehicles	152,654	20,776	14,119	159,311
Infrastructure, water and sewer network	1,517,180	71,518		1,588,698
Total accumulated depreciation	<u>5,156,781</u>	<u>310,117</u>	<u>273,990</u>	<u>5,192,908</u>
Total capital assets being depreciated, net	<u>7,804,746</u>	<u>195,383</u>	<u>22,785</u>	<u>7,977,344</u>
Business-type activities capital assets, net	<u>\$ 7,884,521</u>	<u>\$ 888,690</u>	<u>\$ 22,785</u>	<u>\$ 8,750,426</u>

Depreciation expense was charged to functions of the primary government as follows:

Governmental activities:	
Public safety	\$ 155,269
Public works	553,005
Culture and recreation	301,173
General government	32,947
Total depreciation expense	<u>\$1,042,394</u>
Business-type activities:	
Water	\$ 61,454
Sewer	
Sanitary sewer	\$ 51,169
Sewer utility	20,653
Wastewater	176,841
Total depreciation expense	<u>\$ 310,117</u>

4. Retirement System

The City contributes to two retirement systems. The Iowa Public Employees Retirement System (IPERS) and the Municipal Police and Fire Retirement System of Iowa (MPFRSI). IPERS 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.

IPERS' plan members are required to contribute 3.7% of their annual salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$86,937, \$75,349, and \$74,459, respectively, equal to the required contributions for each year.

MPFRSI is a cost sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The plan provides retirement, disability and death benefits, which are established by state statute to plan members and beneficiaries. MPFRSI issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to MPFRSI, 2836 104th Street, Des Moines, Iowa, 50322.

MPFRSI's plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate may not be less than 17.0% of earnable compensation for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The City's contributions to MPFRSI for the years ended June 30, 2004, 2003 and 2002 were \$117,945, \$89,162, and \$87,097, respectively, which met the required minimum contribution for each year.

5. Commitments

The total outstanding construction and purchase commitments of the City for the waste water treatment plant equipment upgrades at June 30, 2004 amounted to \$878,559. Of these commitments \$649,801 will be funded by a federal grant.

6. Leases

The City has agreed to lease space to the Winneshiek County Sheriff's office for a four year period starting July 1, 2000. The lease requires \$4,200 payments each year to the City. The City has also agreed to lease property to Northeast Iowa Telephone Company for a five year period beginning November 6, 2000. The lease requires \$6,000 payments each year to the City. The City also has other nominal leases with various parties and terms.

At June 30, 2004 future minimum lease receipts were as follows:

Year ending June 30,	
2005	\$ 16,208
2006	6,120
2007	120
2008	120
2009	120
Thereafter	120
	<u>\$ 22,808</u>

6. Leases (Continued)

The City is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the City's account groups.

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, 2004:

Year ending June 30,	
2004	\$ 7,100
2005	1,100
2006	1,100
2007	1,100
2008	1,100
Later years	<u>11,000</u>
Total minimum payments required	<u>\$ 22,500</u>

7. Long-term Debt

Bonded Debt

General Obligation Bonds/Notes

One general obligation corporate purpose note totaling \$1,140,000 is outstanding as of June 30, 2004. The general obligation corporate purpose note bears interest ranging from 2.8% to 2.5% and matures in annual amounts ranging from \$235,000 to \$220,000 with the final payment of \$235,000 in the year ending June 30, 2007.

One general obligation sewer improvement bond which will total \$825,000 when fully advanced was issued April 19, 2004. As of June 30, 2004, \$491,943 is outstanding. The general obligation sewer improvement bond bears an interest rate of 3.0% and matures in annual amounts ranging from \$44,000 to \$67,000 with the final payment of \$67,000 in the year ending June 30, 2019.

Urban Renewal Tax Increment Financing Revenue Bonds

The urban renewal tax increment financing revenue bonds totaling \$288,000 were issued for the purpose of providing a portion of the financing for an urban renewal project which was constructed by a private developer. The outstanding balance was \$225,691 as of June 30, 2004. The bonds are payable solely from the income and proceeds of the urban renewal tax increment fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City, however the debt is subject to the constitutional debt limitation of the City.

Bank Notes Payable

The City has the following bank notes payable at June 30, 2004:

Viking State Bank & Trust

2002 Street Project

5.0% note payable due \$110,641 semi-annually including interest through December 2012. This note is for an essential corporate purpose.

\$1,547,564

NOTES TO FINANCIAL STATEMENTS

7. Long-term Debt (Continued)

A summary of the changes in debt, by type, for the year ended June 30, 2004 is as follows:

	Balance June 30, 2003	Borrowed	Paid	Balance June 30, 2004
General Obligation Corporate Purpose Notes				
2003 street bond	\$1,570,000	\$ None	\$(430,000)	\$1,140,000
General Obligation Sewer Improvement Bond	None	491,943		491,943
Urban Renewal Tax Increment Financing (TIF) Revenue Bonds	240,305	None	(14,614)	225,691
Total bonded debt	<u>\$1,810,305</u>	<u>\$ 491,943</u>	<u>\$(444,614)</u>	<u>\$1,857,634</u>
Bank Notes Payable				
Water street project	\$ 315,016		\$(315,016)	\$ None
Fire truck	38,007		(38,007)	None
2002 street project	1,694,332		(146,768)	1,547,564
	<u>\$2,047,355</u>	<u>\$ None</u>	<u>\$(499,791)</u>	<u>\$1,547,564</u>

A summary of the principal and interest maturities by type of debt is as follows:

Year Ending June 30,	Bonded Indebtedness					
	General Obligation		Urban Renewal Tax Increment Financing (TIF) Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 489,000	\$ 40,361	\$ 15,579	\$ 14,421	\$ 504,579	\$ 54,782
2006	506,000	27,938	16,608	13,392	522,608	41,330
2007	282,000	14,996	17,705	12,295	299,705	27,291
2008	49,000	10,648	18,875	11,125	67,875	21,773
2009	50,000	9,178	20,122	9,878	70,122	19,056
2010-2014	255,943	22,522	122,391	27,609	378,334	50,131
2015			14,411	468	14,411	468
	<u>\$1,631,943</u>	<u>\$125,643</u>	<u>\$ 225,691</u>	<u>\$ 89,188</u>	<u>\$1,857,634</u>	<u>\$214,831</u>

Year Ending June 30,	Bank Notes Payable	
	Principal	Interest
2005	\$ 153,344	\$ 67,939
2006	160,322	60,961
2007	167,617	53,665
2008	175,245	46,038
2009	183,220	38,063
2010-2013	707,816	65,028
	<u>\$1,547,564</u>	<u>\$331,694</u>

NOTES TO FINANCIAL STATEMENTS

7. Long-term Debt (Continued)

The general obligation corporate purpose notes payable for the 2003 street project are partially payable by the water fund. The general purpose corporate purpose notes are partially funded by the assessment of various Decorah residents and businesses located in the defined assessed areas. This debt is backed by the full faith and credit of the City. At June 30, 2004 the outstanding general obligation corporate purpose note for the water fund and governmental funds are:

Governmental funds	\$1,073,556
Water fund	<u>66,444</u>
	<u>\$1,140,000</u>

The general obligation sewer improvement bond payable for waste water treatment plant improvements are to be repaid by sewer revenue collected from Decorah residents and businesses. The City does have the ability to levy. This debt is backed by the full faith and credit of the City.

The bank note payable for 2002 street projects are partially payable by the water and sewer funds and the remaining balance has been recorded in the general fund. The bank notes are partially funded by the assessment of various Decorah residents and businesses located in the defined assessed areas. This debt is backed by the full faith and credit of the City. At June 30, 2004 the outstanding note payable for the water fund, sewer fund and governmental fund are:

Governmental funds	\$1,376,214
Water fund	107,250
Sewer fund	<u>64,100</u>
	<u>\$1,547,564</u>

At June 30, 2004, the debt issued by the City did not exceed its legal debt margin compiled as follows:

Total assessed valuation	<u>\$324,130,016</u>
Debt limit - 5% of total assessed valuation	\$ 16,206,501
Debt applicable to debt limit	
Bank notes and bonded debt outstanding	<u>2,913,255</u>
Legal debt margin	<u>\$ 13,293,246</u>

The City currently has Low-to-Moderate (LMI) set aside of \$37,843.

NOTES TO FINANCIAL STATEMENTS

8. Due From and Due to Other Funds

As of June 30, 2004, interfund receivables and payables that resulted from various interfund transactions were as follows:

Receivable Fund	Payable Fund	Amount
Special revenue		
Road use	General	\$451,347
	Debt service	1,122
	Enterprise	
	Water	<u>23,886</u>
Total		<u>\$476,355</u>

These balances result from interfund loans to cover checks in excess of cash balances. Repayments will be made from future revenues.

9. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer To	Transfer From	Amount
Enterprise		
Water	General	\$128,702
Sewer	General	74,655
General	Special revenue	
	Road use	125,890
General	Tax increment financing	<u>5,656</u>
		<u>\$334,903</u>

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

NOTES TO FINANCIAL STATEMENTS

10. Designated Net Assets

The City Council has made the following designations of unrestricted net assets:

General	Visioning committee	\$ 7,588
	Skate park	89
	Airport equipment	27,409
	Fire protection equipment	68,646
	Softball volleyball improvements	2,750
	Swimming pool equipment	73,479
	City hall equipment	19,280
	Recreation equipment	25,821
	Ski hill equipment	17,442
	Library technology	4,382
	Park equipment	18,226
	Police equipment	36,899
	Park land acquisition	72,016
	Sidewalk	123,269
		<u>\$ 497,296</u>
Special revenue		
State road use	Street equipment	<u>\$ 47,777</u>
Capital projects		
	Campground expansion	\$ 22,698
	Local trail development	211,325
		<u>\$ 234,023</u>

11. College Revenue Bonds

The City has, during recent years, participated in several issues of private college revenue bonds, issued for the purposes of constructing college buildings within the City deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2004 approximately \$3,974,728 of private college revenue bonds was outstanding.

12. Development and Rebate Agreement

The City entered into a development agreement dated January 5, 2001 to assist in an urban renewal project. The City agreed to rebate incremental taxes paid by the developer in exchange for infrastructure improvements constructed by the developer as set forth in the urban renewal plan. The incremental taxes to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of ten years beginning with the tax year in which the property taxes on the completed value of the improvements are first paid. The total amount that will be rebated over the ten year period under the development and rebate agreement is not to exceed \$416,132.

No bonds or notes were issued for this construction project. To the extent that on any payment date there are insufficient tax increment revenues available to make the required scheduled payment, the unpaid amount shall be carried over to the next payment date without accruing any further interest.

13. Related Party Transactions

The City had business transactions between the City and City officials, totaling \$30,352 during the year ended June 30, 2004.

14. Risk Management

The City of Decorah 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.

The City is partially self-insured for health care insurance of employees. The City purchases insurance with a \$2,000 deductible and self-insures to provide employees with deductibles of \$250 per person and \$500 per family per year. The City's maximum annual cost per employee of this coverage is \$2,250 per employee. The City has incurred costs totaling \$44,605 for the 2004 fiscal year. At June 30, 2004, the maximum potential additional City liability because of this plan was \$103,895.

15. Contingent Liabilities

The City participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of June 30, 2004 significant amounts of grant expenditures have not been audited by granting authorities but the City believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the City.

16. Joint Venture

The City is a participant in the Winneshiek County Area Solid Waste Agency. The City has agreed to guarantee revenue to the agency from city residents. The guarantee equals base year usage by city residents as a percentage of all base year usage sufficient to fund \$2,000,000 of bonded indebtedness amortized over 12 years. The guarantee was in effect until 2003. The City appoints a member to the agency board and is guaranteed access to the landfill so long as it is a member. The agency board sets tonnage fee rates which are charged to contracted haulers who are responsible for garbage collection and billing and collecting from local residents. Audited financial statements of Winneshiek County Area Solid Waste Agency are available from the Agency at 2000 140<sup>th</sup> Avenue, Decorah, Iowa.

17. Subsequent Events

In July 2004, the City approved a request from Spectrum Industries to utilize a portion of the City's bank qualified loan amount for their CDBG project.

18. Accounting Change

Governmental Accounting Standards Board (GASB) Interpretation Number 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absence liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board (GASB) 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 during the year ended June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting 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 government-wide financial statements report the City's governmental and business-type activities. The beginning net asset amount for governmental activities has been restated to include capital assets and long-term liabilities at July 1, 2003 resulting from the conversion to the accrual basis of accounting.

Net assets, June 30, 2003, as previously reported		\$ 5,659,330
GASB 34 adjustments		
Capital assets, net		20,934,238
Long-term liabilities		
Bonds and notes	\$3,576,974	
Compensated absences	<u>97,179</u>	(3,674,153)
Accrued interest payable		<u>(11,855)</u>
Net assets, July 1, 2003, as restated		<u>\$22,907,560</u>

CITY OF DECORAH

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS)  
ALL GOVERNMENTAL AND PROPRIETARY FUND TYPES  
Year Ended June 30, 2004

	Governmental	Proprietary	Total	Budget Amounts		Variance - Favorable (Unfavorable)
	Fund Type	Fund Type		Original	Final	
	Actual	Actual	Actual			
<b>RECEIPTS</b>						
Property taxes	\$ 2,356,540		\$ 2,356,540	\$ 2,328,904	\$ 2,328,904	\$ 27,636
Tax increment financing collections	228,287		228,287	124,000	221,842	6,445
Other city taxes	885,895		885,895	900,080	900,080	(14,185)
Licenses and permits	24,850		24,850	25,450	25,450	(600)
Use of money and property	78,124	\$ 8,489	86,613	101,900	101,900	(15,287)
Intergovernmental revenues	1,146,757	31,344	1,178,101	1,045,884	1,184,306	(6,205)
Charges for services	398,213	1,233,369	1,631,582	1,697,060	1,697,060	(65,478)
Special assessments	134,572	7,576	142,148	30,000	130,624	11,524
Miscellaneous	169,005		169,005	243,677	264,832	(95,827)
<b>Total revenues</b>	<b>5,422,243</b>	<b>1,280,778</b>	<b>6,703,021</b>	<b>6,496,955</b>	<b>6,854,998</b>	<b>(151,977)</b>
<b>DISBURSEMENTS</b>						
Public safety	1,329,660		1,329,660	1,360,497	1,369,997	40,337
Public works	1,109,382		1,109,382	1,418,394	1,495,094	385,712
Health and social services	11,000		11,000	15,000	15,000	4,000
Culture and recreation	1,368,390		1,368,390	1,221,968	1,491,880	123,490
Community and economic development	213,358		213,358	262,928	262,928	49,570
General government	332,605		332,605	337,754	353,754	21,149
Debt service	1,270,295		1,270,295	571,959	900,959	(369,336)
Capital projects	1,290,827		1,290,827	342,000	1,218,143	(72,684)
<b>Total governmental activities disbursements</b>	<b>6,925,517</b>	<b>-</b>	<b>6,925,517</b>	<b>5,530,500</b>	<b>7,107,755</b>	<b>182,238</b>
Business-type enterprises		1,714,630	1,714,630	1,260,605	1,260,605	(454,025)
<b>Total disbursements</b>	<b>6,925,517</b>	<b>1,714,630</b>	<b>8,640,147</b>	<b>6,791,105</b>	<b>8,368,360</b>	<b>(271,787)</b>
<b>EXCESS RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	<b>(1,503,274)</b>	<b>(433,852)</b>	<b>(1,937,126)</b>	<b>(294,150)</b>	<b>(1,513,362)</b>	<b>(423,764)</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Proceeds from long-term debt		332,892	332,892			332,892
Proceeds from fixed assets sold	22,000		22,000			22,000
Operating transfers in	352,157	164,872	517,029	278,000	1,870,000	(1,352,971)
Operating transfers out	(395,264)	(121,765)	(517,029)	(277,000)	(277,000)	(240,029)
<b>Total other financing sources (uses)</b>	<b>(21,107)</b>	<b>375,999</b>	<b>354,892</b>	<b>1,000</b>	<b>1,593,000</b>	<b>(1,238,108)</b>
<b>EXCESS RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES</b>	<b>(1,524,381)</b>	<b>(57,853)</b>	<b>(1,582,234)</b>	<b>(293,150)</b>	<b>79,638</b>	<b>\$ (1,661,872)</b>
<b>FUND BALANCE/RETAINED EARNINGS, July 1, 2003</b>	<b>5,763,405</b>	<b>1,639,943</b>	<b>7,403,348</b>	<b>4,310,733</b>	<b>4,310,733</b>	
<b>FUND BALANCE/RETAINED EARNINGS, June 30, 2004</b>	<b>\$ 4,239,024</b>	<b>\$ 1,582,090</b>	<b>\$ 5,821,114</b>	<b>\$ 4,017,583</b>	<b>\$ 4,390,371</b>	

See Notes to Required Supplementary Information.

CITY OF DECORAH

REQUIRED SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE  
 BUDGET TO GAAP RECONCILIATION  
 Year Ended June 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 5,422,243	\$ 304,960	\$ 5,727,203
Expenditures	6,925,517	120,906	7,046,423
Net	(1,503,274)	184,054	(1,319,220)
Other financing sources, net	(21,107)	(160,250)	(181,357)
Beginning fund balance	5,763,405	(104,073)	5,659,332
Ending fund balance	\$ 4,239,024	\$ (80,269)	\$ 4,158,755
	Proprietary Fund Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 1,280,778	\$ 4,380	\$ 1,285,158
Expenditures	1,714,630	(391,295)	1,323,335
Net	(433,852)	395,675	(38,177)
Other financing sources, net	375,999	(39,232)	336,767
Beginning fund balance	1,639,943	7,912,106	9,552,049
Ending fund balance	\$ 1,582,090	\$ 8,268,549	\$ 9,850,639

See Notes to Required Supplementary Information.

CITY OF DECORAH

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
June 30, 2004

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

Formal and legal budgetary control is based upon 9 major classes of disbursements known as functions, not by fund or fund type. These 9 functions are:

1. Public safety
2. Public works
3. Health and social services
4. Culture and recreation
5. Community and economic development
6. General government
7. Debt service
8. Capital projects
9. Business-type activities

Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects fund and enterprise funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by funds. During the year, one budget amendment increased budgeted revenues and other sources by \$1,950,043 and expenditures by \$1,577,255. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, expenditures in the debt service, capital projects and business-type activity functions exceeded the amount budgeted.

**HACKER, NELSON & CO., P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS  
and BUSINESS CONSULTANTS

123 WEST WATER STREET  
P.O. BOX 507  
DECORAH, IOWA 52101  
TELEPHONE 563 382-3637  
FAX 563 382-5797  
E-MAIL @HACKER NELSON.COM

INDEPENDENT AUDITOR'S REPORT ON THE  
SUPPLEMENTARY INFORMATION

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Decorah's, basic financial statements. The introductory section, combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of basic financial statements and, accordingly, we express no opinion on them.

We have previously audited, in accordance with U.S. generally accepted auditing standards, the general purpose financial statements of the City of Decorah as of and for the years ended June 30, 2003, 2002, and 2001 (none of which is presented herein), and expressed unqualified opinions on those general purpose financial statements. In our opinion, the information set forth in the required supplementary information for each of the three years in the period ended June 30, 2003, appearing on page 40, is fairly stated, in all material respects in relation to the basic and general purpose financial statements from which it has been derived.

*Hacker, Nelson & Co., P.C.*

Decorah, Iowa  
August 30, 2004

CITY OF DECORAH  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 June 30, 2004

	Special Revenue Funds							Debt Service Fund	Capital Projects Funds			Total Nonmajor Governmental Funds
	Tax Incremental Financing	Self-supported Municipal Improvement District	Hotel/Motel Tax	Police Forfeitures	Park Commission Special Gifts	Library Board Special Gifts	Total		Campground Expansion	Local Trail Development	Total	
<b>ASSETS</b>												
Cash	\$ 183,142	\$ 15,540		\$ 12,138	\$ 20,051	\$ 5,620	\$ 236,491		\$ 22,698	\$ 234,802	\$ 257,500	\$ 493,991
Investments					127,954	54,638	182,592					182,592
Due from other governments			\$ 39,846				39,846					39,846
Receivables												
Taxes												
Current	3,557	415					3,972	\$ 2,389				6,361
Succeeding year		10,000					10,000	214,543				224,543
Interest					560	87	647					647
Other					1,200		1,200					1,200
<b>Total assets</b>	<b>\$ 186,699</b>	<b>\$ 25,955</b>	<b>\$ 39,846</b>	<b>\$ 12,138</b>	<b>\$ 149,765</b>	<b>\$ 60,345</b>	<b>\$ 474,748</b>	<b>\$ 216,932</b>	<b>\$ 22,698</b>	<b>\$ 234,802</b>	<b>\$ 257,500</b>	<b>\$ 949,180</b>
<b>LIABILITIES AND FUND BALANCES</b>												
Liabilities												
Accounts payable	\$ 68,103				\$ 1,962		\$ 70,065		\$ 23,477	\$ 23,477		\$ 93,542
Due to other funds							5,516	\$ 1,122				1,122
Due to other governments	5,516						5,516					5,516
Deferred revenues		\$ 10,000					10,000	214,543				224,543
<b>Total liabilities</b>	<b>73,619</b>	<b>10,000</b>	<b>None</b>	<b>None</b>	<b>1,962</b>	<b>None</b>	<b>85,581</b>	<b>215,665</b>		<b>23,477</b>	<b>23,477</b>	<b>324,723</b>
Fund balances												
Reserved for								1,267				1,267
Debt service												377,029
Other special revenue purposes	113,080	15,955	\$ 39,846		147,803	\$ 60,345	377,029					
Unreserved												
Undesignated				\$ 12,138			12,138		\$ 22,698	211,325	234,023	246,161
<b>Total fund balances</b>	<b>113,080</b>	<b>15,955</b>	<b>39,846</b>	<b>12,138</b>	<b>147,803</b>	<b>60,345</b>	<b>389,167</b>	<b>1,267</b>	<b>22,698</b>	<b>211,325</b>	<b>234,023</b>	<b>624,457</b>
<b>Total liabilities and fund balances</b>	<b>\$ 186,699</b>	<b>\$ 25,955</b>	<b>\$ 39,846</b>	<b>\$ 12,138</b>	<b>\$ 149,765</b>	<b>\$ 60,345</b>	<b>\$ 474,748</b>	<b>\$ 216,932</b>	<b>\$ 22,698</b>	<b>\$ 234,802</b>	<b>\$ 257,500</b>	<b>\$ 949,180</b>

See Independent Auditor's Report on the Supplementary Information.

CITY OF DECORAH

COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
Year Ended June 30, 2004

	Special Revenue Funds						Total	Debt Service Fund	Capital Projects Funds			Total Nonmajor Governmental Funds
	Tax Incremental Financing	Self-supported Municipal Improvement District	Hotel/Motel Tax	Police Forfeitures	Park Commission Special Gifts	Library Board Special Gifts			Campground Expansion	Local Trail Development	Total	
<b>REVENUES</b>												
Property taxes		\$ 10,000					\$ 10,000	\$ 206,569				\$ 216,569
Tax increment financing collections	\$ 230,703						230,703					230,703
Other city tax			\$ 193,778				193,778	3,134		\$ 51,311	\$ 51,311	248,223
Use of money and property					\$ 10,520	\$ 10,131	20,651		\$ 24	1,350	1,374	22,025
Miscellaneous				\$ 3,305	23,399		26,704					26,704
<b>Total revenues</b>	<b>230,703</b>	<b>10,000</b>	<b>193,778</b>	<b>3,305</b>	<b>33,919</b>	<b>10,131</b>	<b>481,836</b>	<b>209,703</b>	<b>24</b>	<b>52,661</b>	<b>52,685</b>	<b>744,224</b>
<b>EXPENDITURES</b>												
Current												
Public safety				1,349			1,349					1,349
Culture and recreation					51,818	15,643	67,461		63,736		63,736	131,197
Community and economic development	270,938	7,045	153,932				431,915			27,702	27,702	459,617
Debt service												
Principal	14,614						14,614	146,768				161,382
Interest and other charges	15,386						15,386	74,514				89,900
<b>Total expenditures</b>	<b>300,938</b>	<b>7,045</b>	<b>153,932</b>	<b>1,349</b>	<b>51,818</b>	<b>15,643</b>	<b>530,725</b>	<b>221,282</b>	<b>63,736</b>	<b>27,702</b>	<b>91,438</b>	<b>843,445</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(70,235)</b>	<b>2,955</b>	<b>39,846</b>	<b>1,956</b>	<b>(17,899)</b>	<b>(5,512)</b>	<b>(48,889)</b>	<b>(11,579)</b>	<b>(63,712)</b>	<b>24,959</b>	<b>(38,753)</b>	<b>(99,221)</b>
<b>OTHER FINANCING SOURCES (USES)</b>												
Transfers out	(5,657)						(5,657)					(5,657)
<b>Total other financing sources (uses)</b>	<b>(5,657)</b>	<b>None</b>	<b>None</b>	<b>None</b>	<b>None</b>	<b>None</b>	<b>(5,657)</b>	<b>None</b>	<b>None</b>	<b>None</b>	<b>None</b>	<b>(5,657)</b>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>(75,892)</b>	<b>2,955</b>	<b>39,846</b>	<b>1,956</b>	<b>(17,899)</b>	<b>(5,512)</b>	<b>(54,546)</b>	<b>(11,579)</b>	<b>(63,712)</b>	<b>24,959</b>	<b>(38,753)</b>	<b>(104,878)</b>
<b>FUND BALANCES, beginning of year</b>	<b>188,972</b>	<b>13,000</b>	<b>None</b>	<b>10,182</b>	<b>165,702</b>	<b>65,857</b>	<b>443,713</b>	<b>12,846</b>	<b>86,410</b>	<b>186,366</b>	<b>272,776</b>	<b>729,335</b>
<b>FUND BALANCES, end of year</b>	<b>\$ 113,080</b>	<b>\$ 15,955</b>	<b>\$ 39,846</b>	<b>\$ 12,138</b>	<b>\$ 147,803</b>	<b>\$ 60,345</b>	<b>\$ 389,167</b>	<b>\$ 1,267</b>	<b>\$ 22,698</b>	<b>\$ 211,325</b>	<b>\$ 234,023</b>	<b>\$ 624,457</b>

See Independent Auditor's Report on the Supplementary Information.

## CITY OF DECORAH

SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION -  
 ALL GOVERNMENTAL FUNDS  
 Years Ended June 30,

	Modified Accrual Basis			
	2004	2003	2002	2001
<b>Revenues</b>				
Property tax	\$ 2,381,158	\$ 2,365,896	\$ 2,188,245	\$ 2,094,110
Tax increment financing revenue	230,703	214,658	70,214	48,627
Other city tax	967,761	916,921	877,541	885,202
Licenses and permits	23,165	27,828	40,619	41,358
Use of money and property	111,644	61,477		
Intergovernmental	1,306,006	1,274,309	1,161,808	1,345,209
Charges for service	396,387	370,216	396,322	373,539
Miscellaneous	310,379	326,796	271,661	371,301
<b>Total</b>	<b>\$ 5,727,203</b>	<b>\$ 5,558,101</b>	<b>\$ 5,006,410</b>	<b>\$ 5,159,346</b>
<b>Expenditures</b>				
<b>Operating</b>				
Public safety	\$ 1,375,223	\$ 1,365,603	\$ 1,242,218	\$ 1,232,941
Public works	1,018,018	1,104,002	1,367,964	1,514,895
Health and social services	11,000	15,200		
Culture and recreation	1,371,093	1,145,998	1,183,291	1,152,027
Community and economic development	504,369	221,366	171,098	149,564
General government	328,983	330,474	376,950	343,227
Debt service	1,035,212	705,979	658,601	755,442
Capital projects	1,402,525	1,851,670	130,701	121,520
<b>Total</b>	<b>\$ 7,046,423</b>	<b>\$ 6,740,292</b>	<b>\$ 5,130,823</b>	<b>\$ 5,269,616</b>

See Independent Auditor's Report on the Supplementary Information.

CITY OF DECORAH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2004

<u>Section I: Summary of the Independent Auditor's Results</u>	<u>Yes</u>	<u>No</u>	<u>None</u> <u>Reported</u>
--	------------	-----------	--------------------------------

Financial Statements

Type of auditor's report issued: unqualified.

Internal control over financial reporting:

- ◆ Material weakness(es) identified? X
- ◆ Reportable condition(s) identified that are not considered to be material weaknesses? X
- ◆ Noncompliance material to financial statements noted? X

Federal Awards

Internal control over major programs:

- ◆ Material weakness(es) identified? X
- ◆ Reportable condition(s) identified that are not considered to be material weakness(es)? X

Type of auditor's report issued on compliance for major programs: unqualified.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? X

Identification of major programs

- CFDA Number 66.458  
Capitalization Grants for Clean Water State Revolving Funds
- CFDA Number 16.710  
Public Safety Partnership and Community Policing Grant

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X

Section II: Findings Related to the Financial Statements:

04-1 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. Bank deposits are prepared by the same person who opens the bank statement. Only one person controls payroll records and computes payroll. Disbursements and checks are prepared by one person.

Recommendation

While we do recognize that the City is not large enough to permit a segregation of duties for an effective internal control structure, we believe that it is important that the Council be aware that the condition does exist.

CITY OF DECORAH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2004

Section II: Findings Related to the Financial Statements (Continued):

04-1 Segregation of Duties (Continued)

Response and Corrective Action Planned

We segregate duties in our offices as much as possible, and will strive to improve internal controls where possible.

Conclusion

Response accepted.

Section III: Findings and Questioned Costs for Federal Awards:

Instances of noncompliance - None

Reportable condition -

CFDA Number 66.458

Capitalization Grants for Clean Water State Revolving Funds

Federal Award Year: 2004

Environmental Protection Agency

Passed through the Iowa Department of Natural Resources

CFDA Number 16.710

Public Safety Partnership and Community Policing Grant

Federal Award Year: 2004

U.S. Department of Justice

Passed through Iowa Office of Drug Control

See 04-1 above

Section IV: Other Findings Related to Required Statutory Reporting:

See management letter dated August 30, 2004

Section V: Summary of Prior Federal Audit Findings and Questioned Costs:

N/A

## CITY OF DECORAH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2004

Grant Title	CFDA Number	Grant Number	Amount of Grant	Program Expenditures
U.S. Department of Justice				
Direct				
Public Safety Partnership and Community Policing Grant ("COPS" Grants)	16.710	2001DMWX0045	\$ 75,000	\$ 9,848
Indirect				
Passed-through Iowa Office of Drug Control Policy Byrne Formula Grant Program	16.579	00A-0253	18,995	18,988
				<u>28,836</u>
Corporation for National Community Service				
Direct				
Retired and Senior Volunteer Program	94.002	02SRNTA001	59,162	37,172
Foster Grandparent Program	94.011	03SFNTA001	62,366	26,920
				<u>64,092</u>
U.S. Department of Education				
Indirect				
Community Technology Grant	84.341A	V341A990643-00	208,901	27,258
U.S. Department of Housing and Urban Development				
Indirect				
Passed-through Iowa Department of Economic Development Community Development Block Grants/State's Program	14.228	02-CF-019	150,000	7,288
U.S. Department of Transportation				
Indirect				
Federal Aviation Administration				
Passed-through Iowa Department of Transportation Airport Improvement Program				
RPZ Land Acquisition	20.106	AID-DEH(100)-91.99		104,027
Indirect				
U.S. Highway Administration				
Passed-through Iowa Department of Transportation Highway Planning and Construction				
Highway Bridge Replacement and Rehabilitation Program	20.205	BRM-1867(601)-8N-96		196,735
				<u>300,762</u>
Environmental Protection Agency				
Indirect				
Office of Water				
Passed-through Iowa Department of Natural Resources Capitalization Grants for Clean Water State Revolving Funds	66.458			428,011
				<u>428,011</u>
				<u>\$ 856,247</u>

## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

## Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Decorah and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of GMB 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  
City of Decorah  
Decorah, Iowa

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Decorah as of and for the year ended June 30, 2004, which collectively comprise City of Decorah's basic financial statements and have issued our report thereon dated August 30, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Decorah'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 City of Decorah'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 the accompanying schedule of findings and questioned costs as item 04-1.

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. However, we believe that none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of City of Decorah in a separate letter dated August 30, 2004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Decorah'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 matters that we have reported to management of City of Decorah in a separate letter dated August 30, 2004.

This report is intended solely for the information and use of the City Council, management 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.

*Hacker, Nelson & Co., P.C.*

Decorah, Iowa  
August 30, 2004

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  
City of Decorah  
Decorah, Iowa

Compliance

We have audited the compliance of City of Decorah with 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 programs for the year ended June 30, 2004. City of Decorah's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questions costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Decorah's management. Our responsibility is to express an opinion on City of Decorah's compliance based on our audit.

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

In our opinion, City of Decorah complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of City of Decorah in a separate letter dated August 30, 2004.

Internal Control over Compliance

The management of City of Decorah is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Decorah'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.

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect City of Decorah's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 04-1.

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 grants 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. Our consideration of the internal control over compliance 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. However, we believe the reportable condition described above is not a material weakness. The above reportable condition was also in the prior year's audit report.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of City of Decorah as of and for the year ended June 30, 2004 and have issued our report thereon dated August 30, 2004. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Decorah's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the basic financial statements of City of Decorah. Such information has been subjected to the auditing procedures applied in the 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.

This report is intended solely for the information and use of the City Council, management 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.

*Hacker, Nelson & Co., P.C.*

Decorah, Iowa  
August 30, 2004

MANAGEMENT LETTER

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

In planning and performing our audit of the basic financial statements of the City of Decorah for the year ended June 30, 2004, we considered the City's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal controls.

In accordance with Chapter 11 of the Code of Iowa, we are required to report on the City's compliance with certain sections of the Iowa Code, Attorney General's Opinions and other matters. Items 1-9 below are compliance comments required by the Iowa Auditor of State. A separate report dated August 30, 2004 contains our report on reportable conditions in the City's internal controls. This letter does not affect our report dated August 30, 2004, on the basic financial statements of the City of Decorah. Prior year's comments have all been resolved except items 5, 9, and 10 below.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 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.

1. Official Depositories

A resolution naming official depository banks has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

2. Certified Budget

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. City expenditures during the year ended June 30, 2004 exceeded amounts budgeted in the debt service and capital projects function.

Recommendation

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

2. Certified Budget (Continued)

Response

We will monitor this more closely in the future to ensure compliance.

Conclusion

Response accepted.

3. 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.

4. Travel Expense

No expenditures of City money for travel expenses of spouses of City officials and/or employees were noted.

5. Business Transactions

Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Anita Weis, Decorah Tree Committee Member, Owner of Lady Bug Landscapes	Trees & shrubs	\$ 6,235
Brett Willie, Airport Commission Member, Manager Sherwin Williams	Retail purchases	\$ 2,781
Duane Bruening, Cable TV Commission Member, Stockholder of Bruening Rock Products	Rock & materials	\$ 14,353
Kent Klocke, Park & Recreation Commission Member, Owner of K & S Super Valu	Supplies	\$ 655
Lorraine Fullerton, Park & Recreation Commission Member, Owner of Donlon Pharmacy	Retail purchases	\$ 290
Paul Wanless, City Council Member, Owner Sports Shop	Supplies	\$ 6,038

The transactions listed above in excess of \$1,500 may be in violation of Iowa Code Section 362.5 since cumulative purchases exceeded \$1,500 during the fiscal year. Part of the transactions with Cable TV Commission member Duane Bruening was competitively bid, so those are in compliance with the Iowa Code.

5. Business Transactions (Continued)

Recommendation

We recommend the City seek advice from their attorney to determine if there has been a violation of the Code of Iowa in regards to the transactions with the above stated board members, and if so, what action is needed. The City should consider a policy to monitor these transactions to maintain Code Compliance.

Response

We will consult with the City Attorney to determine if any violations have occurred regarding the noted transactions.

Conclusion

Response accepted.

6. 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.

7. Council Minutes

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

8. Revenue Notes

The City has established the sinking and reserve accounts required by the sewer revenue note resolution.

9. Trust Fund Investments

We noted an investment in the fire and police retirement expendable trust funds which is not allowed by Chapter 12B.10 of the Code of Iowa, which has defaulted. No other instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

Recommendation

The investment advisor should be consulted to determine if this investment may be sold by the trust fund.

Response

From the time this matter first came to our attention, our investment advisor was consulted. The questionable investment is been the Adams County Industrial Development Bonds. As reported for the FY1997-98 audit, this particular investment, with a fair value of \$313 as of June 30, 2004, continues to remain in default.

Conclusion

Response accepted.

10. Water Usage

While performing audit procedures comparing water pumped to water billed, it was noted 10,940,878 cubic feet of water was pumped but not billed by the City. Last year the amount pumped and not billed was 11,749,125 cubic feet. While the City did attribute an estimated 2,964,813 cubic feet of the total unbilled to leakage, this disparity should be investigated.

Recommendation

We recommend that the City personnel continue to investigate and determine possible causes for this disparity and continue to monitor known causes of water losses.

Response

The disparity between the amount pumped and billed is still being studied. It should be noted the water department is in the process of replacing older meters and meters of the larger users to ensure proper monitoring of water usage.

Conclusion

Response accepted.

11. Park and Recreation Receipts

Park and recreation registrations require two separate checks for certain activities. One check is for the entry fee and one is for an umpire deposit. The check for the deposit is held by the park and recreation department until the season is over. At that time it is returned to the individual or team.

Recommendation

We recommend all money received by the park and recreation department be deposited. The City should prohibit the practice of holding checks due to the susceptibility of cash to misappropriation.

Response

The practice of collecting deposits and holding the checks will be discontinued.

Conclusion

Response accepted.

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

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of the City of Decorah during the course of our audit.

If you have any questions concerning these or other matters, we would be happy to discuss them with you at your convenience.

*Hacker, Nelson & Co., P.C.*