

**CITY OF DECORAH
DECORAH, IOWA**

FINANCIAL REPORT

JUNE 30, 2007

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CITY OF DECORAH

OFFICIALS
June 30, 2007

Name	Title	Term Expires
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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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, 2007, 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, 2007, 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 November 16, 2007, 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 3 and pages 30 through 32, 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
November 16, 2007

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, 2007. Please read this in conjunction with the transmittal letter and the City's financial statements contained within this audit report.

2007 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased \$844,481 or approximately 13.13% from FY 2006 to FY 2007. Property taxes for all purposes increased \$133,585.
- Program expenditures excluding debt service and capital projects decreased \$740,548.
- The City's total net assets are \$37,264,460. Of this amount, the governmental activities claim net assets of \$27,225,636.

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 nonmajor 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 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. The 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
	2006	2007	2006	2007	2006	2007	
Current and other assets	\$ 7,162	\$ 7,598	\$ 1,089	\$ 1,161	\$ 8,251	\$ 8,759	6.16%
Capital assets	23,288	25,863	9,173	9,807	32,461	35,670	9.89%
Total assets	30,450	33,461	10,262	10,968	40,712	44,429	9.13%
Long-term debt outstanding	1,069	907	796	729	1,865	1,636	-12.28%
Other liabilities	3,692	5,329	244	200	3,936	5,529	40.47%
Total liabilities	4,761	6,236	1,040	929	5,801	7,165	23.51%
Net assets							
Invested in capital assets, net of related debt	21,978	22,790	8,305	9,011	30,283	31,801	5.01%
Restricted	1,170	1,233	-	-	1,170	1,233	5.38%
Unrestricted	2,541	3,202	917	1,028	3,458	4,230	22.33%
Total net assets	\$ 25,689	\$ 27,225	\$ 9,222	\$ 10,039	\$ 34,911	\$ 37,264	6.74%

The following analysis shows the change in net assets for the year ending June 30, 2007:

Individual Major Fund Analysis

At the end of FY 06-07, the City reflected a combined fund balance for its governmental funds of \$4,551,555. (See *Exhibit D* for details). This compares to \$3,853,022 for the combined fund balance for governmental funds at the end of FY 05-06. This is an increase of \$698,533. The general fund showed an increase of \$372,015 from the prior year to \$1,923,935.

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 tax proceeds received for the City's TIF obligations.

	Changes in Net Assets of Governmental Activities (In Thousands)						
	Governmental Activities		Business-type Activities		Total		Percent Change
	2006	2007	2006	2007	2006	2007	
Revenues:							
Program revenue							
Charges for service	\$ 554	\$ 1,249	\$ 1,200	\$ 1,173	\$ 1,754	\$ 2,422	38.08%
Operating grants	1,096	1,176	69	59	1,165	1,235	6.01%
Capital grants	689	341	-	-	689	341	-50.51%
General revenue							
Property taxes	2,658	2,792	-	-	2,658	2,792	5.04%
Tax increment financing collections	212	121	-	-	212	121	-42.92%
Other city taxes	234	301	-	-	234	301	28.63%
Local option sales tax	724	861	-	-	724	861	18.92%
Bank franchise tax	-	-	-	-	-	-	0.00%
Unrestricted investment earnings	145	193	17	23	162	216	33.33%
Gain (loss) on the sale of capital assets	7	130	-	(6)	7	124	1671.43%
Other revenue	112	111	-	-	112	111	-0.89%
Total revenues	6,431	7,275	1,286	1,249	7,717	8,524	10.46%
Program expenses:							
Public safety	1,525	1,707	-	-	1,525	1,707	11.93%
Public works	1,030	98	-	-	1,030	98	-90.49%
Health & social services	28	-	-	-	28	-	-100.00%
Culture & recreation	1,508	1,574	-	-	1,508	1,574	4.38%
Community & economic development	977	1,084	-	-	977	1,084	10.95%
General government	389	254	-	-	389	254	-34.70%
Interest on long-term debt	71	123	-	-	71	123	73.24%
Other expenses	-	-	1,499	1,481	1,499	1,481	-1.20%
Total expenses	5,528	4,840	1,499	1,481	7,027	6,321	-10.05%
Increase (decrease) in net assets before transfers	903	2,435	(213)	(232)	690	2,203	219.28%
Transfers		(969)		969		-	
Increase (decrease) in net assets	903	1,466	(213)	737	690	2,203	219.28%
Net assets beginning of year, restated	24,786	25,759	9,435	9,302	34,221	35,061	2.45%
Net assets end of year	\$ 25,689	\$ 27,225	\$ 9,222	\$ 10,039	\$ 34,911	\$ 37,264	6.74%

The employee benefits fund within the special revenue fund of the City is used to account for property taxes levied for the payment of employee benefits. This fund ended fiscal 2007 with a \$614,456 balance compared to the prior year ending fund balance of \$643,456.

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, 2007 is \$14,868,528.

Proprietary Fund Highlights

The water fund, which accounts for the operation and maintenance of the City's water system, ended fiscal year 2007 with a net asset balance of \$2,649,287. This reflects an increase of \$431,625 from the end of fiscal year 2006 when the net asset balance was \$2,217,662.

The sewer fund, which accounts for the operation and maintenance of the sewer system and the wastewater treatment facility, ended fiscal year 2007 with a net asset balance of \$7,389,537. This reflects an increase of \$384,825 from the end of fiscal year 2006 when the net asset balance was \$7,004,712.

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 due largely to the interest payments required for the TIF debt for various infrastructure improvements at the Decorah Business Park. This financing was approved and finalized during July and August of 2007 and therefore, not fully included when the FY 06-07 was prepared and certified. Revenues to cover these costs were sufficiently available through the bond proceeds. The initial TIF proceeds, of course, were not received until FY 07-08. An additional \$48,460 was remitted to the Winneshiek County Auditor for overpayment of TIF proceeds for the Highland Place-Vennehjem Project.
- b. The Culture and Recreation Program exceeded its original budget amount by \$163,525 for which an amendment was approved. Almost 92 percent of this amount was attributable to land purchases and improvements to the Campground. The land acquisition was paid for through the combination of a generous contribution and funds set aside for this purpose. The Campground improvements were also covered with available cash and requested by the Parks and Recreation Board.
- c. The General Government Program was projected to exceed its established limit and, as such, an amendment approved. The total amount of \$15,005 was largely attributable to the need to replace the City Hall roof and an unexpected additional cost of \$4,000 to cover self-insurance expenses.

- d. The Public Safety Program exceeded the original budget amount by \$202,391 of which 75 percent was used for the refurbishing of the Fire Department's primary firefighting vehicle. Most of this payment was derived from the Fire Department's Equipment Replacement Fund. The other significant expense for this program was attributable to a payment of \$75,000 for the Flood Study. A contribution pursuant to a settlement agreement with Wal-Mart covered the full amount of this expense.
- e. The Capital Projects Program accounted for the single largest program amendment. Just under half of the \$1,424,983 amended amount was attributable to the Business Park street improvements. The funding for this project was covered by the bond proceeds received in August of 2006. The Highway 9 Lighting Improvement Project unexpectedly extended into FY 07 thereby necessitating a portion (\$271,000) of this particular program amendment. Reimbursement from Wal-Mart and cash-on-hand covered the balance of this project's expenses. Additionally, the completion of the two bridge projects (Fifth Avenue and Mechanic Street) in FY 07 added \$206,617 to unanticipated expenses for this fiscal year. Bridge repair funding from the Federal Highway Administration and cash-on-hand met these expenses. Various aspects of the Trout Run Trail Project led to \$129,349 in additional expenses. These expenses were covered by several of the Trail Project's funding sources. These expenses were unanticipated during the preparation of the FY 07 Budget as several key funding sources, most notably the Vision Iowa funding, were undecided at that time. Finally about \$126,000 of unforeseen expenses consisted of Airport improvements (lighting and turnarounds) for which 95 percent of the costs were paid through an FAA grant and the Division Street engineering and right-of-way acquisition costs. The expenses for this Division Street project were paid from existing fund balances.
- f. The Community and Economic Development Program exceeded the amount budgeted due to a City-sponsored CDBG project for The Spectrum Network. This sponsorship resulted in an unbudgeted pass-through of \$5,228 for this non-profit agency. The City Council also chose to contribute \$10,000 to Vesterheim Museum to assist in leveraging a requested and subsequently approved Community Attractions and Tourism Grant.
- g. The Enterprise Program's excess amount over the original budget totaled \$1,086,500. Of this, almost 89 percent was attributable to water and sanitary sewer improvements at the Decorah Business Park. These improvements were entirely funded with the proceeds of the above-mentioned TIF G.O. Bond.
- h. The Public Works Program was amended to account for a series of unanticipated additional expenditures equaling \$265,855. Much of this (\$160,000) was due to extra street maintenance work involving a variety of miscellaneous small improvements and repair work. Also, engineering related to Airport improvements unexpectedly extended into FY 07. FAA funds covered all but five percent of the cost for these services.

- i. The Health and Social Services Program exceeded its original budget by \$41,000. This was due entirely to a Council decision during FY 07 to contribute \$41,000 of the Low-to-Moderate Income set-aside toward the joint Northeast Iowa Community Action Corporation – Habitat For Humanity housing project. This set-aside was derived from the City’s TIF projects which 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 \$25,863,807 (net of accumulated depreciation). The capital assets for the business-type activities totaled \$9,806,661 (net of accumulated depreciation) as of June 30, 2007. 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, particularly those associated with the Decorah Business Park and Highway 9 improvements. The major capital outlays with the business-type activities involved improvements in the sewer and water for the Decorah Business Park.

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, 2007, the City’s total outstanding G.O. debt of \$3,869,262 was well below the debt margin of \$14,868,528. 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 to 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 in Note 6 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 three fiscal years earlier. However, the net assets at the end of the fiscal year for both the Governmental and Business-type activities increased over the previous year as shown on page 3c above. Within the Governmental Activities, the continuing increase in Local Option Tax (sales tax) revenues has again proven to help overcome the State's reduction of revenue sharing as well as the effects of the property tax rollback on that particular revenue source. The 18.9% increase in sales tax revenues is entirely designated for street-related improvements and as such, relieves a significant burden that would otherwise fall onto the General Fund. From the standpoint of the economic factors bearing on the City's future, there are, of course, several key elements of particular note.

First, as mentioned, the extent to which increases in the Local Option Tax proceeds are realized significantly affects our ability to meet street improvement and maintenance needs. The State's annual reconciliation payment (received in November) may be indicative of a smoother upward trend line than the more precipitous lines based upon the trend line developed from the reconciliation payments included in the year in which such payments are received. Regardless, it appears that notwithstanding all of the various macro and microeconomic factors at play, there is cautious optimism that the sales tax proceeds will continue to rise at a level exceeding overall inflationary effects but perhaps not those costs directly associated with the oil-intensive street and highway improvement industry.

Closely related to the first point is the well-recognized and intensely debated matter over the need for additional Road Use Tax funds at the local and State levels. This is no less a concern to Decorah in meeting all of the maintenance and improvement needs of our streets, bridges, culverts and similar infrastructure. Given the widespread extent of recognition for such funding needs, we optimistically look forward to the legislature reaching agreement on the TIME-21 initiative.

Next, the City's property tax proceeds increased slightly over five percent from those of the prior year. This revenue source will again be a major focal point in the preparation of and deliberations over the FY 08-09 Budget. The recently announced residential rollback to 44.0803% for FY08-09 is another in a series of continuing downward adjustments. This compares to the FY 08 figure of 45.5596% and the FY 07 figure of 45.996%. There will be a slight rollback applied to commercial property in FY 09 (99.7312%) following the absence of any rollback for FY08. The property tax rate has been held constant at about \$12.42 during the past several years. There is every reason to anticipate that the City Council will closely scrutinize any discussions revolving around a proposed increase to this rate. Adjustments will therefore continue to be made in balancing the level of property taxes with the City's General Fund requirements and Council goals. Finally, with respect to property taxes, the many variables linked to this revenue source underscore the need to effectively search for other revenue sources in order to address the demand for new capital projects as well as major infrastructure improvements.

To expand upon the information discussed above regarding the increase in the total assets for the General Fund, it is worth noting that the total assets increased 5.59% when compared to those of FY 06. Similarly, the total assets for all Governmental funds increased 7.68% over this same period. When considered in the context of the economic factors bearing on the future of the City, a historical review of the net assets seems to indicate a moderately steady increase in the City's capital assets. Our ability to successfully pursue the capital planning activities slated for the next five years will largely determine whether similar increases in the total net assets of the City are realized.

As stated within the last three years' 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 again 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.

As for the Proprietary Funds, the Water Fund's net assets increased by 19.5% while the Sewer Fund's increase was 5.5%. Combined these two funds show an 8.85% increase over the prior year. These figures for the Proprietary Fund reverse that which was reported for the previous fiscal year with respect to the total net assets. However, there is a significant concern with regard to the total operating loss for the Sewer Fund as this amounted to \$252,900. An increase of 8.2% in operating expenses coupled with a decrease in revenues led to this loss. The Water Fund, on the other hand, shows an operating profit of \$37,101 before nonoperating expenses and revenues. When considered with similar figures from the past two to three years, the need to adjust the utility rates becomes evident. As for the economic factors bearing on the future for these Proprietary Funds, the loss of a major industrial customer several years ago combined with a variety of increases in maintenance costs leads to the need for a rate adjustment and the consideration of higher connection fees. The City's overall Utility infrastructure and service is quite adequate by any measure. Challenges as to how best to meet new and different service expectations will continue to be addressed.

Below is a summary of the tax levy rates per \$1,000 of taxable valuation for FY06-07:

General Levy	\$ 8.10
Liability, Property Insurance	0.69602
Employee Benefits	2.75193
Debt Service	<u>0.87949</u>
 Total	 <u>\$ 12.42744</u>

Also, a rate of \$0.39977 generated \$10,000 for a Self-Supporting Municipal Improvement District in the Central Business District during FY 06-07. Finally, the agricultural property tax rate for such land in the City is at \$2.59728. As mentioned, the FY 07-08 total property tax rate was approved at the same level as the FY 06-07 with 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, 2007

	Governmental Activities	Business-type Activities	Total	Decorah Volunteer Fire Department
ASSETS				
Cash and pooled investments	\$ 4,107,935	\$ 816,151	\$ 4,924,086	\$ 53,186
Receivables				
Accounts and unbilled usage, net	3,980	322,283	326,263	
Property tax				
Current	17,700		17,700	
Succeeding year	2,717,668		2,717,668	
Special assessments				
Current	36,790	2,262	39,052	
Deferred	121,579	1,668	123,247	
Accrued interest	14,131		14,131	
Internal balances	5,396	(5,396)	-	
Due from other governments	157,902	-	157,902	
Inventories	3,194	15,000	18,194	
Prepaid expenses	35,494	9,491	44,985	
Restricted assets				
Investments	375,948		375,948	
Nondepreciable assets	2,219,472	79,775	2,299,247	
Capital assets, net of accumulated depreciation	23,644,335	9,726,886	33,371,221	
Total assets	\$ 33,461,524	\$ 10,968,120	\$ 44,429,644	\$ 53,186
LIABILITIES AND NET ASSETS				
Accounts payable	\$ 124,747	\$ 90,588	\$ 215,335	
Salaries and benefits payable	60,913	10,939	71,852	
Accrued interest payable	9,850	2,139	11,989	
Due to other funds			-	
Deferred revenue				
Succeeding year property tax	2,717,668	-	2,717,668	
Other	121,579	1,668	123,247	
Long-term liabilities				
Portion due within one year				
Bonds payable	170,000	-	170,000	
Revolving loan payable		49,000	49,000	
Notes payable	157,327	17,918	175,245	
Compensated absences	21,255	28,298	49,553	
Portion due after one year				
Bonds payable	1,945,000	-	1,945,000	
Revolving loan payable		639,000	639,000	
Notes payable	801,271	89,746	891,017	
Compensated absences	106,278		106,278	
Total liabilities	6,235,888	929,296	7,165,184	\$ None
NET ASSETS				
Invested in capital assets, net of related debt	22,790,209	9,010,997	31,801,206	
Restricted for				
Police and fire retirement	358,870		358,870	
Debt service	72,194		72,194	
Other special revenue purposes	802,469		802,469	
Other purposes				53,186
Unrestricted	3,201,894	1,027,827	4,229,721	
Total net assets	27,225,636	10,038,824	37,264,460	53,186
Total liabilities and net assets	\$ 33,461,524	\$ 10,968,120	\$ 44,429,644	\$ 53,186

See Notes to Financial Statements.

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CITY OF DECORAH
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007

Functions and Programs	Expenses	Charges for Services	Program Revenues Operating Grants, Contributions and Restricted Interest
Primary Government			
Governmental activities			
Public safety	\$ 1,706,446		\$ 32,300
Public works	97,679	\$ 700,549	681,094
Health and social services	-		
Culture and recreation	1,574,290	480,074	305,271
Community and economic development	1,084,251		
General government	254,400	68,250	157,157
Interest on long-term debt	122,919		
Total governmental activities	4,839,985	1,248,873	1,175,822
Business-type activities			
Water utilities	560,440	589,892	
Sewer utilities	920,135	582,806	58,478
Total business-type activities	1,480,575	1,172,698	58,478
Total primary government	\$ 6,320,560	\$ 2,421,571	\$ 1,234,300
Component Unit			
Decorah Volunteer Fire Department	\$ 30,261		
General Revenues			
Property and other City taxes levied for			
General purposes			
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			
Total general revenues, special item and transfers			
Change in net assets			
Net assets, beginning of year restated			
Net assets, end of year			

See Notes to Financial Statements.

EXHIBIT B

Capital Grants, Contributions and Restricted Interest	Net (Expense) Revenue and Changes in Net Assets			Component Unit Decorah Volunteer Fire Department
	Primary Government			
	Governmental Activities	Business-Type Activities	Total	
\$ -	\$ (1,674,146)		\$ (1,674,146)	
-	1,283,964		1,283,964	
-	-		-	
-	(788,945)		(788,945)	
341,173	(743,078)		(743,078)	
-	(28,993)		(28,993)	
	(122,919)		(122,919)	
<u>341,173</u>	<u>(2,074,117)</u>		<u>(2,074,117)</u>	
(1,570)		\$ 27,882	27,882	
(4,096)		(282,947)	(282,947)	
(5,666)	-	(255,065)	(255,065)	
<u>\$ 335,507</u>	<u>(2,074,117)</u>	<u>(255,065)</u>	<u>(2,329,182)</u>	
<u>\$ 34,419</u>				<u>\$ 4,158</u>
	2,597,842		2,597,842	
	194,264		194,264	
	121,451		121,451	
	301,028		301,028	
	860,565		860,565	
	193,331	22,400	215,731	848
	111,307		111,307	
	130,272		130,272	
	(969,450)	969,450	-	
	<u>3,540,610</u>	<u>991,850</u>	<u>4,532,460</u>	<u>848</u>
	1,466,493	736,785	2,203,278	5,006
	<u>25,759,143</u>	<u>9,302,039</u>	<u>35,061,182</u>	<u>48,180</u>
<u>\$</u>	<u>\$ 27,225,636</u>	<u>\$ 10,038,824</u>	<u>\$ 37,264,460</u>	<u>\$ 53,186</u>

CITY OF DECORAH
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

	Special Revenue			Other Governmental Funds	Total Governmental Funds	
	General	Employee Benefits	State Road Use Tax			Tax Increment Financing
ASSETS						
Cash	\$1,402,505	\$ 240,965	\$ 759,283	\$ 138,728	\$ 589,862	\$ 3,131,343
Investments	600,000				376,592	976,592
Receivables						
Property taxes						
Current	12,658	3,748			1,294	17,700
Succeeding year	1,882,891	630,017			204,760	2,717,668
Special assessments						
Current	36,790					36,790
Deferred	121,579					121,579
Interest	3,211	4,550			6,370	14,131
Other	3,980				-	3,980
Due from other funds	29,657		220,680			250,337
Due from other governments	157,902		-		-	157,902
Inventories			3,194			3,194
Prepaid expenditures	35,494					35,494
Restricted assets						
Investments		375,948				375,948
Total assets	\$4,286,667	\$1,255,228	\$ 983,157	\$ 138,728	\$ 1,178,878	\$ 7,842,658
LIABILITIES AND FUND BALANCES						
Accounts payable	\$ 77,943	\$ 1,280	\$ 16,675	\$ 24,297	\$ 4,552	\$ 124,747
Salaries and benefits payable	46,457	9,158	5,298			60,913
Due to other funds	215,284			29,657	-	244,941
Deferred revenues	2,004,470	630,017			204,760	2,839,247
Compensated absences	18,578		2,677			21,255
Total liabilities	2,362,732	640,455	24,650	53,954	209,312	3,291,103
FUND BALANCES						
Reserved for						
Police and fire retirement		358,870				358,870
Debt service					72,194	72,194
Other special revenue purposes		255,903		84,774	461,792	802,469
Unreserved, reported in						
General fund	1,923,935					1,923,935
Capital projects fund					435,580	435,580
Special revenue fund			958,507		-	958,507
Total fund balances	1,923,935	614,773	958,507	84,774	969,566	4,551,555
Total liabilities and fund balances	\$4,286,667	\$1,255,228	\$ 983,157	\$ 138,728	\$ 1,178,878	\$ 7,842,658

See Notes to Financial Statements.

CITY OF DECORAH
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

Reconciliation of governmental fund balances to net assets	
Total governmental fund balances	\$ 4,551,555
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	
\$ 12,730,602	25,863,807
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	(2,115,000)
Notes payable	(958,598)
Compensated absences	(106,278)
Accrued interest	(9,850)
Net assets of governmental activities	<u>\$ 27,225,636</u>

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CITY OF DECORAH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2007

	General	Special Revenue	
		Employee Benefits	State Road Use Tax
REVENUES			
Property taxes	\$ 1,996,208	\$ 601,634	
Tax increment financing collections			
Other City tax	917,204	17,720	
Licenses and permits	31,567		
Use of money and property	151,853	18,991	\$ 2,016
Intergovernmental	1,022,810		681,094
Charges for service	393,374		
Miscellaneous	188,311	8,902	363,606
Total revenues	4,701,327	647,247	1,046,716
EXPENDITURES			
Current operating			
Public safety	1,369,149	368,030	
Public works	756,209	88,042	469,710
Culture and recreation	1,244,708	163,587	
Community and economic development	21,633		57,627
General government	367,683	56,271	
Capital projects	1,130,594		633,277
Debt service			
Principal	225,508		
Interest and other charges	1,991		
Total expenditures	5,117,475	675,930	1,160,614
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(416,148)	(28,683)	(113,898)
OTHER FINANCING SOURCES (USES)			
Proceeds from capital assets sold	1,867		1,750
Proceeds from issuance of debt	-		-
Transfers in (out)	786,296		210,000
Total other financing sources (uses)	788,163	-	211,750
EXCESS REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	372,015	(28,683)	97,852
FUND BALANCES, beginning of year	1,551,920	643,456	860,655
FUND BALANCES, end of year	\$ 1,923,935	\$ 614,773	\$ 958,507

See Notes to Financial Statements.

EXHIBIT D

<u>Tax Incremental Financing</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 121,451	\$ 194,264	\$ 2,792,106
	-	121,451
	226,669	1,161,593
		31,567
	27,196	200,056
	133,368	1,837,272
		393,374
	47,419	608,238
<u>121,451</u>	<u>628,916</u>	<u>7,145,657</u>
	-	1,737,179
		1,313,961
	47,318	1,455,613
93,012	359,289	531,561
		423,954
		1,763,871
2,102	151,115	378,725
72,988	43,103	118,082
<u>168,102</u>	<u>600,825</u>	<u>7,722,946</u>
<u>(46,651)</u>	<u>28,091</u>	<u>(577,289)</u>
	126,655	130,272
2,115,000	-	2,115,000
(2,115,000)	149,254	(969,450)
<u>-</u>	<u>275,909</u>	<u>1,275,822</u>
(46,651)	304,000	698,533
<u>131,425</u>	<u>665,566</u>	<u>3,853,022</u>
<u>\$ 84,774</u>	<u>\$ 969,566</u>	<u>\$ 4,551,555</u>

CITY OF DECORAH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2007

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	\$	698,533
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	\$ (1,099,348)	
Capital outlays	<u>3,604,526</u>	2,505,178
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.		
		378,725
Proceeds of long-term debt issuance are included in the governmental funds but increase long-term liabilities in the statement of activities		
		(2,115,000)
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.		
		(4,837)
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>3,894</u>
Change in net assets of governmental activities	\$	<u>1,466,493</u>

CITY OF DECORAH
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2007

	Water Utilities	Sewer Utilities	Total
ASSETS			
Cash	\$ 292,560	\$ 523,591	\$ 816,151
Receivables			
Accounts and unbilled usage, net	124,186	198,097	322,283
Special assessments			
Current	978	1,284	2,262
Deferred	-	1,668	1,668
Inventory	15,000		15,000
Prepaid expenses	4,302	5,189	9,491
Total current assets	437,026	729,829	1,166,855
Noncurrent assets			
Land		79,775	79,775
Net capital assets	2,308,404	7,418,482	9,726,886
Total noncurrent assets	2,308,404	7,498,257	9,806,661
	\$ 2,745,430	\$ 8,228,086	\$ 10,973,516
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable	\$ 11,228	\$ 79,360	\$ 90,588
Salaries and benefits payable	4,205	6,734	10,939
Accrued interest payable	277	1,862	2,139
Due to other funds		5,396	5,396
Deferred revenues	-	1,668	1,668
Long-term liabilities			
Revolving loan payable		49,000	49,000
Notes payable, bank	11,215	6,703	17,918
Compensated absences	13,045	15,253	28,298
Total current liabilities	39,970	165,976	205,946
Noncurrent liabilities			
Long-term liabilities			
Revolving loan payable		639,000	639,000
Notes payable, bank	56,173	33,573	89,746
Total long-term liabilities	56,173	672,573	728,746
Total liabilities	96,143	838,549	934,692
Net assets			
Invested in capital assets, net of related debt	2,241,016	6,769,981	9,010,997
Unrestricted	408,271	619,556	1,027,827
Total net assets	2,649,287	7,389,537	10,038,824
Total liabilities and net assets	\$ 2,745,430	\$ 8,228,086	\$ 10,973,516

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, 2007

	Water Utilities	Sewer Utilities	Total
OPERATING REVENUES			
Charges for service			
Sewer rental fees		\$ 552,156	\$ 552,156
Sale of water	\$ 554,590		554,590
Miscellaneous	34,187	26,378	60,565
Intergovernmental			
Freeport share		58,478	58,478
Miscellaneous	1,115	4,272	5,387
Total operating revenues	589,892	641,284	1,231,176
OPERATING EXPENSES			
Salaries	202,282	256,888	459,170
Payroll taxes and fringe benefits	65,774	95,009	160,783
Insurance	17,102	17,494	34,596
Training	4,419	3,092	7,511
Vehicle repair and maintenance	3,265	18,058	21,323
Office supplies	5,736	5,959	11,695
Sales tax	31,782	9,644	41,426
Building maintenance and utilities	100,023	103,848	203,871
Emergency expense	16,123	1,812	17,935
Vehicle gas and oil	4,701	7,435	12,136
Engineering expense	12,074	29,386	41,460
Operating supplies and maintenance	14,445	27,935	42,380
Chemicals and testing	12,522		12,522
Hydrants, meters, and other parts	1,922	16,581	18,503
Depreciation	60,621	301,043	361,664
Total operating expenses	552,791	894,184	1,446,975
Total operating profit (loss)	37,101	(252,900)	(215,799)
NONOPERATING REVENUES (EXPENSES)			
Interest income	6,305	16,095	22,400
Interest and other charges	(7,649)	(25,951)	(33,600)
Net nonoperating expenses	(1,344)	(9,856)	(11,200)
Profit (loss) before contributions and transfers	35,757	(262,756)	(226,999)
CAPITAL CONTRIBUTIONS AND TRANSFERS			
Gain (loss) on disposal of assets	(1,570)	(4,096)	(5,666)
Transfers in	397,438	572,012	969,450
Transfers out	-		-
Change in net assets	431,625	305,160	736,785
NET ASSETS, beginning of year restated	2,217,662	7,084,377	9,302,039
NET ASSETS, end of year	\$ 2,649,287	\$ 7,389,537	\$ 10,038,824

See Notes to Financial Statements.

CITY OF DECORAH
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2007

	Water Utilities	Sewer Utilities	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from rent		\$ 576,870	\$ 576,870
Cash received from charges for services	\$ 584,587	26,378	610,965
Cash payments to employees for services	(286,857)	(366,091)	(652,948)
Cash payments to suppliers for services	(220,010)	(103,913)	(323,923)
Net cash provided by operating activities	77,720	133,244	210,964
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in	397,438	572,012	969,450
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal payments on notes payable	(10,270)	(6,138)	(16,408)
Principal payments on bonds payable	(9,492)		(9,492)
Principal payments on revolving loan		(47,000)	(47,000)
Loss on disposal of capital assets	(1,570)	(4,096)	(5,666)
Proceeds (payments) of interfund borrowing	(13,204)	5,396	(7,808)
Interest paid on long-term borrowing	(7,709)	(26,092)	(33,801)
Acquisition of capital assets	(354,378)	(640,532)	(994,910)
Net cash used in capital and related financing activities	(396,623)	(718,462)	(1,115,085)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	6,305	16,095	22,400
Net cash provided by investing activities	6,305	16,095	22,400
Net increase in cash and cash equivalents	84,840	2,889	87,729
CASH and CASH EQUIVALENTS, beginning of year	207,720	520,702	728,422
CASH and CASH EQUIVALENTS, end of year	\$ 292,560	\$ 523,591	\$ 816,151
Reconciliation of operating profit (loss) to net cash provided by operating activities			
Operating profit (loss)	\$ 37,101	\$ (252,900)	\$ (215,799)
Adjustments to reconcile operating profit (loss) to net cash provided by operating activities			
Depreciation and depletion	60,621	301,043	361,664
(Increase) decrease in accounts receivable	(5,305)	24,714	19,409
Decrease in prepaid expense	1,738	45	1,783
(Decrease) increase in accounts payable	(14,736)	57,042	42,306
Increase (decrease) in salaries and benefits payable	(751)	1,093	342
Increase (decrease) in accrued compensated absences	(948)	2,207	1,259
Net cash provided by operating activities	\$ 77,720	\$ 133,244	\$ 210,964

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.

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.

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

b. Significant Accounting Policies (Continued)

Government-wide Financial Statements (Continued)

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.

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.

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

b. Significant Accounting Policies (Continued)

Fund Financial Statements (Continued)

Special Revenue Funds (Continued)

Tax Increment Financing

To account for bond proceeds that were used to pay for capital expenditures in building a bike trail and improvements to the Decorah Business Park.

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.

- 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 Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

Basis of Accounting

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

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

b. Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

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.

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 un-matured 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.

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)

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, 2007. 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.

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, 2007 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 14 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable have been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March 2006.

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 City has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2007, 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:

Asset Class	Amount
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:

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

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

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Fund Equity (Continued)

Deferred Revenue

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

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

Compensated Absences

City employees earn vacation leave at the following rates:

Years of Service	Vacation Days Earned Per Year
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, 2007 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.

The City's approximate maximum liability for accrued compensated absences at June 30, 2007 is as follows:

Governmental	\$ 127,533
Enterprise	<u>28,298</u>
Total	<u>\$ 155,831</u>

These liabilities have been computed based on rates of pay as of June 30, 2007.

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.

NOTES TO FINANCIAL STATEMENTS

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

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Fund Equity (Continued)

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.

2. Cash and Pooled Investments

The City's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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, 2007 the City had the following investments:

Type	Fair Value
Federal National Mortgage Association (FNMA)	\$ 107,177
Federal Home Loan Mortgage Corporation	109,602
Federal Home Loan Banks	81,273
United States Treasury Notes	76,516
Government National Mortgage Association (GNMA)	1,380
	\$ 375,948

NOTES TO FINANCIAL STATEMENTS

2. Cash and Pooled Investments (Continued)

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, 2007 is rated Aaa by Moody's Investor service. The investment in GNMA is unrated.

3. Capital Assets

Capital assets activity for the year ended June 30, 2007 was as follows:

	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 776,248	\$ 140,500		\$ 916,748
Infrastructure in progress	None	1,302,724	\$ None	1,302,724
Total capital assets not being depreciated	776,248	1,443,224	None	2,219,472
Capital assets being depreciated				
Buildings and improvements	4,982,890	217,296	10,015	5,190,171
Improvements other than buildings	1,668,460			1,668,460
Equipment	3,307,233	154,280	70,768	3,390,745
Vehicles	1,454,485	230,123	29,285	1,655,323
Infrastructure	22,898,511	1,571,725		24,470,236
Total capital assets being depreciated	34,311,579	2,173,424	110,068	36,374,935
Less accumulated depreciation				
Buildings and improvements	1,823,107	123,364	4,095	1,942,376
Improvements other than buildings	1,139,124	26,233		1,165,357
Equipment	2,104,430	302,887	64,566	2,342,751
Vehicles	1,093,333	89,952	29,285	1,154,000
Infrastructure	5,569,204	556,912		6,126,116
Total accumulated depreciation	11,729,198	1,099,348	97,946	12,730,600
Total capital assets being depreciated, net	22,582,381	1,074,076	12,122	23,644,335
Governmental activities capital assets, net	\$ 23,358,629	\$ 2,517,300	\$ 12,122	\$ 25,863,807

NOTES TO FINANCIAL STATEMENTS

3. Capital Assets (Continued)

	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 79,775			\$ 79,775
Infrastructure in progress	174,639	\$ None	\$ 174,639	None
Total capital assets not being depreciated	254,414	None	174,639	79,775
Capital assets being depreciated				
Buildings and improvements	2,053,257	860,856		2,914,113
Improvements other than buildings	2,872,826			2,872,826
Equipment	4,731,200	29,288	33,528	4,726,960
Vehicles	153,700	20,115	17,726	156,089
Infrastructure, water and sewer network	4,838,188	264,956	13,043	5,090,101
Total capital assets being depreciated	14,649,171	1,175,215	64,297	15,760,089
Less accumulated depreciation				
Buildings and improvements	1,062,703	64,844		1,127,547
Improvements other than buildings	1,185,392	77,013		1,262,405
Equipment	1,606,754	133,360	29,432	1,710,682
Vehicles	140,991	11,992	17,726	135,257
Infrastructure, water and sewer network	1,734,330	74,455	11,473	1,797,312
Total accumulated depreciation	5,730,170	361,664	58,631	6,033,203
Total capital assets being depreciated, net	8,919,001	813,551	5,666	9,726,886
Business-type activities capital assets, net	\$ 9,173,415	\$ 813,551	\$ 180,305	\$ 9,806,661

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

Governmental activities	
Public safety	\$ 147,294
Public works	619,816
Culture and recreation	304,228
General government	28,010
Total depreciation expense	\$ 1,099,348
Business-type activities	
Water	\$ 60,621
Sewer	
Sanitary sewer	\$ 64,191
Sewer utility	23,750
Wastewater	213,102
Total depreciation expense	\$ 361,664

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, 2007, 2006 and 2005 were \$100,677, \$97,979, and \$89,984, 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, 2007, 2006 and 2005. Contribution requirements are established by state statute. The City's contributions to MPFRSI for the years ended June 30, 2007, 2006 and 2005 were \$171,697, \$171,633, and \$135,958, respectively, which met the required minimum contribution for each year.

5. Leases

The City has agreed to lease space to the Winneshiek County Sheriff's office for a one year period starting July 1, 2007. The lease requires an \$115,124 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, 2007 future minimum lease receipts were as follows:

Year ending June 30,	
2008	\$ 127,684
2009	6,560
2010	6,560
	<hr/>
	\$ 140,804

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 financial statements.

NOTES TO FINANCIAL STATEMENTS

5. Leases (Continued)

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, 2007:

Year ending June 30,	
2008	\$ 10,400
2009	1,100
2010	1,100
2011	1,100
2012	1,100
Later years	<u>7,700</u>
Total minimum payments required	<u>\$ 22,500</u>

6. Long-term Debt

Bonded Debt

General Obligation Bonds/Notes

One general obligation corporate purpose note totaling \$2,115,000 is outstanding as of June 30, 2007. The general obligation corporate purpose note bears interest ranging from 4.1% to 4.3% and matures in semi-annual installments with the final payment of \$255,000 in the year ending June 30, 2017.

One general obligation sewer improvement bond which totaled \$825,000 when fully advanced was issued April 19, 2004. As of June 30, 2007, \$688,000 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.

Bank Notes Payable

The City has the following bank notes payable at June 30, 2007:

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.

\$ 1,066,262

A summary of the changes in debt, by type, for the year ended June 30, 2007 is as follows:

	Balance June 30, 2006	Borrowed	Paid	Balance June 30, 2007
General Obligation Corporate Purpose Notes				
2003 Street Bond	\$ 235,000		\$ (235,000)	\$ None
2006 Bond		\$ 2,115,000		2,115,000
General Obligation Sewer Improvement Bond	735,000		(47,000)	688,000
Urban Renewal Tax Increment Financing (TIF) Revenue Bonds	2,102		(2,102)	None
Total bonded debt	<u>\$ 972,102</u>	<u>\$ 2,115,000</u>	<u>\$ (284,102)</u>	<u>\$ 2,803,000</u>
Bank Notes Payable				
2002 Street Project	<u>\$ 1,233,785</u>	<u>\$ None</u>	<u>\$ (167,523)</u>	<u>\$ 1,066,262</u>

NOTES TO FINANCIAL STATEMENTS

6. Long-term Debt (Continued)

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

Year Ending June 30,	Bonded Indebtedness		Bank Notes Payable	
	General Obligation Principal	Interest	Principal	Interest
2008	\$ 219,000	\$ 26,105	\$ 175,245	\$ 46,038
2009	230,000	19,110	183,220	38,063
2010	241,000	17,610	191,557	29,725
2011	248,000	16,080	200,275	21,008
2012	260,000	14,490	209,388	11,894
2013-2017	1,473,000	46,830	106,577	2,401
2018-2020	132,000	5,850		
	<u>\$ 2,803,000</u>	<u>\$ 146,075</u>	<u>\$ 1,066,262</u>	<u>\$ 149,129</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, 2007 the outstanding note payable for the water fund, sewer fund and governmental fund are:

Governmental funds	\$ 958,598
Water fund	67,388
Sewer fund	<u>40,276</u>
	<u>\$ 1,066,262</u>

At June 30, 2007 the debt issued by the City did not exceed its legal debt margin compiled as follows:

Total assessed valuation	<u>\$ 374,755,802</u>
Debt limit - 5% of total assessed valuation	\$ 18,737,790
Debt applicable to debt limit	
Bank notes and bonded debt outstanding	<u>3,869,262</u>
Legal debt margin	<u>\$ 14,868,528</u>

The City currently has Low-to-Moderate (LMI) set aside of \$77,549.

NOTES TO FINANCIAL STATEMENTS

7. Due From and Due to Other Funds

As of June 30, 2007 interfund receivables and payables that resulted from various interfund transactions were as follows:

Receivable Fund	Payable Fund	Amount
Special Revenue Road use	Enterprise Sewer	\$ 5,396
Special Revenue Road use	General Local option sales tax	215,284
General Fund General fund	Special Revenue Tax incremental financing	29,657
		\$ 250,337

The balances for the special revenue funds result from interfund loans to cover checks in excess of cash balances. Repayments will be made from future revenues. The balance for the general fund represents interest paid out of the general fund to cover tax incremental financing debt. Repayments will be made from future revenues.

8. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer To	Transfer From	Amount
Enterprise Fund Sewer utilities	General Fund General fund	\$ 8,704
Enterprise Fund Sewer utilities	Debt Service Fund Debt service fund	2,150
Enterprise Fund Water utilities	Debt service fund	3,596
Enterprise Fund Water improvement - DBP	Special Revenue Fund Tax incremental financing	393,842
Enterprise Fund Sewer improvement - DBP	Tax incremental financing	561,158
		\$ 969,450

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

NOTES TO FINANCIAL STATEMENTS

9. Designated Net Assets

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

General	Visioning committee	\$	8,292
	Skate park		97
	Airport equipment		25,366
	Softball/volleyball improvements		794
	Swimming pool equipment		59,951
	Recreation equipment		42,555
	Library technology		5,542
	Park equipment		57,306
	Police equipment		21,522
	Park land acquisition		30,711
	Sidewalk		117,667
			\$ 369,803
Special Revenue			
State road use	Street equipment	\$	43,682
Nonmajor Governmental			
	Bowstring bridge trail project	\$	156,647
	Local trail development		278,933
			\$ 435,580

10. Fund Equity

The amounts reserved at June 30, 2007 are as follows:

Restricted net assets			
Special revenue fund			
Employee benefit			
Police and fire retirement	\$	358,870	
Other special revenue		255,903	
		614,773	
Nonmajor governmental			
Debt service		72,194	
Other special revenue		546,566	
		618,760	
	\$	1,233,533	

11. College Revenue Bonds

The City has, during recent years, participated in several issues of private college revenue bonds, issued for the purposes of constructing college buildings within the City deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2007 approximately \$7,557,478 of private college revenue bonds was outstanding.

12. Development and Rebate Agreement

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

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

13. Restatement

Beginning net assets were restated due to correction of recording capital assets of \$70,000 in the governmental funds that were not reported in the prior year. Beginning net assets were restated due to correction of recording capital assets of \$79,665 in the current fiscal year in the sewer fund that were expensed in the prior fiscal year.

14. Related Party Transactions

The City had business transactions between the City and City officials, Brett Willie, member of the airport commission; and Paul Wanless, member of City Council, totaling \$17,479 during the year ended June 30, 2007.

- The transaction with Brett Willie consisted of retail purchases with total payments to Sherwin Williams of \$7,475. Mr. Willie is the manager of Sherwin Williams.
- The transaction with Paul Wanless consisted of retail purchases with total payments to the Sports Shop of \$6,068. Mr. Wanless is an owner of the Sports Shop.

15. 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 \$69,042 for the 2007 fiscal year. At June 30, 2007, the maximum potential additional City liability because of this plan was \$77,208.

16. 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, 2007 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.

NOTES TO FINANCIAL STATEMENTS

17. 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 140th Avenue, Decorah, Iowa.

18. 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, 2007. The City is currently evaluating the effect that GASB 45 will have on its financial position and results of operations.

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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, 2007

	Governmental Fund Type Actual	Proprietary Fund Type Actual	Total Actual
RECEIPTS			
Property taxes	\$ 2,724,908		\$ 2,724,908
Tax increment financing collections	122,968		122,968
Other City taxes	1,154,453		1,154,453
Licenses and permits	30,758		30,758
Use of money and property	196,446	\$ 22,400	218,846
Intergovernmental revenues	1,836,299	69,476	1,905,775
Charges for services	397,756	1,240,864	1,638,620
Special assessments	20,770	2,691	23,461
Miscellaneous	786,647	2,695	789,342
Total revenues	7,271,005	1,338,126	8,609,131
DISBURSEMENTS			
Public safety	1,740,259		1,740,259
Public works	1,511,453		1,511,453
Health and social services	58,129		58,129
Culture and recreation	1,524,002		1,524,002
Community and economic development	217,523		217,523
General government	423,002		423,002
Debt service	589,345		589,345
Capital projects	1,894,600		1,894,600
Total governmental activities disbursements	7,958,313	-	7,958,313
Business-type enterprises		2,197,589	2,197,589
Total disbursements	7,958,313	2,197,589	10,155,902
EXCESS RECEIPTS OVER (UNDER) DISBURSEMENTS	(687,308)	(859,463)	(1,546,771)
OTHER FINANCING SOURCES (USES), NET	1,160,451	955,000	2,115,451
EXCESS RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	473,143	95,537	568,680
FUND BALANCE/RETAINED EARNINGS, July 1, 2006	4,016,137	715,217	4,731,354
FUND BALANCE/RETAINED EARNINGS, June 30, 2007	\$ 4,489,280	\$ 810,754	\$ 5,300,034

Budget Amounts		Variance -
Original	Final	Favorable (Unfavorable)
\$ 2,712,508	\$ 2,712,508	\$ 12,400
60,308	108,769	14,199
1,036,258	1,036,258	118,195
24,300	27,700	3,058
87,700	177,607	41,239
1,601,732	2,101,212	(195,437)
1,608,105	1,608,105	30,515
-	-	23,461
102,700	673,873	115,469
<u>7,233,611</u>	<u>8,446,032</u>	<u>163,099</u>
1,601,937	1,804,328	64,069
1,504,221	1,770,076	258,623
17,129	58,129	-
1,435,605	1,599,130	75,128
207,800	223,278	5,755
468,278	483,283	60,281
454,784	612,644	23,299
1,120,970	2,545,953	651,353
<u>6,810,724</u>	<u>9,096,821</u>	<u>1,138,508</u>
<u>1,557,567</u>	<u>2,644,067</u>	<u>446,478</u>
<u>8,368,291</u>	<u>11,740,888</u>	<u>1,584,986</u>
<u>(1,134,680)</u>	<u>(3,294,856)</u>	<u>1,748,085</u>
<u>1,000</u>	<u>2,116,000</u>	<u>(549)</u>
<u>(1,133,680)</u>	<u>(1,178,856)</u>	<u>\$ 1,747,536</u>
<u>4,757,975</u>	<u>4,757,975</u>	
<u>\$ 3,624,295</u>	<u>\$ 3,579,119</u>	

CITY OF DECORAH
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 BUDGET TO GAAP RECONCILIATION
 Year Ended June 30, 2007

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 7,271,005	\$ (125,348)	\$ 7,145,657
Expenditures	7,958,313	(235,367)	7,722,946
Net	(687,308)	110,019	(577,289)
Other financing sources, net	1,160,451	115,371	1,275,822
Beginning fund balance, restated	4,016,137	(163,115)	3,853,022
Ending fund balance	<u>\$ 4,489,280</u>	<u>\$ 62,275</u>	<u>\$ 4,551,555</u>
	Proprietary Fund Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 1,338,126	\$ (84,550)	\$ 1,253,576
Expenditures	2,197,589	(717,014)	1,480,575
Net	(859,463)	632,464	(226,999)
Other financing sources, net	955,000	8,784	963,784
Beginning fund balance	715,217	8,586,822	9,302,039
Ending fund balance	<u>\$ 810,754</u>	<u>\$ 9,228,070</u>	<u>\$ 10,038,824</u>

See Notes to Required Supplementary Information.

CITY OF DECORAH

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2007

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 \$3,327,421 and expenditures by \$3,372,597. 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, 2007, 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, 2006, 2005 and 2004, (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, 2006, appearing on page 36, 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
November 16, 2007

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CITY OF DECORAH
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2007

	Special Revenue Funds					Total
	Self-supported Municipal Improvement District	Hotel/Motel Tax	Police Forfeitures	Park Commission Special Gifts	Library Board Special Gifts	
ASSETS						
Cash	\$ 21,828		\$ 9,409	\$ 29,174	\$ 18,836	\$ 79,247
Investments				241,954	134,638	376,592
Receivables						
Taxes						
Current	96					96
Succeeding year	10,000					10,000
Interest				5,087	1,283	6,370
Total assets	\$ 31,924	\$ -	\$ 9,409	\$ 276,215	\$ 154,757	\$ 472,305
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable				\$ 513		\$ 513
Due to other funds						-
Deferred revenues	\$ 10,000					10,000
Total liabilities	10,000			513		10,513
Fund balances						
Reserved for						
Debt service						
Other special revenue purposes	21,924		\$ 9,409	275,702	\$ 154,757	461,792
Unreserved						
Designated						
Undesignated						
Total fund balances	21,924		9,409	275,702	154,757	461,792
Total liabilities and fund balances	\$ 31,924	\$ -	\$ 9,409	\$ 276,215	\$ 154,757	\$ 472,305

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 1

Debt Service Fund	Capital Projects Funds				Total Nonmajor Governmental Funds
	Campground Expansion	Bowstring Bridge Trail Project	Local Trail Development	Total	
\$ 70,996	\$ -	\$ 156,647	\$ 282,972	\$ 439,619	\$ 589,862
					376,592
1,198					1,294
194,760					204,760
					6,370
<u>\$ 266,954</u>	<u>\$ -</u>	<u>\$ 156,647</u>	<u>\$ 282,972</u>	<u>\$ 439,619</u>	<u>\$ 1,178,878</u>
			\$ 4,039	\$ 4,039	\$ 4,552
\$ -					-
194,760					204,760
194,760			4,039	4,039	209,312
72,194					72,194
					461,792
	\$ -	\$ 156,647	278,933	435,580	435,580
					-
72,194		156,647	278,933	435,580	969,566
<u>\$ 266,954</u>	<u>\$ -</u>	<u>\$ 156,647</u>	<u>\$ 282,972</u>	<u>\$ 439,619</u>	<u>\$ 1,178,878</u>

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CITY OF DECORAH
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 Year Ended June 30, 2007

	Special Revenue Funds			
	Self-supported Municipal Improvement District	Hotel/Motel Tax	Police Forfeitures	Park Commission Special Gifts
REVENUES				
Property taxes				
Tax increment financing collections				
Other City tax	\$ 10,000	\$ 155,503		
Use of money and property				\$ 10,629
Intergovernmental				
Miscellaneous			\$ 227	30,792
Total revenues	10,000	155,503	227	41,421
EXPENDITURES				
Current				
Public safety				
Culture and recreation				38,034
Community and economic development	9,889	155,503		
Debt service				
Principal				
Interest and other charges				
Total expenditures	9,889	155,503	-	38,034
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	111	-	227	3,387
OTHER FINANCING SOURCES (USES)				
Proceeds from issuance of debt				
Sale of capital assets				126,655
Transfers in/(out)				
Total other financing sources (uses)	None	None	None	126,655
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	111	-	227	130,042
FUND BALANCES, beginning of year	21,813	-	9,182	145,660
FUND BALANCES, end of year	\$ 21,924	\$ -	\$ 9,409	\$ 275,702

See Independent Auditor's Report on the Supplementary Information.

Library Board Special Gifts	Capital Projects Funds						Total Nonmajor Governmental Funds
	Total	Debt Service Fund	Campground Expansion	Bowstring Bridge Trail Project	Local Trail Development	Total	
	\$ -	\$ 194,264					\$ 194,264
	165,503	5,663			\$ 55,503	\$ 55,503	226,669
\$ 5,749	16,378		\$ -		10,818	10,818	27,196
	3,727			\$ 91,250	42,118	133,368	133,368
	34,746				12,673	12,673	47,419
9,476	216,627	199,927	-	91,250	121,112	212,362	628,916
							-
1,224	39,258		8,060			8,060	47,318
	165,392			89,603	104,294	193,897	359,289
		151,115					151,115
		43,103					43,103
1,224	204,650	194,218	8,060	89,603	104,294	201,957	600,825
8,252	11,977	5,709	(8,060)	1,647	16,818	10,405	28,091
	126,655						-
		(5,746)		155,000		155,000	126,655
None	126,655	(5,746)	None	155,000	None	155,000	149,254
8,252	138,632	(37)	(8,060)	156,647	16,818	165,405	304,000
146,505	323,160	72,231	8,060		262,115	270,175	665,566
\$ 154,757	\$ 461,792	\$ 72,194	\$ -	\$ 156,647	\$ 278,933	\$ 435,580	\$ 969,566

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

	Modified Accrual Basis				
	2007	2006	2005	2004	2003
Revenues					
Property tax	\$ 2,792,106	\$ 2,798,015	\$ 2,595,871	\$ 2,381,158	\$ 2,365,896
Tax increment financing revenue	121,451	122,968	236,228	230,703	214,658
Other City tax	1,161,593	1,154,452	1,043,493	967,761	916,921
Licenses and permits	31,567	30,759	27,983	23,165	27,828
Use of money and property	200,056	198,361	170,653	111,644	61,477
Intergovernmental	1,837,272	1,745,049	1,708,217	1,306,006	1,274,309
Charges for service	393,374	397,841	405,666	396,387	370,216
Miscellaneous	608,238	940,493	296,929	310,379	326,796
Total	\$ 7,145,657	\$ 7,387,938	\$ 6,485,040	\$ 5,727,203	\$ 5,558,101
Expenditures					
Operating					
Public safety	\$ 1,737,179	\$ 1,706,035	\$ 1,385,420	\$ 1,375,223	\$ 1,365,603
Public works	1,313,961	1,320,506	883,506	1,018,018	1,104,002
Health and social services	-	17,129	10,450	11,000	15,200
Culture and recreation	1,455,613	1,456,849	1,221,974	1,371,093	1,145,998
Community and economic development	1,084,251	1,066,783	809,164	504,369	221,366
General government	423,954	423,004	302,879	328,983	330,474
Debt service	496,807	502,553	653,552	1,035,212	705,979
Capital projects	1,211,181	1,250,087	504,879	1,402,525	1,851,670
Total	\$ 7,722,946	\$ 7,742,946	\$ 5,771,824	\$ 7,046,423	\$ 6,740,292

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 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, 2007, which collectively comprise City of Decorah's basic financial statements and have issued our report thereon dated November 16, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Decorah's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Decorah's internal control over financial reporting.

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

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

1. Financial Report Preparation

Reporting financial data reliably in accordance with generally accepted accounting principles requires management to possess expertise in preparing year-end financial statements, including footnote disclosures. As is common in small entities, management has the knowledge of accounting principles and the ability to review the financial statements and footnote disclosures for errors, they presently lack the training to prepare the year-end financial statements and footnote disclosures on their own.

Obtaining additional generally accepted accounting principles knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in their ability to prepare and take responsibility for reliable generally accepted accounting principles financial statements.

Response

We recognize and understand that this determination is now required as a part of the standards you are compelled to follow. Nevertheless, because of the importance and the highly credible nature of the annual financial report, we are compelled to point out that prior to the imposition of this requirement for this year's report, a concern over the accuracy or timeliness of the financial data prepared for your use in the engagement of the auditing services and preparation of the financial report had never been raised. Moreover, no questions were raised or criticisms leveled with respect to the information prepared in anticipation of this audit and financial report. If specific deficiencies were noted with respect to the quality or timeliness of the information prepared for the engagement of this or any future auditing services, we will certainly take reasonable steps necessary to address such concerns. As with most small to mid-sized municipalities, no one on our staff possesses the training or knowledge of a Certified Public Accountant and as such, we turn to those skilled in this profession to prepare the appropriate financial statements and footnote disclosures meeting all that GAAP requires for such financial reports.

Conclusion

Response acknowledged.

2. Overlapping Duties

The City's offices are not large enough to permit an adequate segregation of duties for effective internal controls. The concentration of closely related duties and responsibilities such as the recording and processing of cash receipts, preparing grant expenditure reports, preparing financial information for posting and analyzing financial information by a small staff makes it impossible to establish an adequate system of automatic internal checks on the accuracy and reliability of the accounting records. While we do recognize that the City is not large enough to permit a segregation of duties for effective internal controls, we believe that it is important that the Board be aware that this condition does exist.

Response

Management is cognizant of this limitation.

Conclusion

Response acknowledged.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies 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 noted certain matters that we reported to management of City of Decorah in a separate letter dated November 16, 2007.

City of Decorah's response to the findings identified in our audit is described above. We did not audit the City of Decorah's response and, accordingly, we express no opinion on it.

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
November 16, 2007

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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, 2007, 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 control.

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 November 16, 2007 contains our report on significant deficiencies in the City's internal control. This letter does not affect our report dated November 16, 2007, 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, 2007 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 for the year ended June 30, 2007, did not exceed the amounts budgeted.
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	\$ 7,475
Paul Wanless, City Council Member, Owner Sports Shop	Supplies	\$ 6,068

4. Business Transactions (Continued)

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 has previously been reviewed with the City Attorney and as the circumstances involving Messrs Willie and Wanless have not changed since a written opinion from the City Attorney dated March 1, 2006, that opinion in which the City Attorney found that no violations of Section 362.5 of the Code of Iowa. This opinion is, of course on file and will be reviewed and updated as future circumstances may warrant.

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.

9. Images of Checks

The City does not receive cancelled checks from the bank. The bank provides images of the City's checks. However, the bank does not provide images of the backs of the checks, only images of the front of checks.

Recommendation

Chapter 554D.114 of the Code of Iowa requires cities to retain cancelled checks or electronic records of the information contained on the front and back of each check. The City should ensure that it receives images of both the front and back of each check from the bank in order to comply with the Code of Iowa.

Response

This matter has been addressed by way of an understanding with the bank that both front and back images will be provided.

Conclusion

Response accepted.

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

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

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

Hacker, Nelson & Co., P.C.

Decorah, Iowa
November 16, 2007