

CITY OF DECORAH  
DECORAH, IOWA

FINANCIAL REPORT

JUNE 30, 2006

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CITY OF DECORAH

OFFICIALS  
June 30, 2006

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Donald Arendt	Mayor	01-02-10
Gerald Aulwes	First Ward	01-02-10
Karen Tjossem	Second Ward	01-02-08
Paul Wanless	Third Ward	01-02-10
Steve Matter	Fourth Ward	01-02-08
Randy Schissel	Fifth Ward	01-02-10
Gary Rustad	At-Large	01-02-10
Jim Dale	At-Large	01-02-08

OFFICIALS

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

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P.O. Box 507  
Decorah, Iowa 52101  
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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 City of Decorah, as of and for the year ended June 30, 2006, 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, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2006, 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 10, 2006

## 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, 2006. Please read this in conjunction with the transmittal letter and the City's financial statements contained within this audit report.

#### 2006 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased \$54,666 or approximately 0.84% from FY 2005 to FY 2006. Property taxes for all purposes decreased \$22,542.
- Program expenditures excluding debt service and capital projects increased \$85,587.
- The City's total net assets are \$34,911,514. Of this amount, the governmental activities claim net assets of \$25,689,140.

#### 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.
- The 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. Also, the budgetary comparison schedules support the financial statements with a comparison of the City's budget for the year.

## REPORTING THE CITY'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

One of the most important questions that are 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 (In Thousands)						
	Governmental Activities		Business-type Activities		Total		Percent Change
	2005	2006	2005	2006	2005	2006	
Current and other assets	\$ 8,536	\$ 7,162	\$ 1,412	\$ 1,089	\$ 9,948	\$ 8,251	-17.06%
Capital assets	22,151	23,288	9,256	9,173	31,407	32,461	3.36%
<b>Total assets</b>	<b>30,687</b>	<b>30,450</b>	<b>10,668</b>	<b>10,262</b>	<b>41,355</b>	<b>40,712</b>	<b>-1.55%</b>
Long-term debt outstanding	1,588	1,069	867	796	2,455	1,865	-24.03%
Other liabilities	4,328	3,692	366	244	4,694	3,936	-16.15%
<b>Total liabilities</b>	<b>5,916</b>	<b>4,761</b>	<b>1,233</b>	<b>1,040</b>	<b>7,149</b>	<b>5,801</b>	<b>-18.86%</b>
<b>Net assets</b>							
Invested in capital assets, net of related debt	20,230	21,978	8,337	8,305	28,567	30,283	6.01%
Restricted	1,305	1,170	-	-	1,305	1,170	-10.34%
Unrestricted	3,236	2,541	1,098	917	4,334	3,458	-20.21%
<b>Total net assets</b>	<b>\$ 24,771</b>	<b>\$ 25,689</b>	<b>\$ 9,435</b>	<b>\$ 9,222</b>	<b>\$ 34,206</b>	<b>\$ 34,911</b>	<b>2.06%</b>

The following analysis shows the change in net assets for the year ending June 30, 2006:

Changes in Net Assets of Governmental Activities (In Thousands)							
	Governmental Activities		Business-type Activities		Total		Percent Change
	2005	2006	2005	2006	2005	2006	
<b>Revenues:</b>							
Program revenue							
Charges for service	\$ 562	\$ 554	\$ 1,202	\$ 1,200	\$ 1,764	\$ 1,754	-0.57%
Operating grants	1,752	1,096	68	69	1,820	1,165	-35.99%
Capital grants	9	689	-	-	9	689	7555.56%
General revenue							
Property taxes	2,681	2,658	-	-	2,681	2,658	-0.86%
Tax increment financing collections	236	212	-	-	236	212	-10.17%
Other city taxes	294	234	-	-	294	234	-20.41%
Local option sales tax	759	724	-	-	759	724	-4.61%
Bank franchise tax			-	-	-	-	#DIV/0!
Unrestricted investment earnings	103	145	14	17	117	162	38.46%
Gain (loss) on the sale of capital assets	1	7	-	-	1	7	600.00%
Other revenue	89	112	-	-	89	112	25.84%
<b>Total revenues</b>	<b>6,486</b>	<b>6,431</b>	<b>1,284</b>	<b>1,286</b>	<b>7,770</b>	<b>7,717</b>	<b>-0.68%</b>
<b>Program expenses:</b>							
Public safety	1,457	1,525	-	-	1,457	1,525	4.67%
Public works	1,297	1,030	-	-	1,297	1,030	-20.59%
Health & social services	10	28	-	-	10	28	180.00%
Culture & recreation	1,469	1,508	-	-	1,469	1,508	2.65%
Community & economic development	809	977	-	-	809	977	20.77%
General government	330	389	-	-	330	389	17.88%
Interest on long-term debt	66	71	-	-	66	71	7.58%
Other expenses	-	-	1,700	1,499	1,700	1,499	-11.82%
<b>Total expenses</b>	<b>5,438</b>	<b>5,528</b>	<b>1,700</b>	<b>1,499</b>	<b>7,138</b>	<b>7,027</b>	<b>-1.56%</b>
Increase (decrease) in net assets before transfers	1,048	903	(416)	(213)	632	690	9.18%
<b>Transfers</b>							
Increase (decrease) in net assets	1,048	903	(416)	(213)	632	690	9.18%
Net assets beginning of year, restated	23,723	24,786	9,851	9,435	33,574	34,221	1.93%
Net assets end of year	\$ 24,771	\$ 25,689	\$ 9,435	\$ 9,222	\$ 34,206	\$ 34,911	2.06%

### Individual Major Fund Analysis

At the end of FY 05-06, the City reflected a combined fund balance for its governmental funds of \$3,853,022. (See *Exhibit D* for details). This compares to \$4,822,578 for the combined fund balance for governmental funds at the end of FY 04-05. This is a decrease of \$969,556. The general fund showed a decline of \$494,213 from the prior year to \$1,551,920.

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 three 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. This fund ended fiscal 2006 with a \$643,456 balance compared to the prior year ending fund balance of \$680,809.

The City's obligations which are met by way of the debt service fund are fully explained under the *Notes to the Financial Statements*. The City's legal bonding capacity as of June 30, 2006 is \$15,323,444.

### **Proprietary Fund Highlights**

The water fund, which accounts for the operation and maintenance of the City's water system, ended fiscal year 2006 with a net asset balance of \$2,217,662. This reflects a decrease of \$78,865 from the end of fiscal year 2005 when the net asset balance was \$2,296,527.

The sewer fund, which accounts for the operation and maintenance of the sewer system and the wastewater treatment facility, ended fiscal year 2006 with a net asset balance of \$7,004,712. This reflects a decrease of \$134,219 from the end of fiscal year 2005 when the net asset balance was \$7,138,931.

### **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. Specifically, extra payments were made for the Decorah Business Park street project and the Highland Place-Vennejhem Project. A series of extra payments allowed this debt to be retired eight years earlier than originally planned.
- b. The Culture and Recreation Program exceeded its original budget amount by \$42,378 for which an amendment was approved. These additional costs were covered by cash on hand.
- c. The General Government Program was projected to exceed its established limit and, as such, an amendment approved. However, reductions in a series of line-item expenditures resulted in this Program ending \$15,885 below the originally approved limit.
- d. The Public Safety Program also fell below its approved original budget amount by \$22,499. Again, between the time the Budget Amendment was approved and the end of the fiscal year, a series of measures were taken within this Program to more than negate the need for this amendment.
- e. Street construction activity and specifically the two bridge projects recorded in the Capital Projects Program accounted for all of the program's increase over the approved budget amount. The amended budget amount of \$755,684 was largely attributable to an expectation that these two projects would have had that extent of work completed during FY 04-05. This amended amount was therefore, covered by larger than expected fund balances for these two projects.

- f. The Community and Economic Development Program exceeded the amount budgeted due entirely to two City-sponsored projects. The first is a Community Economic Betterment Assistance (CEBA) Grant through the Iowa Department of Economic Development. The purpose of this CEBA Grant is to assist and reward Camcar in its expansion efforts. The amount of \$400,000 was a straight pass-through from IDED through the City to Camcar for having complied with established economic enhancement benchmarks. The second project is a continuation of the Community Development Block Grant Project for Spectrum Industries for which the City also serves as the pas-through entity and sponsor.
- g. The Enterprise Program's excess amount over the original budget was almost entirely attributable to one major water system improvement (upgrades to the Ridge Road Booster Station) and to the final payment for the various improvements to the Wastewater Treatment Facility. The Wastewater Treatment project was expected to be fully completed before the beginning of FY 05-06 however delays with the final acceptance moved the final payment to August of 2005. The funding for the project came from a state revolving loan and the City's capital reserves.
- h. The Health and Social Services Program was amended to account for the Council-designated allocation of \$25,000 for a joint project between Habitat for Humanity and Northeast Iowa Community Action Corporation to build a residential facility. The Low-to-Moderate Income set-aside from the City's TIF projects served as the revenue source for this contribution.

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 \$23,288,627 (net of accumulated depreciation). The capital assets for the business-type activities totaled \$9,173,415 (net of accumulated depreciation) as of June 30, 2006. Detailed information regarding specific capital asset categories and depreciation can be found in Note 3 under the *Notes to Financial Statements*.

The major capital outlays for this fiscal year within the governmental activities involved street improvements and bridge replacement particularly those associated with the Fifth Avenue and Mechanic Street bridges. 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, 2006, the City's total outstanding G.O. debt of \$2,205,887 was well below the debt margin of \$15,323,444. 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 Vennehjem – 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 Note 7 under the *Notes to Financial Statements*.

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

The City along with others throughout the State continues to adjust to the reduction in State-shared revenues whose impact largely began two fiscal years earlier. These revenue reductions coupled with a 201 percent increase in expenditures within the Capital Projects Program, have combined to reduce the total Governmental Fund Balance by \$969,555 when compared to the year ending June 30, 2005. However, this year ending fund balance was sufficient to cover construction expenses, as well as other operating costs, through the summer and fall of this year. It should be noted here that the Capital Projects Program was significantly increased due largely to the costs for two major bridge construction projects. The total net assets for the Governmental Activities increased by 3.71%. Much of this is attributable to reductions in the bonds payable and the accounts payable.

As stated within the last two year's management discussion and analysis letters, it is again 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 the State's reductions are having an adverse cumulative affect upon the City's budget needs. This analysis may very well include an increase in fees for certain services; a more intensive review of operating procedures and expenses; and, as a last resort, reduction of specific services.

The local option sales tax proceeds experienced an unusual decline of \$39,280 in FY 05-06. This decline with this revenue source during FY 06, of course, contributed to the reduced total Governmental Fund Balance discussed above. It should be pointed out however, that the projections from the State's Department of Revenue for FY 06-07 indicate a 19.6 percent increase for FY 07 compared to FY 06 which amounts to \$140,153. As of this writing, these projections have proven to be accurate and are fully expected to follow this projection for the balance of this fiscal year. As a reminder, these proceeds are used exclusively for street and street-related projects including maintenance and debt service payments for street improvements.

The net assets for the water utilities as shown on Exhibit F (page 12) shows a decrease from the beginning of the year of \$78,865 or 3.4% leaving this figure at \$2,217,662. This follows a decrease of \$8,026 for the previous fiscal year. The total operating revenue remained very stable showing an increase of 0.23 percent. Obviously, the operating expense increased fairly significantly. There was no single category or incident to which this increase can be attributed. Rather, there was essentially six categories showing appreciable increases including the following increases: insurance (\$9,263), emergency expenses (\$10,834), engineering (\$21,060), operating supplies and maintenance (\$15,705), chemicals (\$13,453), and hydrants and meters (\$32,424). The recently approved rate increase of 12 percent was proposed to correct these shortfalls.

The sewer fund experienced a decrease in net assets of \$134,219 or 1.9 percent. The revenues were down only slightly by an amount of \$2,262. Although the Sewer Fund experienced a total operating loss of \$119,052, this loss was reduced by \$243,120 over the previous year with no increase in sewer rates. However, the revenues and expenses will continue to be closely monitored to determine if a rate adjustment is in order.

Property taxes will again be a major focal point in the preparation of and deliberations over the FY07-08 budget. The recently announced residential rollback to 45.5596% for FY07-08 is another in a series of continuing downward adjustments. This compares to the FY 07 figure of 45.996% and the FY 06 figure of 47.9642%. There will be no rollback applied to commercial property in FY 08 following a small reduction in FY07 at 99.1509%. Adjustments will therefore continue 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 FY05-06:

General Levy	\$ 8.10
Liability, Property Insurance	0.60896
Employee Benefits	2.79451
Debt Service	<u>0.92549</u>
 Total	 <u>\$ 12.42896</u>

Also, a rate of \$0.47250 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 is at \$2.65026. The FY 06-07 total property tax rate was approved at virtually the same level as the final figure at \$12.42744.

### **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, 2006

	Governmental Activities	Business-type Activities	Total	Decorah Volunteer Fire Department
<b>ASSETS</b>				
Cash and pooled investments	\$ 3,645,871	\$ 728,422	\$ 4,374,293	\$ 50,399
Receivables				
Accounts and unbilled usage, net	9,493	341,692	351,185	
Property tax				
Current	23,230		23,230	
Succeeding year	2,712,508		2,712,508	
Special assessments				
Current	39,779	2,262	42,041	
Deferred	159,986	3,930	163,916	
Accrued interest	8,711		8,711	
Internal balances	13,204	(13,204)	-	
Due from other governments	146,173	-	146,173	
Inventories	4,772	15,000	19,772	
Prepaid expenses	39,015	11,274	50,289	
Restricted assets				
Investments	358,870		358,870	
Nondepreciable assets	776,248	254,414	1,030,662	
Capital assets, net of accumulated depreciation	22,512,379	8,919,001	31,431,380	
<b>Total assets</b>	<b>\$ 30,450,239</b>	<b>\$ 10,262,791</b>	<b>\$ 40,713,030</b>	<b>\$ 50,399</b>
<b>LIABILITIES AND NET ASSETS</b>				
Accounts payable	\$ 357,826	\$ 127,947	\$ 485,773	
Salaries and benefits payable	56,236	10,597	66,833	
Accrued interest payable	5,014	2,340	7,354	
Deferred revenue				
Succeeding year property tax	2,712,508	-	2,712,508	
Other	159,986	3,930	163,916	
Long-term liabilities				
Portion due within one year				
Bonds payable	225,508	9,492	235,000	
TIF revenue bonds payable	2,102		2,102	
Revolving loan payable		47,000	47,000	
Notes payable	151,210	16,407	167,617	
Compensated absences	22,034	27,039	49,073	
Portion due after one year				
Revolving loan payable		688,000	688,000	
Notes payable	958,503	107,665	1,066,168	
Compensated absences	110,172		110,172	
<b>Total liabilities</b>	<b>4,761,099</b>	<b>1,040,417</b>	<b>5,801,516</b>	<b>\$ None</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related deb:	21,978,249	8,304,851	30,283,100	
Restricted for				
Police and fire retirement	358,870		358,870	
Debt service	72,231		72,231	
Other special revenue purposes	739,171		739,171	
Other purposes				50,399
Unrestricted	2,540,619	917,523	3,458,142	
<b>Total net assets</b>	<b>25,689,140</b>	<b>9,222,374</b>	<b>34,911,514</b>	<b>50,399</b>
<b>Total liabilities and net assets</b>	<b>\$ 30,450,239</b>	<b>\$ 10,262,791</b>	<b>\$ 40,713,030</b>	<b>\$ 50,399</b>

See Notes to Financial Statements.

CITY OF DECORAH  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2006

Primary Government Governmental activities	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	Governmental Activities	Business-Type Activities	Total	
Public safety	\$ 1,525,144	\$ 131,020	\$ -	\$ (1,394,124)		\$ (1,394,124)		
Public works	1,029,931	681,508	-	(306,024)		(306,024)		
Health and social services	27,579	-	-	(27,579)		(27,579)		
Culture and recreation	1,508,445	137,130	-	(908,379)		(908,379)		
Community and economic development	977,114	-	688,977	(288,137)		(288,137)		
General government	389,402	143,927	-	(194,967)		(194,967)		
Interest on long-term debt	71,242	-	-	(71,242)		(71,242)		
<b>Total governmental activities</b>	<b>5,528,856</b>	<b>1,095,585</b>	<b>688,977</b>	<b>(3,190,452)</b>		<b>(3,190,452)</b>		
Business-type activities	646,934	-	-		\$ (84,529)	(84,529)		
Water utilities	851,570	59,475	-		(144,512)	(144,512)		
Sewer utilities								
<b>Total business-type activities</b>	<b>1,498,504</b>	<b>69,475</b>	<b>-</b>	<b>(229,141)</b>		<b>(229,141)</b>		
<b>Total primary government</b>	<b>\$ 7,027,360</b>	<b>\$ 1,165,060</b>	<b>\$ 688,977</b>	<b>(3,190,452)</b>		<b>(3,419,593)</b>		
Component Unit	\$ 34,700		\$ 32,613			\$ (2,087)		
Decorah Volunteer Fire Department								
General Revenues								
Property and other city taxes levied for								
General purpose								
Debt service								
Tax increment financing collections								
Other city taxes								
Local option sales tax								
Unrestricted investment earnings								
Miscellaneous								
Special item - gain on sale of capital asset								
Transfers								
<b>Total general revenues, special items and transfers</b>								
Change in net assets								
Net assets, beginning of year restated								
Net assets, end of year								

See Notes to Financial Statements.

## CITY OF DECORAH

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2006

	General	Special Revenue		Other Governmental Funds	Total Governmental Funds
		Employee Benefits	State Road Use Tax		
<b>ASSETS</b>					
Cash	\$ 1,730,743	\$ 283,648	\$ 759,840	\$ 601,048	\$ 3,383,279
Investments		358,870		262,592	621,462
Receivables					
Property taxes					
Current	15,515	4,601		3,114	23,230
Succeeding year	1,911,131	597,162		204,215	2,712,508
Special assessments					
Current	39,779				39,779
Deferred	159,986				159,986
Interest	-	5,852		2,859	8,711
Other	9,493			-	9,493
Due from other funds			135,175		135,175
Due from other governments	146,173		-	-	146,173
Inventories			4,771		4,771
Prepaid expenditures	39,015				39,015
<b>Total assets</b>	<b>\$ 4,059,835</b>	<b>\$ 1,250,133</b>	<b>\$ 899,786</b>	<b>\$ 1,073,828</b>	<b>\$ 7,283,582</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Accounts payable	\$ 254,164	\$ 1,002	\$ 30,038	\$ 72,622	\$ 357,826
Salaries and benefits payable	41,761	8,513	5,962		56,236
Due to other funds	121,970			-	121,970
Deferred revenues	2,071,117	597,162		204,215	2,872,494
Compensated absences	18,903		3,131		22,034
<b>Total liabilities</b>	<b>2,507,915</b>	<b>606,677</b>	<b>39,131</b>	<b>276,837</b>	<b>3,430,560</b>
<b>FUND BALANCES</b>					
Reserved for					
Police and fire retirement		358,870			358,870
Debt service				72,231	72,231
Other special revenue purposes		284,586		454,585	739,171
Unreserved, reported in					
General fund	1,551,920				1,551,920
Capital projects fund				270,175	270,175
Special revenue fund			860,655	-	860,655
<b>Total fund balances</b>	<b>1,551,920</b>	<b>643,456</b>	<b>860,655</b>	<b>796,991</b>	<b>3,853,022</b>
<b>Total liabilities and fund balances</b>	<b>\$ 4,059,835</b>	<b>\$ 1,250,133</b>	<b>\$ 899,786</b>	<b>\$ 1,073,828</b>	<b>\$ 7,283,582</b>

See Notes to Financial Statements.

CITY OF DECORAH

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2006

Reconciliation of governmental fund balances to net assets	
Total governmental fund balances	\$ 3,853,022
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	
\$ 11,729,200	23,288,627
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	(225,508)
TIF revenue bonds payable	(2,102)
Notes payable	(1,109,713)
Compensated absences	(110,172)
Accrued interest	(5,014)
Net assets of governmental activities	<u>\$ 25,689,140</u>

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, 2006

	General	Special Revenue		Other Governmental Funds	Total Governmental Funds
		Employee Benefits	State Road Use Tax		
<b>REVENUES</b>					
Property taxes	\$ 1,082,155	\$ 578,549		\$ 197,821	\$ 2,658,525
Tax increment financing collections				211,559	211,559
Other city tax	774,460	16,219		167,603	958,282
Licenses and permits	21,690				21,690
Use of money and property	111,843	22,765	\$ 1,930	20,823	157,361
Intergovernmental	1,008,615		683,508		1,692,123
Charges for service	415,992				415,992
Miscellaneous	171,518	4,246	218	20,924	196,906
<b>Total revenues</b>	<b>4,386,273</b>	<b>621,779</b>	<b>685,656</b>	<b>618,730</b>	<b>6,312,438</b>
<b>EXPENDITURES</b>					
Current operating					
Public safety	1,130,195	367,223		3,831	1,501,249
Public works	215,503	90,187	482,423		788,113
Health and social services	27,579				27,579
Culture and recreation	1,107,926	150,734		22,572	1,281,232
Community and economic development	117,379		541,324	318,411	977,114
General government	312,997	50,988			363,985
Capital projects	1,522,421				1,522,421
Debt service					
Principal	441,016			312,010	753,026
Interest and other charges	12,907			62,329	75,236
<b>Total expenditures</b>	<b>4,887,923</b>	<b>659,132</b>	<b>1,023,747</b>	<b>719,153</b>	<b>7,289,955</b>
<b>EXCESS REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(501,650)</b>	<b>(37,353)</b>	<b>(338,091)</b>	<b>(100,423)</b>	<b>(977,517)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from capital assets sold	7,437				7,437
Transfers in	-		-	524	524
<b>Total other financing sources (uses)</b>	<b>7,437</b>	<b>-</b>	<b>-</b>	<b>524</b>	<b>7,961</b>
<b>EXCESS REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>(494,213)</b>	<b>(37,353)</b>	<b>(338,091)</b>	<b>(99,899)</b>	<b>(969,556)</b>
<b>FUND BALANCES, beginning of year</b>	<b>2,046,133</b>	<b>680,809</b>	<b>1,198,746</b>	<b>896,890</b>	<b>4,822,578</b>
<b>FUND BALANCES, end of year</b>	<b>\$ 1,551,920</b>	<b>\$ 643,456</b>	<b>\$ 860,655</b>	<b>\$ 796,991</b>	<b>\$ 3,853,022</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, 2006

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		\$ (969,556)
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	\$ (1,068,528)	
Capital outlays	<u>2,190,218</u>	1,121,690
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.		753,026
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.		3,994
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>(6,563)</u>
Change in net assets of governmental activities		<u>\$ 902,591</u>

See Notes to Financial Statements.

## CITY OF DECORAH

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2006

	Water Utilities	Sewer Utilities	Total
<b>ASSETS</b>			
Cash	\$ 207,720	\$ 520,702	\$ 728,422
Receivables			
Accounts and unbilled usage, net	118,881	222,811	341,692
Special assessments			
Current	978	1,284	2,262
Deferred	978	2,952	3,930
Internal balances	(13,204)		(13,204)
Inventory	15,000		15,000
Prepaid expenses	6,040	5,234	11,274
	<u>336,393</u>	<u>752,983</u>	<u>1,089,376</u>
<b>Noncurrent assets</b>			
Land		79,775	79,775
Construction in progress		174,639	174,639
Net capital assets	2,014,647	6,904,354	8,919,001
	<u>2,014,647</u>	<u>7,158,768</u>	<u>9,173,415</u>
	<u>\$ 2,351,040</u>	<u>\$ 7,911,751</u>	<u>\$ 10,262,791</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>Liabilities</b>			
Accounts payable	\$ 25,964	\$ 101,983	\$ 127,947
Salaries and benefits payable	4,956	5,641	10,597
Accrued interest payable	337	2,003	2,340
Deferred revenues	978	2,952	3,930
<b>Long-term liabilities</b>			
General obligation bonds payable	9,492		9,492
Revolving loan payable		47,000	47,000
Notes payable, bank	10,270	6,137	16,407
Compensated absences	13,993	13,046	27,039
	<u>65,990</u>	<u>178,762</u>	<u>244,752</u>
<b>Noncurrent liabilities</b>			
<b>Long-term liabilities</b>			
Revolving loan payable		688,000	688,000
Notes payable, bank	67,388	40,277	107,665
	<u>67,388</u>	<u>728,277</u>	<u>795,665</u>
	<u>133,378</u>	<u>907,039</u>	<u>1,040,417</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	1,927,497	6,377,354	8,304,851
Unrestricted	290,165	627,358	917,523
	<u>2,217,662</u>	<u>7,004,712</u>	<u>9,222,374</u>
	<u>\$ 2,351,040</u>	<u>\$ 7,911,751</u>	<u>\$ 10,262,791</u>

See Notes to Financial Statements.

## CITY OF DECORAH

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
 PROPRIETARY FUNDS  
 For the Year Ended June 30, 2006

	Water Utilities	Sewer Utilities	Total
<b>OPERATING REVENUES</b>			
Charges for service			
Sewer rental fees		\$ 624,385	\$ 624,385
Sale of water	\$ 544,505		544,505
Miscellaneous	16,422	11,663	28,085
Intergovernmental			
Freeport share		69,475	69,475
Miscellaneous	1,378	1,535	2,913
<b>Total operating revenues</b>	<b>562,305</b>	<b>707,058</b>	<b>1,269,363</b>
<b>OPERATING EXPENSES</b>			
Salaries	196,289	234,384	430,673
Payroll taxes and fringe benefits	56,558	96,716	153,274
Insurance	24,290	14,864	39,154
Training	2,684	4,556	7,240
Vehicle repair and maintenance	1,134	3,058	4,192
Office supplies	6,224	7,591	13,815
Sales tax	29,433	10,844	40,277
Building maintenance and utilities	135,659	117,861	253,520
Emergency expense	11,938	703	12,641
Vehicle gas and oil	2,331	11,991	14,322
Engineering expense	23,444		23,444
Operating supplies and maintenance	25,328	25,813	51,141
Chemicals and testing	21,139		21,139
Hydrants, meters, and other parts	48,010	(208)	47,802
Depreciation	56,962	297,937	354,899
<b>Total operating expenses</b>	<b>641,423</b>	<b>826,110</b>	<b>1,467,533</b>
<b>Total operating loss</b>	<b>(79,118)</b>	<b>(119,052)</b>	<b>(198,170)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	6,092	10,489	16,581
Interest and other charges	(5,511)	(25,460)	(30,971)
<b>Net nonoperating revenues (expenses)</b>	<b>581</b>	<b>(14,971)</b>	<b>(14,390)</b>
<b>Loss before contributions and transfers</b>	<b>(78,537)</b>	<b>(134,023)</b>	<b>(212,560)</b>
<b>CAPITAL CONTRIBUTIONS AND TRANSFERS</b>			
Transfers out	(328)	(196)	(524)
	(328)	(196)	(524)
<b>Change in net assets</b>	<b>(78,865)</b>	<b>(134,219)</b>	<b>(213,084)</b>
<b>NET ASSETS, beginning of year</b>	<b>2,296,527</b>	<b>7,138,931</b>	<b>9,435,458</b>
<b>NET ASSETS, end of year</b>	<b>\$ 2,217,662</b>	<b>\$ 7,004,712</b>	<b>\$ 9,222,374</b>

See Notes to Financial Statements.

## CITY OF DECORAH

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 For the Year Ended June 30, 2006

	Water Utilities	Sewer Utilities	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from rent		\$ 622,665	\$ 622,665
Cash received from charges for services	\$ 561,938	11,663	573,601
Cash payments to employees for services	(279,328)	(360,454)	(639,782)
Cash payments to suppliers for services	(306,615)	(207,553)	(514,168)
Net cash (used in) provided by operating activities	(24,005)	66,321	42,316
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Operating transfers in (out)	(328)	(196)	(524)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Principal payments on notes payable	(9,404)	(5,620)	(15,024)
Principal payments on bonds payable	(18,984)		(18,984)
Revolving loan proceeds		2,000	2,000
Principal payments on revolving loan		(46,000)	(46,000)
Proceeds of interfund borrowing	13,204		13,204
Interest paid on long-term borrowing	(5,588)	(25,597)	(31,185)
Acquisition of capital assets		(272,907)	(272,907)
Net cash used in capital and related financing activities	(20,772)	(348,124)	(368,896)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest on investments	5,683	10,489	16,172
Net cash provided by investing activities	5,683	10,489	16,172
Net decrease in cash and cash equivalents	(39,422)	(271,510)	(310,932)
CASH and CASH EQUIVALENTS, beginning of year	247,142	792,212	1,039,354
CASH and CASH EQUIVALENTS, end of year	\$ 207,720	\$ 520,702	\$ 728,422
<b>Reconciliation of operating loss to net cash (used in) provided by operating activities</b>			
Operating loss	\$ (79,118)	\$ (119,052)	\$ (198,170)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:			
Depreciation and depletion	56,962	297,937	354,899
Decrease in tax receivable	-	199	199
(Increase) in accounts receivable	(367)	(1,720)	(2,087)
(Increase) in prepaid expense	(82)	(1,168)	(1,250)
Increase (decrease) in accounts payable	791	(95,385)	(94,594)
(Decrease) in salaries and benefits payable	(6,643)	(15,631)	(22,274)
Increase in accrued compensated absences	4,452	1,141	5,593
Net cash (used in) provided by operating activities	\$ (24,005)	\$ 66,321	\$ 42,316

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 the 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 Behavioral Health, Inc., Winneshiek County E-911, and Northeast Iowa Task Force.

NOTES TO FINANCIAL STATEMENTS

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.

NOTES TO FINANCIAL STATEMENTS

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 is 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.

## NOTES TO FINANCIAL STATEMENTS

### 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 statements of net assets. 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 Committee 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 financial statements are accounted for using the accrual basis of accounting. Revenues are recognized as earned, and expenses are recognized when incurred. 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 nonoperating 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 nonoperating revenues and expenses.

NOTES TO FINANCIAL STATEMENTS

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.

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, 2006. The deposits and investments of the police and firemen retirement which are recorded in the employee benefit fund are held separately from other City funds.

NOTES TO FINANCIAL STATEMENTS

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 represents taxes collected by the County but not remitted to the City at June 30, 2006 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 1/2% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2005.

*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, 2006, 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.

NOTES TO FINANCIAL STATEMENTS

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

NOTES TO FINANCIAL STATEMENTS

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, 2006 has been determined or presented. In accordance with GASB Statement 16, the City has accrued the liability for accrued vacation leave in the accompanying 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 and government-wide statements report the liability as it is incurred.

NOTES TO FINANCIAL STATEMENTS

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

b. Significant Accounting Policies (Continued)

*Assets, Liabilities and Fund Equity (Continued)*

*Compensated Absences (Continued)*

The City's approximate maximum liability for accrued compensated absences at June 30, 2006 is as follows:

Governmental	\$ 132,206
Enterprise	<u>27,039</u>
Total	<u>\$ 159,245</u>

These liabilities have been computed based on rates of pay as of June 30, 2006.

*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.

*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.

NOTES TO FINANCIAL STATEMENTS

2. Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 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.

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 are stated at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

At June 30, 2006 the City had the following investments:

<u>Type</u>	<u>Fair Value</u>
Federal National Mortgage Association (FNMA)	\$ 106,490
Federal Home Loan Mortgage Corporation	63,796
Federal Home Loan Banks	79,733
Federal Farm Credit Bank	41,414
United States Treasury Notes	65,804
Government National Mortgage Association (GNMA)	<u>1,633</u>
	<u>\$ 358,870</u>

*Interest Rate Risk*

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

*Credit Risk*

The City's Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Home Loan Banks, Federal Farm Credit Bank and United States Treasury Notes investment at June 30, 2006 is rated Aaa by Moody's Investor service. The investment in GNMA is unrated.

NOTES TO FINANCIAL STATEMENTS

3. Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

GOVERNMENTAL ACTIVITIES	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
Capital assets not being depreciated:				
Land	\$ 776,248			\$ 776,248
Infrastructure in progress	706,604	\$1,869,746	\$(2,576,350)	None
Total capital assets not being depreciated	<u>1,482,852</u>	<u>1,869,746</u>	<u>(2,576,350)</u>	<u>776,248</u>
Capital assets being depreciated:				
Buildings and improvements	4,886,094	26,793		4,912,887
Improvements other than buildings	1,668,460			1,668,460
Equipment	3,126,851	298,356	105,306	3,319,901
Vehicles	1,450,163	54,275	62,618	1,441,820
Infrastructure	20,322,161	2,576,350		22,898,511
Total capital assets being depreciated	<u>31,453,729</u>	<u>2,955,774</u>	<u>167,924</u>	<u>34,241,579</u>
Less accumulated depreciation				
Buildings and improvements	1,700,982	122,125		1,823,107
Improvements other than buildings	1,112,611	26,513		1,139,124
Equipment	1,893,046	305,748	94,364	2,104,430
Vehicles	1,054,898	93,775	55,338	1,093,335
Infrastructure	5,048,837	520,367		5,569,204
Total accumulated depreciation	<u>10,810,374</u>	<u>1,068,528</u>	<u>149,702</u>	<u>11,729,200</u>
Total capital assets being depreciated, net	<u>20,643,355</u>	<u>1,887,246</u>	<u>18,222</u>	<u>22,512,379</u>
Governmental activities capital assets, net	<u>\$22,126,207</u>	<u>\$3,756,992</u>	<u>\$ 2,594,572</u>	<u>\$23,288,627</u>

NOTES TO FINANCIAL STATEMENTS

3. Capital Assets (Continued)

BUSINESS-TYPE ACTIVITIES	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
Capital assets not being depreciated:				
Land	\$ 79,775			\$ 79,775
Infrastructure in progress	239,938	\$ 174,639	\$ 239,938	174,639
Total capital assets not being depreciated	<u>319,713</u>	<u>174,639</u>	<u>239,938</u>	<u>254,414</u>
Capital assets being depreciated:				
Buildings and improvements	2,053,257			2,053,257
Improvements other than buildings	2,617,028	275,598	19,800	2,872,826
Equipment	4,722,433	37,848	29,081	4,731,200
Vehicles	162,198		8,498	153,700
Infrastructure, water and sewer network	4,811,278	26,910		4,838,188
Total capital assets being depreciated	<u>14,366,194</u>	<u>340,356</u>	<u>57,379</u>	<u>14,649,171</u>
Less accumulated depreciation				
Buildings and improvements	1,011,433	51,270		1,062,703
Improvements other than buildings	1,132,482	72,710	19,800	1,185,392
Equipment	1,488,655	145,069	26,970	1,606,754
Vehicles	136,374	13,115	8,498	140,991
Infrastructure, water and sewer network	1,661,595	72,735		1,734,330
Total accumulated depreciation	<u>5,430,539</u>	<u>354,899</u>	<u>55,268</u>	<u>5,730,170</u>
Total capital assets being depreciated, net	<u>8,935,655</u>	<u>(14,543)</u>	<u>2,111</u>	<u>8,919,001</u>
Business-type activities capital assets, net	<u>\$ 9,255,368</u>	<u>\$ 160,096</u>	<u>\$ 242,049</u>	<u>\$ 9,173,415</u>

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

Governmental activities:		
Public safety		\$ 150,162
Public works		584,791
Culture and recreation		301,988
General government		31,587
Total depreciation expense		<u>\$1,068,528</u>
Business-type activities:		
Water		\$ 56,962
Sewer		
Sanitary sewer	\$ 52,780	
Sewer utility	21,083	
Wastewater	224,074	297,937
Total depreciation expense		<u>\$ 354,899</u>

NOTES TO FINANCIAL STATEMENTS

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, 2006, 2005 and 2004 were \$97,979, \$89,984, and \$86,937, 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, 2006, 2005 and 2004. Contribution requirements are established by state statute. The City's contributions to MPFRSI for the years ended June 30, 2006, 2005 and 2004 were \$171,633, \$135,958, and \$117,945, respectively, which met the required minimum contribution for each year.

5. Commitments

The total outstanding construction and purchase commitments of the City for the Mechanic Street Bridge replacement at June 30, 2006 amounted to \$190,000. The total outstanding construction and purchase commitments of the City for the Highway 9 widening at June 30, 2006 amounted to \$157,740. The total outstanding construction and purchase commitments of the City for improvements to the Decorah Business Park at June 30, 2006 were \$793,759. The City of Decorah has committed to refurbishing a fire truck for \$113,348.

6. Leases

The City has agreed to lease space to the Winneshiek County Sheriff's office for a one year period starting July 1, 2006. The lease requires an \$115,197 payment for the 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 and automatically renewing annually unless terminated by lessee. 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, 2006 future minimum lease receipts were as follows:

Year ending June 30,	
2007	\$ 121,197
2008	120
2009	120
2010	120
	<u>120</u>
	<u>\$ 121,557</u>

NOTES TO FINANCIAL STATEMENTS

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, 2006:

Year ending June 30,	
2006	\$ 1,100
2007	1,100
2008	1,100
2009	1,100
Later years	<u>8,800</u>
Total minimum payments required	<u>\$ 13,200</u>

7. Long-term Debt

Bonded Debt

General Obligation Bonds/Notes

One general obligation corporate purpose note totaling \$235,000 is outstanding as of June 30, 2006. The general obligation corporate purpose note bears interest ranging from 2.8% to 2.5% and matures in semi-annual installments with the final payment of \$235,000 in the year ending June 30, 2007.

One general obligation sewer improvement bond which totaled \$825,000 when fully advanced was issued April 19, 2004. As of June 30, 2006, \$735,000 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 \$2,102 as of June 30, 2006. 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, 2006:

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.

\$1,233,785

NOTES TO FINANCIAL STATEMENTS

7. Long-term Debt (Continued)

A summary of the changes in debt, by type, for the year ended June 30, 2006 is as follows:

	Balance June 30, 2005	Borrowed	Paid	Balance June 30, 2006
General Obligation Corporate Purpose Notes				
2003 street bond	\$ 695,000		\$ (460,000)	\$ 235,000
General Obligation Sewer Improvement Bond	779,000	\$ 2,000	(46,000)	735,000
Urban Renewal Tax Increment Financing (TIF) Revenue Bonds	<u>168,812</u>		<u>(166,710)</u>	<u>2,102</u>
Total bonded debt	<u>\$1,642,812</u>	<u>\$ 2,000</u>	<u>\$ (672,710)</u>	<u>\$ 972,102</u>
Bank Notes Payable				
2002 street project	<u>\$1,394,109</u>	<u>\$ None</u>	<u>\$ (160,324)</u>	<u>\$1,233,785</u>

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

Year Ending June 30,	General Obligation		Urban Renewal Tax Increment Financing (TIF) Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 282,000	\$ 24,928	\$ 2,102	\$ 68	\$ 284,102	\$ 24,996
2008	49,000	20,580			49,000	20,580
2009	50,000	19,110			50,000	19,110
2010	51,000	17,610			51,000	17,610
2011	53,000	16,080			53,000	16,080
2012-2016	290,000	55,530			290,000	55,530
2017-2019	<u>195,000</u>	<u>11,640</u>			<u>195,000</u>	<u>11,640</u>
	<u>\$ 970,000</u>	<u>\$165,478</u>	<u>\$ 2,102</u>	<u>\$ 68</u>	<u>\$ 972,102</u>	<u>\$165,546</u>

Year Ending June 30,	Bank Notes Payable Principal	Interest
2007	\$ 167,617	\$ 53,665
2008	175,245	46,038
2009	183,220	38,063
2010	191,557	29,725
2011	200,274	21,008
2012-2013	<u>315,872</u>	<u>14,295</u>
	<u>\$1,233,785</u>	<u>\$202,794</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, 2006 the outstanding general obligation corporate purpose note for the water fund and governmental funds are:

Governmental funds	\$ 225,508
Water fund	<u>9,492</u>
	<u>\$ 235,000</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, 2006 the outstanding note payable for the water fund, sewer fund and governmental fund are:

Governmental funds	\$ 1,109,713
Water fund	77,658
Sewer fund	<u>46,414</u>
	<u>\$ 1,233,785</u>

At June 30, 2006 the debt issued by the City did not exceed its legal debt margin compiled as follows:

Total assessed valuation	<u>\$350,586,623</u>
Debt limit - 5% of total assessed valuation	\$ 17,529,331
Debt applicable to debt limit	
Bank notes and bonded debt outstanding	<u>2,205,887</u>
Legal debt margin	<u>\$ 15,323,444</u>

The City currently has Low-to-Moderate (LMI) set aside of \$51,888.

8. Due From and Due to Other Funds

As of June 30, 2006 interfund receivables and payables that resulted from various interfund transactions were as follows:

Receivable Fund	Payable Fund	Amount
Special Revenue	Enterprise	
Road use	Water	\$ 13,204
Special Revenue	General	
Road use	Local option sales tax	<u>121,970</u>
		<u>\$ 135,174</u>

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

NOTES TO FINANCIAL STATEMENTS

9. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer To	Transfer From	Amount
Debt Service	Enterprise	
Street equipment	Water utilities	\$ 328
Street equipment	Sewer utilities	196
		<u>\$ 524</u>

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

10. Designated Net Assets

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

General	Visioning committee	\$ 7,949
	Skate park	93
	Airport equipment	14,317
	Fire protection equipment	84,935
	Softball/volleyball improvements	761
	Swimming pool equipment	97,535
	City Hall equipment	25,337
	Recreation equipment	22,281
	Library technology	5,313
	Park equipment	49,937
	Police equipment	10,632
	Park land acquisition	85,721
	Sidewalk	129,129
		<u>\$ 533,940</u>
Special Revenue		
State road use	Street equipment	<u>\$ 90,503</u>
Nonmajor Governmental	Campground expansion	\$ 8,060
	Local trail development	262,115
		<u>\$ 270,175</u>

NOTES TO FINANCIAL STATEMENTS

11. Fund Equity

The amounts reserved at June 30, 2006 are as follows:

Restricted net assets	
Special revenue fund	
Employee benefit	
Police and fire retirement	\$ 358,870
Other special revenue	<u>284,586</u>
	<u>643,456</u>
Nonmajor governmental	
Debt service	72,231
Other special revenue	<u>454,585</u>
	<u>526,816</u>
	<u>\$ 1,170,272</u>

12. 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, 2006 approximately \$7,563,547 of private college revenue bonds was outstanding.

13. 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.

14. Restatement

Beginning net assets were restated due to correction of recording capital assets of \$15,890 in the governmental funds that were not reported in the prior year.

## NOTES TO FINANCIAL STATEMENTS

### 15. Related Party Transactions

The City had business transactions between the City and City officials, Brett Willie, Lorraine Fullerton, and Paul Wanless totaling \$7,954 during the year ended June 30, 2006.

- The transaction with Brett Willie consisted of retail purchases with total payments to Sherwin Williams of \$4,591. Mr. Willie is the manager of Sherwin Williams.
- The transaction with Lorraine Fullerton included retail purchases with total payments of \$33 to Donlon Pharmacy. Ms. Fullerton is an owner of Donlon Pharmacy.
- The transaction with Paul Wanless consisted of retail purchases with total payments to the Sports Shop of \$3,329. Mr. Wanless is an owner of the Sports Shop.

### 16. 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 \$63,374 for the 2006 fiscal year. At June 30, 2006, the maximum potential additional City liability because of this plan was \$82,876.

### 17. 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, 2006 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.

### 18. 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.

NOTES TO FINANCIAL STATEMENTS

19. GASB 45 Future Financial Statement Presentation

The Governmental Accounting Standards Board has issued GASB Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This statement is effective for the City on July 1, 2006. The City is currently evaluating the effect that GASB 45 will have on its financial position and results of operations.

20. Subsequent Events

In July 2006, the City issued \$2,115,000 of general obligation bonds to finance improvements at the Decorah Business Park and the improvements to Highway 9 (See Note 5). They also issued \$155,000 of general obligation bonds to cover part of the City's financing for the Trout Run Trail project.

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, 2006

	Governmental		Proprietary		Total	Budget Amounts		Variance - Favorable (Unfavorable)
	Fund Type	Actual	Fund Type	Actual		Original	Final	
<b>RECEIPTS</b>								
Property taxes	\$ 2,606,399	\$ 2,606,399	\$	\$	\$ 2,590,955	\$ 2,590,955	\$ 15,444	
Tax increment financing collections	211,567	211,567			210,651	210,651	916	
Other city taxes	997,290	997,290			1,033,788	1,033,788	(36,498)	
Licenses and permits	24,350	24,350			25,000	25,000	(650)	
Use of money and property	151,702	\$ 16,580			80,391	80,391	87,891	
Intergovernmental revenues	1,939,777	68,462			2,169,943	2,204,405	(196,166)	
Charges for services	415,072	1,195,668			1,610,740	1,591,284	19,456	
Miscellaneous	289,830	3,768			100,000	240,794	52,804	
<b>Total revenues</b>	<b>6,635,987</b>	<b>1,284,478</b>		<b>7,920,465</b>	<b>7,802,012</b>	<b>7,977,268</b>	<b>(56,803)</b>	
<b>DISBURSEMENTS</b>								
Public safety	1,520,696				1,543,195	1,616,005	95,309	
Public works	1,024,826				1,207,889	1,307,889	283,063	
Health and social services	35,450				10,450	35,450	-	
Culture and recreation	1,344,336				1,272,254	1,329,484	(14,852)	
Community and economic development	700,127				207,175	711,975	11,848	
General government	361,078				376,963	441,963	80,885	
Debt service	859,651				727,396	913,142	53,491	
Capital projects	1,928,195				1,762,634	2,518,318	590,123	
<b>Total governmental activities disbursements</b>	<b>7,774,359</b>			<b>7,774,359</b>	<b>7,107,956</b>	<b>8,874,226</b>	<b>1,099,867</b>	
<b>Business-type enterprises</b>								
		1,610,204			1,610,204	1,838,162	227,958	
<b>Total disbursements</b>	<b>7,774,359</b>	<b>1,610,204</b>		<b>9,384,563</b>	<b>8,634,761</b>	<b>10,712,388</b>	<b>1,327,825</b>	
<b>EXCESS RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	<b>(1,138,372)</b>	<b>(325,726)</b>		<b>(1,464,098)</b>	<b>(832,749)</b>	<b>(2,735,120)</b>	<b>1,271,022</b>	
<b>OTHER FINANCING SOURCES (USES), NET</b>	<b>(9,971)</b>	<b>2,000</b>		<b>(7,971)</b>	<b>1,000</b>	<b>1,000</b>	<b>(8,971)</b>	
<b>EXCESS RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES</b>	<b>(1,148,343)</b>	<b>(323,726)</b>		<b>(1,472,069)</b>	<b>(831,749)</b>	<b>(2,734,120)</b>	<b>1,262,051</b>	
<b>FUND BALANCE/RETAINED EARNINGS, July 1, 2005</b>	<b>5,164,480</b>	<b>1,038,943</b>		<b>6,203,423</b>	<b>5,159,056</b>	<b>5,159,056</b>		
<b>FUND BALANCE/RETAINED EARNINGS, June 30, 2006</b>	<b>\$ 4,016,137</b>	<b>\$ 715,217</b>		<b>\$ 4,731,354</b>	<b>\$ 4,327,307</b>	<b>\$ 2,424,936</b>		

See Notes to Required Supplementary Information.

CITY OF DECORAH

REQUIRED SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE  
 BUDGET TO GAAP RECONCILIATION  
 Year Ended June 30, 2006

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 6,635,987	\$ (323,549)	\$ 6,312,438
Expenditures	7,774,359	(484,404)	7,289,955
Net	(1,138,372)	160,855	(977,517)
Other financing sources, net	(9,971)	17,932	7,961
Beginning fund balance, restated	5,164,480	(341,902)	4,822,578
Ending fund balance	\$ 4,016,137	\$ (163,115)	\$ 3,853,022
	Proprietary Fund Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 1,284,478	\$ 1,466	\$ 1,285,944
Expenditures	1,610,204	(111,700)	1,498,504
Net	(325,726)	113,166	(212,560)
Other financing sources, net	2,000	(2,524)	(524)
Beginning fund balance	1,038,943	8,396,515	9,435,458
Ending fund balance	\$ 715,217	\$ 8,507,157	\$ 9,222,374

See Notes to Required Supplementary Information.

CITY OF DECORAH

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
June 30, 2006

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 \$175,256 and expenditures by \$2,077,627. This budget amendment is reflected in the final budgeted amounts.

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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 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 as of and for the year ended June 30, 2006, taken as a whole.

We have previously audited, in accordance with U.S. generally accepted auditing standards, the basic financial statements of the City of Decorah as of and for the years ended June 30, 2005 and 2004, the general purpose financial statements as of and for the years ended June 30, 2003 and 2002 (none of which is presented herein), and expressed unqualified opinions on those basic and general purpose financial statements. In our opinion, the information set forth in the supplementary information for each of the four years in the period ended June 30, 2005, 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 10, 2006

CITY OF DECATUR  
 COMPARING BALANCE SHEET  
 MAJOR GOVERNMENTAL FUNDS  
 June 30, 2006

	Special Revenue Funds					Capital Projects Funds			Total Funds for Governmental Funds
	Tax Financing	Self-supported Municipal Improvement District	Hotel/Motel Tax	Police Forfeitures	Park Commission Special Offices	Library Board Special Offices	Debt Service Fund	Local Trail Development	
<b>ASSETS</b>									
Cash	\$ 188,981	\$ 21,784	\$ 9,182	\$ 16,688	\$ 10,645	\$ 247,282	\$ 8,060	\$ 283,103	\$ 601,049
Investments				137,934	134,638	262,572			262,572
Receivables									
Taxes	1,517	79				1,546			1,514
Current		10,000				10,000			204,215
Succeeding year									
Interest				1,637	1,222	7,859			2,859
Total assets	\$ 190,500	\$ 31,813	\$ 9,182	\$ 146,279	\$ 146,505	\$ 324,279	\$ 8,060	\$ 283,203	\$ 1,073,820
<b>LIABILITIES AND FUND BALANCES</b>									
Liabilities									
Accounts payable	\$ 59,075	\$ 10,000	\$ 619	\$ 59,694		\$ 10,000	\$ 12,328	\$ 12,328	\$ 77,622
Deferred revenues									204,215
Total liabilities	\$ 59,075	\$ 10,000	\$ 619	\$ 59,694		\$ 10,000	\$ 12,328	\$ 12,328	\$ 276,037
Fund balances									
Reserved for									
Debt service									72,231
Other special revenue purposes	131,425	21,813	9,182	145,660	146,505	454,589		270,175	454,585
Unreserved									
Designated									
Undesignated									270,175
Total fund balances	\$ 131,425	\$ 21,813	\$ 9,182	\$ 145,660	\$ 146,505	\$ 454,589	\$ 8,060	\$ 262,115	\$ 796,591
Total liabilities and fund balances	\$ 190,500	\$ 31,813	\$ 9,182	\$ 146,279	\$ 146,505	\$ 574,279	\$ 8,060	\$ 275,043	\$ 1,073,820

See Independent Auditor's Report on the Supplementary Information.

CITY OF DECORAH

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - BONDABLE GOVERNMENTAL FUNDS  
Year Ended June 30, 2006

	Special Revenue Funds					Capital Projects Funds			Total Major Governmental Funds
	Tax Incremental Financing	Self-supported Municipal Improvement District	Total/Total Tax	Police Forfeitures	Park Commission Special Gifts	Library Board Special Gifts	Debt Service Fund	Local Trail Development	
<b>REVENUES</b>									
Property taxes									
Tax increment financing collections	\$ 211,559		\$ 96,123						\$ 197,823
Other city tax		\$ 10,001							\$ 211,559
Use of bond and property				\$ 875	\$ 3,655	\$ 8,439			\$ 55,909
Miscellaneous				\$ 17,319					\$ 8,729
									\$ 20,934
Total revenues	211,559	10,001	96,123	875	21,004	8,439	201,191	249	518,730
<b>EXPENDITURES</b>									
Current									
Public safety									
Culture and recreation									
Community and economic development									
Debt service									
Principal									
Interest and other charges									
Total expenditures	166,710		155,565	3,222	27,572		200,339	57,178	312,030
	7,190						55,039		62,338
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	44,849	10,001	40,558	853	8,439	8,439	1,852	249	186,700
<b>OTHER FINANCING SOURCES (USES)</b>									
Transfers in									
Total other financing sources (used)									
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(64,504)	6,940	(59,566)	(2,956)	(1,558)	8,439	2,852	249	(180,423)
FUND BALANCES, beginning of year	195,929	14,877	59,586	12,139	147,228	138,066	68,855	7,811	896,890
FUND BALANCES, end of year	\$ 131,425	\$ 21,817	\$ -	\$ 9,182	\$ 145,670	\$ 146,505	\$ 72,231	\$ 8,060	\$ 796,457

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			
	2006	2005	2004	2003
<b>Revenues</b>				
Property tax	\$ 2,658,525	\$ 2,595,871	\$ 2,381,158	\$ 2,365,896
Tax increment financing revenue	211,559	236,228	230,703	214,658
Other city tax	958,282	1,043,493	967,761	916,921
Licenses and permits	21,690	27,983	23,165	27,828
Use of money and property	157,361	170,653	111,644	61,477
Intergovernmental	1,692,123	1,708,217	1,306,006	1,274,309
Charges for service	415,992	405,666	396,387	370,216
Miscellaneous	196,906	236,929	310,379	326,796
<b>Total</b>	<b>\$ 6,312,438</b>	<b>\$ 6,485,040</b>	<b>\$ 5,727,203</b>	<b>\$ 5,558,101</b>
				<b>\$ 5,006,410</b>
<b>Expenditures</b>				
Operating				
Public safety	\$ 1,501,249	\$ 1,385,420	\$ 1,375,223	\$ 1,365,603
Public works	788,113	883,506	1,018,018	1,104,002
Health and social services	27,579	10,450	11,000	15,200
Culture and recreation	1,281,232	1,221,974	1,371,093	1,145,998
Community and economic development	977,114	809,164	504,369	221,366
General government	363,985	302,879	328,983	330,474
Debt service	828,262	653,552	1,035,212	705,979
Capital projects	1,522,421	504,879	1,402,525	1,851,670
<b>Total</b>	<b>\$ 7,289,955</b>	<b>\$ 5,771,824</b>	<b>\$ 7,046,423</b>	<b>\$ 6,740,292</b>
				<b>\$ 5,130,823</b>

See Independent Auditor's Report on the Supplementary Information.

CITY OF DECORAH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2006

<u>Section I: Summary of the Independent Auditor's Results</u>	<u>Yes</u>	<u>No</u>	<u>None Reported</u>
<b>Financial Statements</b>			
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	
<b>Federal Awards</b>			
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 20.205			
Highway Bridge Replacement and Rehabilitation Program			
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:

06-1 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, 2006

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

06-1 Segregation of Duties (Continued)

Response and Corrective Action Planned

We segregate duties in the Clerk's office as much as possible and involve department heads and council members when feasible. We continue to look for ways to improve controls.

Conclusion

Response accepted.

Section III: Findings and Questioned Costs for Federal Awards:

Instances of noncompliance - None

Reportable condition -

CFDA Number 20.205

Highway Bridge Replacement and Rehabilitation Program

Federal Award Year: 2006

U.S. Highway Administration

Passed through Iowa Department of Transportation

See 06-1 above

Section IV: Other Findings Related to Required Statutory Reporting:

See management letter dated August 10, 2006

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, 2006

Grant Title	CFDA Number	Grant Number	Amount of Grant	Program Expenditures
Corporation for National and Community Service				
Direct				
Retired and Senior Volunteer Program	94.002	05SRNIA011	\$ 30,411	\$ 25,326
U.S. Department of Justice				
Indirect				
Passed-through Iowa Office of Drug Control Policy				
Byrne Formula Grant Program	16.579	05JAG-A14	12,000	7,873
Bullstproof Vest Partnership Program				
	16.607		3,528	3,528
				<u>11,401</u>
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	78,352
U.S. Department of Transportation				
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)-BN-96	1,198,000	487,449
Highway Bridge Replacement and Rehabilitation Program	20.205	STP-4-1867(602)-70-96	198,000	198,000
				<u>685,449</u>
Total Expenditures of Federal Awards				<u>\$ 800,558</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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

## Note 2. Loans Outstanding

The City of Decorah has outstanding notes payable to the Iowa Finance Authority totaling \$735,000 as of June 30, 2006. The proceeds from this note was advanced under the Capitalization Grants for Clean Water State Revolving Funds.

See Independent Auditor's Report on the Supplementary Information.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and  
Members of the City Council  
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 City of Decorah as of and for the year ended June 30, 2006, which collectively comprise City of Decorah's basic financial statements and have issued our report thereon dated August 10, 2006. 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 initiate, record, process, 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 06-1. The reportable condition was unresolved from the prior year.

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 none of the reportable conditions described above is a material weakness.

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*.

We also noted certain additional matters that we reported to management of City of Decorah in a separate letter dated August 10, 2006.

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 10, 2006

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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 the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. City of Decorah's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned 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 on 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, 2006.

### 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 the 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 06-1. The reportable condition was unresolved from the prior year.

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 the 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 that none of the reportable conditions described above is a material weakness.

### Schedule of Expenditures of Federal Awards

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, 2006, and have issued our report thereon dated August 10, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise 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. 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 10, 2006

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#### 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, 2006, we considered the City's internal control to determine our auditing procedures for the purpose of expressing opinions 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 1-8 below are compliance comments required by the Iowa Auditor of State. A separate report dated August 10, 2006 contains our report on reportable conditions in the City's internal controls. This letter does not affect our report dated August 10, 2006, on the basic financial statements of the City of Decorah. Prior year's comments have all been resolved except item 4 below.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 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. Certified Budget

Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the culture and recreation function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation

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

Response

We acknowledge disbursements did exceed the amended budget amount within the culture and recreation function by a nominal amount. We make every attempt to ensure approved budget amounts are not exceeded and will continue to monitor all expenditures at year end as closely as possible to prevent this oversight from happening again.

Conclusion

Response accepted.

2. Questionable Disbursements

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

3. Travel Expense

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

4. 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>
Brett Willie, Airport Commission Member, Manager Sherwin Williams	Retail purchases	\$ 4,591
Lorraine Fullerton, Park & Recreation Commission Member, Owner of Donlon Pharmacy	Retail purchases	\$ 33
Paul Wanless, City Council Member, Owner Sports Shop	Supplies	\$ 3,329

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.

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

This matter will be reviewed with the City Attorney. Of particular note are the exceptions allowed and among these exceptions, paragraph 5 of the cited Section will be evaluated with respect to the two instances wherein more than \$1,500 was transacted. Upon completing this review, a policy setting forth procedures to monitor transactions that may fall under this Iowa Code Section will be considered.

Conclusion

Response accepted.

5. Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

6. Council Minutes

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

7. Deposits and Investments

No 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.

8. Revenue Notes

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

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.*

Decorah, Iowa  
August 10, 2006