

**CITY OF DECORAH
DECORAH, IOWA**

FINANCIAL REPORT

JUNE 30, 2009

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CITY OF DECORAH

OFFICIALS
June 30, 2009

Name	Title	Term Expires
Donald Arendt	Mayor	01-02-10
Gerald Aulwes	First Ward	01-02-10
Karen Tjossem	Second Ward	01-02-12
Paul Wanless	Third Ward	01-02-10
Steve Matter	Fourth Ward	01-02-12
Randy Schissel	Fifth Ward	01-02-10
Gary Rustad	At-Large	01-02-10
Rachel Vagts	At-Large	01-02-12
<hr/> <p>Officials</p> <hr/>		
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, 2009, 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 the 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, 2009, and the respective changes in financial position, and cash flows, where applicable, 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 January 13, 2010, 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 33 through 35, 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.

Decorah, Iowa
January 13, 2010

Hacker, Nelson & Co., P.C.

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, 2009. Please read this in conjunction with the transmittal letter and the City's financial statements contained within this audit report.

2009 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased \$16,226 or approximately .2% from FY2008 to FY2009. Property taxes for all purposes increased \$289,178.
- Program expenditures excluding debt service and capital projects decreased \$65,795.
- The City's total net assets are \$40,080,628. Of this amount, the governmental activities claim net assets of \$30,700,985.

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 the 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
	2008	2009	2008	2009	2008	2009	
Current and other assets	\$ 6,926	\$ 7,104	\$ 1,194	\$ 1,624	\$ 8,120	\$ 8,728	7.49%
Capital assets	28,606	29,899	9,714	9,479	38,320	39,378	2.76%
Total assets	35,532	37,003	10,908	11,103	46,440	48,106	3.59%
Long-term debt outstanding	2,402	2,189	660	1,475	3,062	3,664	19.66%
Other liabilities	4,141	4,113	161	248	4,302	4,361	1.37%
Total liabilities	6,543	6,302	821	1,723	7,364	8,025	8.98%
Net assets							
Invested in capital assets, net of related debt	25,861	27,336	8,984	7,870	34,845	35,206	1.04%
Restricted	1,358	1,428	-	-	1,358	1,428	5.15%
Unrestricted	1,770	1,937	1,103	1,510	2,873	3,447	19.98%
Total net assets	\$ 28,989	\$ 30,701	\$ 10,087	\$ 9,380	\$ 39,076	\$ 40,081	2.57%

The following analysis shows the change in net assets for the year ending June 30, 2009:

	Changes in Net Assets of Governmental Activities						
	(In Thousands)						
	Governmental Activities		Business-type Activities		Total		Percent Change
	2008	2009	2008	2009	2008	2009	
Revenues:							
Program revenue							
Charges for service	\$ 601	\$ 712	\$ 1,206	\$ 1,496	\$ 1,807	\$ 2,208	22.19%
Operating grants	1,962	2,246	55	90	2,017	2,336	15.82%
Capital grants	1,259	318	360	-	1,619	318	-80.36%
General revenue							
Property taxes	2,766	3,055	-	-	2,766	3,055	10.45%
Tax increment financing collections	413	351	-	-	413	351	-15.01%
Other city taxes	327	329	-	-	327	329	0.61%
Local option sales tax	764	847	-	-	764	847	10.86%
Unrestricted investment earnings	148	84	19	10	167	94	-43.71%
Gain (loss) on the sale of capital assets	3	-	-	-	3	-	-100.00%
Other revenue	45	131	-	-	45	131	191.11%
Total revenues	8,288	8,073	1,640	1,596	9,928	9,669	-2.61%
Program expenses:							
Public safety	1,724	2,100	-	-	1,724	2,100	21.81%
Public works	799	676	-	-	799	676	-15.39%
Health & social services	17	21	-	-	17	21	23.53%
Culture & recreation	1,772	1,775	-	-	1,772	1,775	0.17%
Community & economic development	1,582	1,223	-	-	1,582	1,223	-22.69%
General government	410	443	-	-	410	443	8.05%
Interest on long-term debt	125	123	-	-	125	123	-1.60%
Other expenses	-	-	1,768	1,943	1,768	1,943	9.90%
Total expenses	6,429	6,361	1,768	1,943	8,197	8,304	1.31%
Increase (decrease) in net assets before transfers	1,859	1,712	(128)	(347)	1,731	1,365	-21.14%
Transfers	(98)	-	98	-	-	-	
Increase (decrease) in net assets	1,761	1,712	(30)	(347)	1,731	1,365	-21.14%
Net assets beginning of year, restated	27,228	28,989	10,117	9,727	37,345	38,716	3.67%
Net assets end of year	\$ 28,989	\$ 30,701	\$ 10,087	\$ 9,380	\$ 39,076	\$ 40,081	2.57%

Individual Major Fund Analysis

At the end of FY08-09, the City reflected a combined fund balance for its governmental funds of \$3,511,091. (See Exhibit D for details). This compares to \$3,071,974 for the combined fund balance for governmental funds at the end of FY07-08. This is an increase of \$439,117. The general fund showed an increase of \$734,922 from the prior year to \$1,578,982.

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 2009 with a \$638,663 balance compared to the prior year ending fund balance of \$618,449.

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, 2009 is \$17,035,257.

Proprietary Fund Highlights

The water fund, which accounts for the operation and maintenance of the City's water system, ended fiscal year 2009 with a net asset balance of \$2,447,604. This reflects a decrease of \$123,748 from the end of fiscal year 2008 when the net asset balance was \$2,571,352.

The sewer fund, which accounts for the operation and maintenance of the sewer system and the wastewater treatment facility, ended fiscal year 2009 with a net asset balance of \$6,932,039. This reflects a decrease of \$223,567 from the end of fiscal year 2008 when the net asset balance was \$7,155,606.

Budgetary Highlights

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

- a. The Public Safety Program exceeded the original budget amount by \$1,126,612 due largely to the expenses incurred as a result of the June 2008 flood. A significant portion of the revenues to cover these expenses came from the Federal Emergency Disaster Agency, the Natural Resources and Conservation Service and the State of Iowa.
- b. Culture and Recreation Program exceeded its original budget amount by \$82,900 for which an amendment was approved. The single largest reason for this amendment was attributable to Library expenses of \$25,000 which were covered by grants unanticipated at the time the budget was prepared. Another \$9,000 was attributable to architectural fees associated with a study for a proposed aquatics center. These expenses were shared with the City by three other entities as they reimbursed the City proportionately. Hail damage to a campground building resulted in repairs totaling \$10,500 of which insurance proceeds covered most of the costs. An unanticipated increase in the number of hours for which the pool was open resulted in higher part-time salaries for that operation. An undetermined portion of these expenses should have been recovered through pool fees.
- c. The Capital Projects Program's amendment accounted for \$78,900. Most of this was due to two projects. The first such project involved the completion of the Division Street Project which resulted in \$43,000 of expenditures unanticipated for FY08-09. These costs were covered with revenues from Road Use Tax receipts and a State Transportation Improvement Grant. The Trail is the second project necessitating this amendment. About \$29,000 of expenses over that which was budgeted occurred for this project. Donations and grant proceeds covered these additional expenses.
- d. The Community and Economic Development Program exceeded the amount budgeted by \$41,600 due in large part to \$19,000 in greater Hotel/Motel Tax receipts which were used for the Trout Run Trail Project. Additionally, \$12,000 in unanticipated TIF proceeds was used to partially serve as reimbursement pursuant to a rebateable TIF agreement. Finally, \$8,000 was used to abate a nuisance. The usual steps have been taken to attempt to recover the costs of this abatement.

- e. The Enterprise Program's excess amount over the original budget totaled \$664,532. The expenditures and proceeds from a bond issue not included when the budget was prepared accounts for approximately 63 percent of this total particular amendment. There were several significant water tank maintenance and repair projects undertaken with the proceeds of this bond issue along with system improvements and the purchase of a new jet truck for the maintenance of the sewer collection system.

- f. The Public Works Program was amended to account for a series of unanticipated additional expenditures equaling \$401,340. About 60 percent of this was due to the acquisition of a new grader at a cost of \$164,000 and extra engineering expenses for street and drainage related projects. The grader was paid for with bond proceeds. The decision to issue debt and approve the bond sale was not anticipated at the time the budget was prepared. Other noteworthy unforeseen expenses within this program were the result of additional expenses for salt, sand and equipment repairs made necessary during the course of several sizeable winter storm events.

No budget amendments were required for the General Government, Health and Social Services and Debt Service Programs. 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 \$29,898,690 (net of accumulated depreciation). The capital assets for the business-type activities totaled \$9,478,989 (net of accumulated depreciation) as of June 30, 2009. 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 Park Street, trail segments 5, 6, and 7, and 3 bridges, and improvements at the airport including apron rehabilitation. The major capital outlay with the business-type activities was a jetter truck.

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, 2009, the City's total outstanding G.O. debt of \$4,171,886 was well below the debt margin of \$17,035,257. 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.

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

Although the extreme budgetary and financial difficulties that have befallen many cities throughout the country with 2008-2009 economic malaise has not escaped Decorah as a review of pages 3b and 3c above will reveal, the extent of the downturn has not been as pronounced as that which many comparable cities have and continue to experience. The table on page 3c reveals a decline in total revenues of 2.61 percent. A major reason shown in the table is a decline in capital grants over the prior year. The availability of funding and the nature of projects, particularly street and airport improvement projects, between FY08 and FY09 account for much of this difference. A second notable but not surprising reason for the revenue decline is found in the 43.71 percent reduction in the earnings from unrestricted investments. However, despite all of this, 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. The total net assets increased from those of the past year by 2.57 percent. Although the seven percent decline with the assets under the business-type activities gives rise to the need for another review of rates as well as a critical evaluation of planned capital improvements.

Within the governmental activities, it should be pointed out that the atypical downturn in Local Option Tax (sales tax) revenues experienced in FY08 compared to FY07 has corrected itself during FY09. This particular revenue source showed an increase of 10.86 percent from the prior fiscal year.

Closely related to this is the matter over the need for additional Road Use Tax funds as discussed in Management Discussion and Analysis during the last several years. Reference was made last year to some adjustments that were approved in the prior year's legislative session affecting registration fees primarily. These changes, as previously mentioned, are incremental and although helpful, fall far short of meeting the full array of identified street construction and maintenance needs. Compounding this concern is the fact that the current economic conditions appear to have reduced IDOT's revenues to such a degree that the TIME-21 adjustments referred to above will be reduced by five to ten percent. Additionally, the balance of the FY10 per capita Road Use Tax proceeds are expected to be reduced to about \$88.50 from the planned level of \$89.50. A proportionate but currently unspecified reduction is expected for FY2010-11.

Next, the City's property tax proceeds increased by 10.45 percent from those of the prior year. This was due to an increase of 7.43 percent in the total assessed value (without utilities) of properties within the City and, to a lesser extent, receipts from delinquent tax payments. The tax rate remained virtually unchanged (in fact, dropped 0.03%). Moreover, both residential and commercial property tax rollbacks fell from FY08 to FY09. However, the tax increment financing collections decreased by fifteen percent. As explained in the financial statements and further detailed in the *Notes to the Financial Statements* under the section of *Long-term Debt*, the tax increment financing revenues are used to meet debt obligations for public improvements primarily to the Decorah Business Park along with a rebateable development agreement. The tax increment financing proceeds received are derived by way of a certification made to the County some seven months prior to the start of the fiscal year in which these proceeds are needed.

As is customary, the revenue from property taxes warrants particular attention. This source will again be a major focal point in the preparation of and deliberations over the FY10-11 budget. The recently announced residential rollback to 46.9094% extends the reversal to two years from a previous major trend of the previous seven consecutive years in which the residential rollback experienced a reduction. Commercial property will not receive any rollback for FY10-11 just as with the FY09-10 taxing period. The overall property tax rate has been held constant at about \$12.42 during the past six years. As the FY10-11 budget is being prepared, there are several pressure points foreseen that will give rise to a discussion as to whether a slight increase may be warranted. Once again, there is every reason to anticipate 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.

The current economic malaise, of course, may extend far beyond the State's reductions approved several years ago with certain previously shared revenue sources and pointed out within each of the last several years' Management Discussion and Analysis letters. In our response to these reductions, the audited financial reports of the last several years reflect an ability to react to such serious cutbacks in State shared revenues; address property tax concerns facing this City and undertake essential and selected capital improvements while meeting the needs for operating budgets. We have managed to maintain overall consistently adequate fund balances with few exceptions. Within the general fund, the challenge has been largely to maintain an adequate fund balance while meeting the demand for specific capital projects.

Of continuing concern is the Sewer Fund as reflected in both the Statement of Net Assets and the Cash Flow Statement. In response to this a rate increase was reviewed and ultimately approved late in the fourth quarter of FY08. As such, as of June 30, 2008, the approved City Council rate increases for sewer collection and wastewater treatment services had very little time with which to make a significant impact on the outcome of those particular financial statements. The total revenues for the Sewer Fund increased 42 percent from those of the prior year with the charges for service increasing by 38.6 percent. Nevertheless, the Sewer Fund still experienced a loss as shown in the *Statement of Revenues, Expenses and Changes in Net Assets* in Exhibit F. Although this loss as reduced over that of FY08 by over 27 percent, as mentioned above, consideration of the rates, other revenue sources and capital outlay warrant close review in the near future.

As for the Water Fund, after reflecting an increase in its net assets of \$279,075 for FY08, the FY09 period shows a loss of \$123,748. 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 continue to represent the major challenges to these two funds. The sewer rate increase late into FY08 will continue to be monitored in our effort to ensure that sufficient funds are available to meet operating, debt service and future capital improvement needs while providing this essential service at a cost that is fair to our resident rate payers and is met with City Council approval. It should also be pointed out that no rate increase was passed affecting the Water Fund but that consideration may need to be given to a rate adjustment for this Fund in the near future.

Below is a summary of the tax levy rates per \$1,000 of taxable valuation for FY08-09:

<u>Purpose</u>	<u>Rate</u>
General Levy	\$8.10
Liability and Property Insurance	0.52529
Employee Benefits	2.75943
<u>Debt Service</u>	<u>0.8856</u>
<u>Emergency</u>	<u>0.20904</u>
Total	\$12.42744

Also, a rate of \$0.38258 generated \$10,000 for a Self-Supporting Municipal Improvement District in the Central Business District during FY08-09. Finally, the agricultural property tax rate for such land in the City was at \$2.35703.

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, 2009

	Governmental Activities	Business-type Activities	Total	Decorah Volunteer Fire Department
ASSETS				
Cash and pooled investments	\$ 2,984,650	\$ 1,192,284	\$ 4,176,934	\$ 69,151
Receivables				
Accounts and unbilled usage, net	14,644	307,598	322,242	
Property tax				
Current	36,764		36,764	
Succeeding year	2,936,874		2,936,874	
Special assessments				
Current	35,932	417	36,349	
Deferred	79,488	834	80,322	
Accrued interest	18,703		18,703	
Due from other governments	536,212	97,797	634,009	
Inventories	5,412	15,000	20,412	
Prepaid expenses	33,681	10,170	43,851	
Restricted assets				
Investments	422,017		422,017	
Nondepreciable assets	1,276,454	79,775	1,356,229	
Capital assets, net of accumulated depreciation	28,622,236	9,399,214	38,021,450	
Total assets	\$ 37,003,067	\$ 11,103,089	\$ 48,106,156	\$ 69,151
LIABILITIES AND NET ASSETS				
Accounts payable	\$ 455,106	\$ 71,168	\$ 526,274	
Salaries and benefits payable	94,433	14,710	109,143	
Accrued interest payable	9,431	3,415	12,846	
Deferred revenue				
Succeeding year property tax	2,936,874	-	2,936,874	
Other	79,488	834	80,322	
Long-term liabilities				
Portion due within one year				
Bonds payable	203,200	46,800	250,000	
Loan payable	-	15,000	15,000	
Revolving loan payable		51,000	51,000	
Notes payable	170,190	21,367	191,557	
Compensated absences	27,385	23,876	51,261	
Portion due after one year				
Bonds payable	1,724,256	540,744	2,265,000	
Loan payable	-	345,000	345,000	
Revolving loan payable		538,000	538,000	
Notes payable	464,797	51,532	516,329	
Compensated absences	136,922		136,922	
Total liabilities	6,302,082	1,723,446	8,025,528	\$ None
NET ASSETS				
Invested in capital assets, net of related debt	27,336,247	7,869,546	35,205,793	
Restricted for				
Police and fire retirement	422,017		422,017	
Debt service	72,698		72,698	
Other special revenue purposes	932,795		932,795	
Other purposes				69,151
Unrestricted	1,937,228	1,510,097	3,447,325	
Total net assets	30,700,985	9,379,643	40,080,628	69,151
Total liabilities and net assets	\$ 37,003,067	\$ 11,103,089	\$ 48,106,156	\$ 69,151

See Notes to Financial Statements.

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CITY OF DECORAH
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2009

Functions and Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Primary Government				
Governmental activities				
Public safety	\$ 2,099,705		\$ 730,550	\$ -
Public works	676,369	\$ 47,174	678,029	-
Health and social services	21,129			-
Culture and recreation	1,774,483	601,588	675,777	-
Community and economic development	1,223,052			318,189
General government	443,376	63,214	161,291	-
Capital projects				-
Interest on long-term debt	122,884			
Total governmental activities	<u>6,360,998</u>	<u>711,976</u>	<u>2,245,647</u>	<u>318,189</u>
Business-type activities				
Water utilities	784,921	653,231		
Sewer utilities	1,158,602	842,826	90,352	
Total business-type activities	<u>1,943,523</u>	<u>1,496,057</u>	<u>90,352</u>	<u>-</u>
Total primary government	<u>\$ 8,304,521</u>	<u>\$ 2,208,033</u>	<u>\$ 2,335,999</u>	<u>\$ 318,189</u>
Component Unit				
Decorah Volunteer Fire Department	<u>\$ 41,248</u>			<u>\$ 46,284</u>
General Revenues and Transfers				
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				
Gain on sale of capital asset				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets, beginning of year restated				
Net assets, end of year				

See Notes to Financial Statements.

EXHIBIT B

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Decorah Volunteer Fire Department
\$ (1,369,155)		\$ (1,369,155)	
48,834		48,834	
(21,129)		(21,129)	
(497,118)		(497,118)	
(904,863)		(904,863)	
(218,871)		(218,871)	
-		-	
(122,884)		(122,884)	
<u>(3,085,186)</u>		<u>(3,085,186)</u>	
	\$ (131,690)	(131,690)	
	(225,424)	(225,424)	
-	(357,114)	(357,114)	
<u>(3,085,186)</u>	<u>(357,114)</u>	<u>(3,442,300)</u>	
			\$ 5,036
2,860,087		2,860,087	
195,112		195,112	
351,092		351,092	
329,284		329,284	
846,754		846,754	
83,512	9,799	93,311	517
131,155		131,155	
300		300	
-	-	-	-
<u>4,797,296</u>	<u>9,799</u>	<u>4,807,095</u>	<u>517</u>
1,712,110	(347,315)	1,364,795	5,553
<u>28,988,875</u>	<u>9,726,958</u>	<u>38,715,833</u>	<u>63,598</u>
<u>\$ 30,700,985</u>	<u>\$ 9,379,643</u>	<u>\$ 40,080,628</u>	<u>\$ 69,151</u>

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CITY OF DECORAH
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2009

	General	Special Revenue	
		Employee Benefits	State Road Use Tax
ASSETS			
Cash	\$ 983,114	\$ 224,884	\$ 542,437
Investments	300,000		
Receivables			
Property taxes			
Current	26,260	7,023	
Succeeding year	2,020,597	690,164	
Special assessments			
Current	35,932		
Deferred	79,488		
Interest	10,130	4,019	
Other	12,644		
Due from other funds	29,657		-
Due from other governments	533,834		2,378
Inventories			5,412
Prepaid expenditures	33,681		
Restricted assets			
Investments		422,017	
Total assets	<u>\$ 4,065,337</u>	<u>\$ 1,348,107</u>	<u>\$ 550,227</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 291,748	\$ 5,311	\$ 12,835
Salaries and benefits payable	70,925	13,969	9,539
Due to other funds	-		
Deferred revenues	2,100,085	690,164	
Compensated absences	23,597		3,788
Total liabilities	<u>2,486,355</u>	<u>709,444</u>	<u>26,162</u>
FUND BALANCES			
Reserved for			
Police and fire retirement		422,017	
Debt service			
Other special revenue purposes		216,646	
Unreserved, reported in			
General fund	1,578,982		
Capital projects fund			
Special revenue fund			524,065
Total fund balances	<u>1,578,982</u>	<u>638,663</u>	<u>524,065</u>
Total liabilities and fund balances	<u>\$ 4,065,337</u>	<u>\$ 1,348,107</u>	<u>\$ 550,227</u>

See Notes to Financial Statements.

EXHIBIT C

<u>Capital Projects</u> <u>Local Trail</u> <u>Development</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
\$ 91,263	\$ 453,749 389,203	\$ 2,295,447 689,203
	3,481 226,113	36,764 2,936,874
		35,932 79,488
	4,554	18,703
2,000	-	14,644
		29,657
	-	536,212
		5,412
		33,681
		422,017
<u>\$ 93,263</u>	<u>\$ 1,077,100</u>	<u>\$ 7,134,034</u>
\$ 103,170	\$ 42,042	\$ 455,106 94,433
	29,657	29,657
	226,113	3,016,362
		27,385
<u>103,170</u>	<u>297,812</u>	<u>3,622,943</u>
		422,017
	72,698	72,698
	716,149	932,795
		1,578,982
(9,907)	(9,559)	(19,466)
	-	524,065
<u>(9,907)</u>	<u>779,288</u>	<u>3,511,091</u>
<u>\$ 93,263</u>	<u>\$ 1,077,100</u>	<u>\$ 7,134,034</u>

CITY OF DECORAH
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2009

Reconciliation of governmental fund balances to net assets	
Total governmental fund balances	\$ 3,511,091
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	
\$ 14,605,190	29,898,690
Accrued interest and long-term liabilities, including bonds	
payable, are not due and payable in the current period and	
therefore are not reported as liabilities in the funds	
Bonds payable	(1,927,456)
Notes payable	(634,987)
Compensated absences	(136,922)
Accrued interest	(9,431)
	<hr/>
Net assets of governmental activities	<u>\$ 30,700,985</u>

See Notes to Financial Statements.

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CITY OF DECORAH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2009

	General	Special Revenue	
		Employee Benefits	State Road Use Tax
REVENUES			
Property taxes	\$ 2,168,122	\$ 643,237	
Tax increment financing collections			
Other City tax	900,310	17,077	
Licenses and permits	27,876		
Use of money and property	62,226	17,482	\$ 536
Intergovernmental	864,588		678,029
Charges for service	445,392		
Miscellaneous	946,433	12,102	27,731
Total revenues	5,414,947	689,898	706,296
EXPENDITURES			
Current operating			
Public safety	1,638,003	327,014	
Public works	522,798	104,135	718,180
Health and social services	21,129		
Culture and recreation	1,319,769	187,494	
Community and economic development	44,834		26,132
General government	366,957	51,041	
Capital projects	816,066		227,115
Debt service			
Principal	-		
Interest and other charges	-		5,235
Total expenditures	4,729,556	669,684	976,662
EXCESS REVENUES OVER (UNDER) EXPENDITURES	685,391	20,214	(270,366)
OTHER FINANCING SOURCES (USES)			
Proceeds from capital assets sold	-		300
Proceeds from issuance of debt	-		162,456
Transfers in (out)	49,531		-
Total other financing sources (uses)	49,531	-	162,756
EXCESS REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	734,922	20,214	(107,610)
FUND BALANCES, beginning of year	844,060	618,449	631,675
FUND BALANCES, end of year	\$ 1,578,982	\$ 638,663	\$ 524,065

See Notes to Financial Statements.

EXHIBIT D

<u>Capital Projects Local Trail Development</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	\$ 243,840	\$ 3,055,199
	351,092	351,092
\$ 71,206	187,445	1,176,038
		27,876
1,030	8,959	90,233
584,725	-	2,127,342
		445,392
5,279	7,356	998,901
<u>662,240</u>	<u>798,692</u>	<u>8,272,073</u>
	1,039	1,966,056
		1,345,113
		21,129
	4,345	1,511,608
897,276	254,810	1,223,052
		417,998
		1,043,181
	345,398	345,398
	116,942	122,177
<u>897,276</u>	<u>722,534</u>	<u>7,995,712</u>
<u>(235,036)</u>	<u>76,158</u>	<u>276,361</u>
	-	300
-	-	162,456
28,921	(78,452)	-
<u>28,921</u>	<u>(78,452)</u>	<u>162,756</u>
<u>(206,115)</u>	<u>(2,294)</u>	<u>439,117</u>
<u>196,208</u>	<u>781,582</u>	<u>3,071,974</u>
<u>\$ (9,907)</u>	<u>\$ 779,288</u>	<u>\$ 3,511,091</u>

CITY OF DECORAH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2009

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	\$	439,117
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	\$ (1,240,801)	
Capital outlays	<u>2,532,738</u>	1,291,937
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.		
		345,398
Proceeds of long-term debt issuance are included in the governmental funds but increase long-term liabilities in the statement of activities.		
		(162,456)
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.		
		(707)
Because some revenues were collected several months after the City's prior year end, they were considered revenues on the government-wide financial statements in the prior year and are now considered revenues in the governmental funds for the current year.		
Other		(199,265)
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>(1,914)</u>
Change in net assets of governmental activities	\$	<u>1,712,110</u>

See Notes to Financial Statements.

CITY OF DECORAH
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2009

	Water Utilities	Sewer Utilities	Total
ASSETS			
Cash	\$ 777,173	\$ 415,111	\$ 1,192,284
Receivables			
Accounts and unbilled usage, net	128,289	179,309	307,598
Special assessments			
Current	-	417	417
Deferred	-	834	834
Due from other governments		97,797	97,797
Inventory	15,000		15,000
Prepaid expenses	4,758	5,412	10,170
	<u>925,220</u>	<u>698,880</u>	<u>1,624,100</u>
Noncurrent assets			
Land		79,775	79,775
Net capital assets	2,334,426	7,064,788	9,399,214
	<u>2,334,426</u>	<u>7,144,563</u>	<u>9,478,989</u>
	<u>\$ 3,259,646</u>	<u>\$ 7,843,443</u>	<u>\$ 11,103,089</u>
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable	\$ 36,749	\$ 34,419	\$ 71,168
Salaries and benefits payable	6,569	8,141	14,710
Accrued interest payable	1,233	2,182	3,415
Deferred revenues	-	834	834
Long-term liabilities			
Revolving loan payable		51,000	51,000
Loan payable	15,000		15,000
Bonds payable	27,600	19,200	46,800
Notes payable, bank	13,374	7,993	21,367
Compensated absences	13,483	10,393	23,876
	<u>114,008</u>	<u>134,162</u>	<u>248,170</u>
Noncurrent liabilities			
Long-term liabilities			
Revolving loan payable		538,000	538,000
Loan payable	345,000		345,000
Bonds payable	320,780	219,964	540,744
Notes payable, bank	32,254	19,278	51,532
	<u>698,034</u>	<u>777,242</u>	<u>1,475,276</u>
	<u>812,042</u>	<u>911,404</u>	<u>1,723,446</u>
Net assets			
Invested in capital assets, net of related debt	1,580,418	6,289,128	7,869,546
Unrestricted	867,186	642,911	1,510,097
	<u>2,447,604</u>	<u>6,932,039</u>	<u>9,379,643</u>
	<u>\$ 3,259,646</u>	<u>\$ 7,843,443</u>	<u>\$ 11,103,089</u>

See Notes to Financial Statements.

CITY OF DECORAH
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2009

	Water Utilities	Sewer Utilities	Total
OPERATING REVENUES			
Charges for service			
Sewer rental fees		\$ 816,373	\$ 816,373
Sale of water	\$ 603,518		603,518
Miscellaneous	49,713	24,453	74,166
Intergovernmental			
Freeport share		90,352	90,352
Miscellaneous		2,000	2,000
Total operating revenues	653,231	933,178	1,586,409
OPERATING EXPENSES			
Salaries	208,300	240,560	448,860
Payroll taxes and fringe benefits	82,763	124,573	207,336
Insurance	9,690	17,101	26,791
Training	1,792	3,467	5,259
Vehicle repair and maintenance	3,099	19,236	22,335
Office supplies	7,264	6,700	13,964
Sales tax	31,013	13,967	44,980
Building maintenance and utilities	107,757	134,697	242,454
Emergency expense	8,353	8,265	16,618
Vehicle gas and oil	3,619	9,731	13,350
Engineering expense	103,860	143,101	246,961
Operating supplies and maintenance	28,290	42,724	71,014
Chemicals and testing	22,542		22,542
Hydrants, meters, and other parts	85,226	39,458	124,684
Depreciation	67,166	311,958	379,124
Total operating expenses	770,734	1,115,538	1,886,272
Total operating (loss)	(117,503)	(182,360)	(299,863)
NONOPERATING REVENUES (EXPENSES)			
Interest income	3,129	6,670	9,799
Interest and other charges	(14,187)	(43,064)	(57,251)
Net nonoperating expenses	(11,058)	(36,394)	(47,452)
Profit (loss) before contributions and transfers	(128,561)	(218,754)	(347,315)
CAPITAL CONTRIBUTIONS AND TRANSFERS			
Transfers in	4,813		4,813
Transfers out	-	(4,813)	(4,813)
	4,813	(4,813)	-
Change in net assets	(123,748)	(223,567)	(347,315)
NET ASSETS, beginning of year restated	2,571,352	7,155,606	9,726,958
NET ASSETS, end of year	\$ 2,447,604	\$ 6,932,039	\$ 9,379,643

See Notes to Financial Statements.

CITY OF DECORAH
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2009

	Water Utilities	Sewer Utilities	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from rent		\$ 734,821	\$ 734,821
Cash received from charges for services	\$ 642,723	24,453	667,176
Cash payments to employees for services	(301,589)	(383,557)	(685,146)
Cash payments to suppliers for services	(386,549)	(322,205)	(708,754)
Net cash (used in) provided by operating activities	(45,415)	53,512	8,097
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in	4,813		4,813
Operating transfers out	-	(4,813)	(4,813)
Net cash provided by (used in) noncapital financing activities	4,813	(4,813)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal payments on notes payable	(11,122)	(6,647)	(17,769)
Bond proceeds	348,380	239,164	587,544
Principal payments on revolving loan		(50,000)	(50,000)
Payments on interfund borrowing	(66,333)	(88,133)	(154,466)
Interest paid on long-term borrowing	(13,187)	(42,597)	(55,784)
Acquisition of capital assets	(4,813)	(139,646)	(144,459)
Net cash provided by (used in) capital and related financing activities	252,925	(87,859)	165,066
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	3,129	6,670	9,799
Net cash provided by investing activities	3,129	6,670	9,799
Net increase (decrease) in cash and cash equivalents	215,452	(32,490)	182,962
CASH and CASH EQUIVALENTS, beginning of year	561,721	447,601	1,009,322
CASH and CASH EQUIVALENTS, end of year	\$ 777,173	\$ 415,111	\$ 1,192,284
Reconciliation of operating (loss) to net cash (used in) provided by operating activities			
Operating (loss)	\$ (117,503)	\$ (182,360)	\$ (299,863)
Adjustments to reconcile operating (loss) to net cash (used in) provided by operating activities			
Depreciation and depletion	67,166	311,958	379,124
Increase in accounts receivable	(10,508)	(81,552)	(92,060)
Increase in prepaid expense	(303)	(41)	(344)
Increase in accounts payable	16,569	6,830	23,399
Increase (decrease) in salaries and benefits payable	661	(1,473)	(812)
(Decrease) increase in accrued compensated absences	(1,497)	150	(1,347)
Net cash (used in) provided by operating activities	\$ (45,415)	\$ 53,512	\$ 8,097

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.

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

b. Significant Accounting Policies (Continued)

Government-wide Financial Statements

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

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

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

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

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

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

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

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.

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

b. Significant Accounting Policies (Continued)

Fund Financial Statements (Continued)

Special Revenue Funds

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

State Road Use Tax

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

Employee Benefits

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

Capital Projects Funds

Capital projects funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds.

Local Trail Development

To account for contributions and grants received in order to build a trail loop around the City of Decorah.

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

Measurement Focus

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

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

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

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

b. Significant Accounting Policies (Continued)

Measurement Focus (Continued)

- a. All governmental fund financial statements are accounted for on current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance is considered a measure of "available spendable resources." Governmental fund operating statements present increases, revenues and other financing sources, and decreases, expenditures and other financing uses in fund balances. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

- b. The proprietary funds are accounted for on economic resources measurement focus. This means that all assets and all liabilities, whether current or non-current, associated with their activity are included on their 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.

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.

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

b. Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when they become both measurable and available. Available means collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures are recorded when the liability is incurred, if measurable, except for 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.

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, 2009. 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.

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

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Fund Equity (Continued)

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, 2009 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 receivables 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, 2007 assessed property valuations; is for the tax accrual period July 1, 2008 through June 30, 2009 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March 2008.

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, 2009, 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.

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.

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

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Fund Equity (Continued)

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, grant proceeds that are receivable and not collected within sixty days, 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, 2009 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.

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

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Fund Equity (Continued)

Compensated Absences (Continued)

The City's approximate maximum liability for accrued compensated absences at June 30, 2009 is as follows:

Governmental	\$ 164,307
Enterprise	23,876
 Total	 \$ 188,183

These liabilities have been computed based on rates of pay as of June 30, 2009.

Long-term Liabilities

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

Fund Equity

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

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as required supplementary information.

Revenues

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

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

Management Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS

2. Cash and Pooled Investments

The City's deposits in banks at June 30, 2009 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 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, 2009 the City had the following investments:

<u>Type</u>	<u>Fair Value</u>
Federal National Mortgage Association (FNMA)	\$ 81,990
Federal Home Loan Mortgage Corporation	45,055
Federal Home Loan Banks	49,570
United States Treasury Notes	135,411
Federal Farm Credit Bank	60,647
Goldman Sachs	49,344
	<u>\$ 422,017</u>

Interest Rate Risk

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

Credit Risk

The City's Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Home Loan Banks, Federal Farm Credit Bank, Goldman Sachs, and United States Treasury Notes investment at June 30, 2009 is rated Aaa by Moody's Investor service.

NOTES TO FINANCIAL STATEMENTS

3. Capital Assets

Capital assets activity for the year ended June 30, 2009 was as follows:

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 916,748			\$ 916,748
Infrastructure in progress	1,505,570	\$ 359,706	\$ 1,505,570	359,706
Total capital assets not being depreciated	2,422,318	359,706	1,505,570	1,276,454
Capital assets being depreciated				
Buildings and improvements	5,546,504	15,000		5,561,504
Improvements other than buildings	1,659,267	389,682		2,048,949
Equipment	3,196,204	200,575	40,932	3,355,847
Vehicles	1,588,355	39,239	9,687	1,617,907
Infrastructure	27,609,113	3,034,106		30,643,219
Total capital assets being depreciated	39,599,443	3,678,602	50,619	43,227,426
Less accumulated depreciation				
Buildings and improvements	2,037,011	133,271		2,170,282
Improvements other than buildings	1,183,807	27,955		1,211,762
Equipment	2,354,656	302,596	40,932	2,616,320
Vehicles	1,080,857	100,933	9,687	1,172,103
Infrastructure	6,758,677	676,046		7,434,723
Total accumulated depreciation	13,415,008	1,240,801	50,619	14,605,190
Total capital assets being depreciated, net	26,184,435	2,437,801		28,622,236
Governmental activities capital assets, net	\$ 28,606,753	\$ 2,797,507	\$ 1,505,570	\$ 29,898,690

NOTES TO FINANCIAL STATEMENTS

3. Capital Assets (Continued)

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 79,775			\$ 79,775
Infrastructure in progress	None	\$ None	\$ None	None
Total capital assets not being depreciated	79,775	None	None	79,775
Capital assets being depreciated				
Buildings and improvements	3,011,130			3,011,130
Improvements other than buildings	2,872,826			2,872,826
Equipment	4,733,824	132,879	7,813	4,858,890
Vehicles	196,732		7,000	189,732
Infrastructure, water and sewer network	5,361,500	11,580	6,000	5,367,080
Total capital assets being depreciated	16,176,012	144,459	20,813	16,299,658
Less accumulated depreciation				
Buildings and improvements	1,238,143	75,728		1,313,871
Improvements other than buildings	1,339,246	76,663		1,415,909
Equipment	1,832,740	137,909	7,813	1,962,836
Vehicles	148,075	10,572	7,000	151,647
Infrastructure, water and sewer network	1,983,929	78,252	6,000	2,056,181
Total accumulated depreciation	6,542,133	379,124	20,813	6,900,444
Total capital assets being depreciated, net	9,633,879	(234,665)	None	9,399,214
Business-type activities capital assets, net	\$ 9,713,654	\$ (234,665)	\$ None	\$ 9,478,989

NOTES TO FINANCIAL STATEMENTS

3. Capital Assets (Continued)

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

Governmental activities			
Public safety	\$	136,475	
Public works		767,167	
Culture and recreation		308,107	
General government		29,052	
Total depreciation expense	\$	1,240,801	
Business-type activities			
Water	\$	67,166	
Sewer			
Sanitary sewer	\$	69,594	
Sewer utility		25,153	
Wastewater		217,211	311,958
Total depreciation expense	\$	379,124	

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 4.10% of their annual salary and the City is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$118,238, \$110,398, and \$100,677, respectively, equal to the required contributions for each year.

The City contributes to the Municipal Fire and Retirement System of Iowa (MPFRSI), which 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, 7155 Lake Drive, Suite 201, West Des Moines, Iowa, 50322.

MPFRSI's plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate, based upon actuarially determined normal contribution rate, cannot be less than 17.0% of earnable compensation. Contribution rates are established by state statute. The City's contributions to MPFRSI for the years ended June 30, 2009, 2008 and 2007 were \$126,924, \$162,549, and \$171,697, respectively, which met the required minimum contributions for each year.

NOTES TO FINANCIAL STATEMENTS

5. Leases

The City has agreed to lease space to the Winneshiek County Sheriff's office for a one year period starting July 1, 2009. The lease requires an \$113,273 payment for the year to the City. The City also has other nominal leases with various parties and terms.

At June 30, 2009 future minimum lease receipts were as follows:

Year ending June 30,		
2010	\$	116,613
2011		120
2012		120
2013		120
2014		120
Later years		600
	<u>\$</u>	<u>117,693</u>

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.

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, 2009:

Year ending June 30,		
2010	\$	5,410
2011		1,560
2012		1,210
2013		1,210
2014		1,210
Later years		6,050
Total minimum payments required	<u>\$</u>	<u>16,650</u>

6. Long-term Debt

Bonded Debt

General Obligation Bonds/Notes

One general obligation corporate purpose note originally totaling \$2,115,000 is outstanding as of June 30, 2009. As of June 30, 2009, \$1,765,000 is outstanding. 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, 2009, \$589,000 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.

NOTES TO FINANCIAL STATEMENTS

6. Long-term Debt (Continued)

Bonded Debt (Continued)

General Obligation Bonds/Notes (Continued)

One general obligation corporate purpose note originally totaling \$750,000 is outstanding as of June 30, 2009. As of June 30, 2009, \$750,000 is outstanding. The general obligation corporate purpose note bears interest ranging from 3.75% to 4.15% and matures in semi-annual installments with the final payment of \$90,000 in the year ending June 30, 2019.

Notes Payable

The City has the following notes payable at June 30, 2009:

Hawkeye Tri-County Electric Cooperative

Rural Economic Development Loan

0.0% note payable due \$3,750 monthly beginning June 1, 2010 through February 2018.

\$ 360,000

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.

707,886

\$ 1,067,886

A summary of the changes in debt, by type, for the year ended June 30, 2009 is as follows:

	Balance June 30, 2008	Borrowed	Paid	Balance June 30, 2009	Amounts Due Within One Year
General Obligation					
Corporate Purpose Notes					
2006 Bond	\$ 1,945,000		\$ (180,000)	\$ 1,765,000	\$ 190,000
2008 Bond		\$ 750,000		750,000	60,000
General Obligation Sewer Improvement Bond					
	639,000		(50,000)	589,000	51,000
Total bonded debt	\$ 2,584,000	\$ 750,000	\$ (230,000)	\$ 3,104,000	\$ 301,000
Notes Payable					
Rural Economic Development Loan					
	\$ 360,000			\$ 360,000	\$ 15,000
2002 Street Project					
	891,053	\$ None	\$ (183,167)	707,886	191,557
	\$ 1,251,053	\$ None	\$ (183,167)	\$ 1,067,886	\$ 206,557

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			
	General Obligation		Bank Notes Payable	
	Principal	Interest	Principal	Interest
2010	\$ 301,000	\$ 41,178	\$ 206,557	\$ 29,725
2011	313,000	43,398	245,274	21,008
2012	325,000	39,370	254,388	11,894
2013	341,000	35,282	151,667	2,401
2014	358,000	30,872	45,000	
2015-2019	1,466,000	80,947	165,000	
	<u>\$ 3,104,000</u>	<u>\$ 271,047</u>	<u>\$ 1,067,886</u>	<u>\$ 65,028</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 2008 general obligation bond payable is partially payable by the water and sewer funds and the remaining balance has been recorded in the road use fund. This debt is backed by the full faith and credit of the City. At June 30, 2009, the outstanding bond payable for the water fund, sewer fund and road use fund are:

Governmental funds	\$ 162,456
Water fund	348,380
Sewer fund	<u>239,164</u>
	<u>\$ 750,000</u>

The bank note payable for 2002 Street Project 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, 2009 the outstanding note payable for the water fund, sewer fund and governmental fund are:

Governmental funds	\$ 634,987
Water fund	45,628
Sewer fund	<u>27,271</u>
	<u>\$ 707,886</u>

NOTES TO FINANCIAL STATEMENTS

6. Long-term Debt (Continued)

At June 30, 2009 the debt issued by the City did not exceed its legal debt margin compiled as follows:

Total assessed valuation	\$ 424,142,866
Debt limit – 5% of total assessed valuation	\$ 21,207,143
Debt applicable to debt limit	
Bank notes and bonded debt outstanding	4,171,886
Legal debt margin	\$ 17,035,257

The City currently has Low-to-Moderate (LMI) set aside of \$136,176.

7. Due From and Due to Other Funds

As of June 30, 2009 interfund receivables and payables that resulted from various interfund transactions were as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Special Revenue	
General fund	Tax incremental financing	\$ 29,657

Repayments will be made from future revenues.

8. Designated Net Assets

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

General	Visioning committee	\$ 1,327
	Skate park	102
	Airport equipment	8,737
	Swimming pool equipment	63,192
	Recreation equipment	44,734
	Library technology	7,280
	Park equipment	48,282
	Police equipment	22,685
	Park land acquisition	25,783
	Sidewalk	74,352
	College Drive Bridge Trail	28,626
		\$ 325,100
Special Revenue		
State road use	Street equipment	\$ 35,647

NOTES TO FINANCIAL STATEMENTS

9. Fund Equity

The amounts reserved at June 30, 2009 are as follows:

Restricted net assets	
Special revenue fund	
Employee benefit	
Police and fire retirement	\$ 422,017
Other special revenue	216,646
	<hr/>
	638,663
	<hr/>
Nonmajor governmental	
Debt service	72,698
Other special revenue	716,149
	<hr/>
	788,847
	<hr/>
	\$ 1,427,510
	<hr/>

10. Conduit Debt

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, 2009 approximately \$6,625,046 of private college revenue bonds was outstanding.

In 2004, the City participated in Capital Improvement Revenue Bonds, Series 2004 (Spectrum Industries Project) issued for the purpose of their CDBG project. The bonds are secured by the property financed and are payable solely from revenues generated by Spectrum Industries. The City or any political subdivision thereof, is not obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2009 the balance outstanding was \$628,117.

11. 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.

NOTES TO FINANCIAL STATEMENTS

12. Restatement

Beginning net assets were restated in the proprietary funds, due to correction of recording a note payable of \$360,000 in the water utility fund that was reported as capital grant income in the prior year.

13. Related Party Transactions

The City had business transactions between the City and City officials, Randy Schissel, member of City Council; Brett Willie, member of the airport commission; and Paul Wanless, member of City Council, totaling \$16,285 during the year ended June 30, 2009.

- The transaction with Brett Willie consisted of retail purchases with total payments to Sherwin Williams of \$8,668. 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 \$2,850. Mr. Wanless is an owner of the Sports Shop.
- The transaction with Randy Schissel consisted of retail purchases with total payments to Storey Kenworthy of \$4,767. Mr. Schissel is an account executive at Storey Kenworthy.

14. Risk Management

The City of Decorah is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The City is partially self-insured for health care insurance of employees. The City purchases insurance with a \$2,000 deductible and self-insures to provide employees with deductibles of \$250 per person and \$500 per family per year. The City's maximum annual cost per employee of this coverage is \$2,250 per employee. The City has incurred costs totaling \$101,350 for the 2009 fiscal year. At June 30, 2009, the maximum potential additional City liability because of this plan was \$47,150.

15. Contingent Liabilities

The City participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of June 30, 2009 significant amounts of grant expenditures have not been audited by granting authorities but the City believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the City.

16. Commitments

The City has entered into contracts totaling \$414,053 to construct a bridge for the Trout Run Trail and for street and trail improvements. Of these commitments, \$138,088 will be funded by state and federal grants.

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, 2009. 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, 2009

	Governmental Fund Type Actual	Proprietary Fund Type Actual	Total Actual
RECEIPTS			
Property taxes	\$ 2,899,406		\$ 2,899,406
Tax increment financing collections	350,342		350,342
Other City taxes	1,163,545		1,163,545
Licenses and permits	27,451		27,451
Use of money and property	89,917	\$ 9,799	99,716
Intergovernmental revenues	1,864,100	49,665	1,913,765
Charges for services	444,457	1,438,815	1,883,272
Special assessments	83,855	2,000	85,855
Miscellaneous	922,609	4,200	926,809
Total receipts	7,845,682	1,504,479	9,350,161
DISBURSEMENTS			
Public safety	2,125,159		2,125,159
Public works	1,624,645		1,624,645
Health and social services	21,129		21,129
Culture and recreation	1,470,421		1,470,421
Community and economic development	548,858		548,858
General government	404,611		404,611
Debt service	199,813		199,813
Capital projects	1,657,137		1,657,137
Total governmental activities disbursements	8,051,773	-	8,051,773
Business-type enterprises		1,754,596	1,754,596
Total disbursements	8,051,773	1,754,596	9,806,369
EXCESS RECEIPTS OVER (UNDER) DISBURSEMENTS	(206,091)	(250,117)	(456,208)
Proceeds from long-term debt	163,359	587,544	750,903
Proceeds from fixed assets sold	300		300
Operating transfers in	89,531		89,531
Operating transfers out	(89,531)		(89,531)
OTHER FINANCING SOURCES (USES), NET	163,659	587,544	751,203
EXCESS RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	(42,432)	337,427	294,995
FUND BALANCE/RETAINED EARNINGS, July 1, 2008	3,449,098	854,858	4,303,956
FUND BALANCE/RETAINED EARNINGS, June 30, 2009	\$ 3,406,666	\$ 1,192,285	\$ 4,598,951

See Notes to Required Supplementary Information.

Budget Amounts		Variance -
Original	Final	Favorable (Unfavorable)
\$ 2,914,806	\$ 2,914,806	\$ (15,400)
340,055	340,055	10,287
1,047,469	1,142,469	21,076
24,775	24,775	2,676
143,621	143,621	(43,905)
1,778,148	1,839,166	74,599
1,732,645	1,835,645	47,627
-	85,855	-
642,924	1,754,882	(828,073)
8,624,443	10,081,274	(731,113)
1,654,523	2,781,135	655,976
1,263,409	1,664,749	40,104
21,129	21,129	-
1,523,623	1,606,523	136,102
516,425	558,025	9,167
477,119	477,119	72,508
199,965	199,965	152
1,877,315	1,956,215	299,078
7,533,508	9,264,860	1,213,087
1,380,683	2,045,215	290,619
8,914,191	11,310,075	1,503,706
(289,748)	(1,228,801)	772,593
	750,903	-
		300
246,000	246,000	(156,469)
(245,000)	(245,000)	155,469
1,000	751,903	(700)
(288,748)	(476,898)	\$ 771,893
3,449,095	3,449,095	
\$ 3,160,347	\$ 2,972,197	

CITY OF DECORAH
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 BUDGET TO GAAP RECONCILIATION
 Year Ended June 30, 2009

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 7,845,682	\$ 426,391	\$ 8,272,073
Expenditures	8,051,773	(56,061)	7,995,712
Net	(206,091)	482,452	276,361
Other financing sources, net	163,659	(903)	162,756
Beginning fund balance, restated	3,449,098	(377,124)	3,071,974
Ending fund balance	<u>\$ 3,406,666</u>	<u>\$ 104,425</u>	<u>\$ 3,511,091</u>
	Proprietary Fund Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 1,504,479	\$ 91,729	\$ 1,596,208
Expenditures	1,754,596	188,927	1,943,523
Net	(250,117)	(97,198)	(347,315)
Other financing sources, net	587,544	(587,544)	-
Beginning fund balance	854,858	8,872,100	9,726,958
Ending fund balance	<u>\$ 1,192,285</u>	<u>\$ 8,187,358</u>	<u>\$ 9,379,643</u>

See Notes to Required Supplementary Information.

CITY OF DECORAH

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2009

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 funds 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 expenditures by \$2,395,884. 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 report on our audit of the basic financial statements of City of Decorah as of and for the year ended June 30, 2009 appears on page 2. 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 funds financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, such information is fairly stated in all material respects in relation to the basic financial statements 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, 2003 through 2008, (none of which is presented herein), and expressed unqualified opinions on those financial statements. In our opinion, the information set forth in the supplementary information for each of the six years in the period ended June 30, 2008, appearing on page 39, is fairly stated, in all material respects in relation to the financial statements from which it has been derived.

Hacker, Nelson & Co., P.C.

**Decorah, Iowa
January 13, 2010**

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CITY OF DECORAH
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2009

	Special Revenue Funds			
	Self-supported Municipal Improvement District	Hotel/Motel Tax	Emergency	Tax Increment Financing
ASSETS				
Cash	\$ 23,412			\$ 276,670
Investments				
Receivables				
Taxes				
Current	184		\$ 491	906
Succeeding year	10,000			
Interest				
Total assets	\$ 33,596	\$ -	\$ 491	\$ 277,576
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 5,000			\$ 25,628
Due to other funds				29,657
Deferred revenues	10,000			
Total liabilities	15,000			55,285
Fund balances				
Reserved for				
Debt service				
Other special revenue purposes	18,596		\$ 491	222,291
Unreserved				
Designated				
Undesignated				
Total fund balances	18,596		491	222,291
Total liabilities and fund balances	\$ 33,596	\$ -	\$ 491	\$ 277,576

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 1

Special Revenue Funds				Debt Service Fund	Capital Projects Funds	Total Nonmajor Governmental Funds
Police Forfeitures	Park Commission Special Gifts	Library Board Special Gifts	Total		Bowstring Bridge Trail Project	
\$ 7,562	\$ 42,250 244,565	\$ 33,057 144,638	\$ 382,951 389,203	\$ 70,798	\$ -	\$ 453,749 389,203
			1,581	1,900		3,481
			10,000	216,113		226,113
	2,728	1,826	4,554			4,554
<u>\$ 7,562</u>	<u>\$ 289,543</u>	<u>\$ 179,521</u>	<u>\$ 788,289</u>	<u>\$ 288,811</u>	<u>\$ -</u>	<u>\$ 1,077,100</u>
	\$ 1,855		\$ 32,483 29,657 10,000	\$ - 216,113	\$ 9,559	\$ 42,042 29,657 226,113
	1,855		72,140	216,113	9,559	297,812
\$ 7,562	287,688	\$ 179,521	716,149	72,698		72,698 716,149
					(9,559)	(9,559)
7,562	287,688	179,521	716,149	72,698	(9,559)	779,288
<u>\$ 7,562</u>	<u>\$ 289,543</u>	<u>\$ 179,521</u>	<u>\$ 788,289</u>	<u>\$ 288,811</u>	<u>\$ -</u>	<u>\$ 1,077,100</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, 2009

	Special Revenue Funds			
	Self-supported Municipal Improvement District	Hotel/Motel Tax	Emergency	Tax Increment Financing
REVENUES				
Property taxes			\$ 48,728	
Tax increment financing collections				\$ 351,092
Other City tax	\$ 10,000	\$ 171,206	1,294	
Use of money and property				
Intergovernmental				
Miscellaneous				
Total revenues	10,000	171,206	50,022	351,092
EXPENDITURES				
Current				
Public safety				
Culture and recreation				
Community and economic development	7,683	171,206		52,860
Debt service				
Principal				180,000
Interest and other charges				82,525
Total expenditures	7,683	171,206	-	315,385
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,317	-	50,022	35,707
OTHER FINANCING SOURCES (USES)				
Proceeds from issuance of debt				
Sale of capital assets				
Transfers in/(out)			(49,531)	
Total other financing sources (uses)	None	None	(49,531)	None
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	2,317	-	491	35,707
FUND BALANCES, beginning of year	16,279	-	-	186,584
FUND BALANCES, end of year	\$ 18,596	\$ -	\$ 491	\$ 222,291

See Independent Auditor's Report on the Supplementary Information.

Special Revenue Funds				Debt Service Fund	Capital Projects Funds	Total Nonmajor Governmental Funds
Police Forfeitures	Park Commission Special Gifts	Library Board Special Gifts	Total		Bowstring Bridge Trail Project	
			\$ 48,728	\$ 195,112		\$ 243,840
			351,092			351,092
			182,500	4,945		187,445
	\$ 3,684	\$ 5,275	8,959			8,959
\$ 2,227	2,894	2,235	7,356		\$ -	-
2,227	6,578	7,510	598,635	200,057	-	798,692
1,039			1,039			1,039
	3,725	620	4,345			4,345
			231,749		23,061	254,810
			180,000	165,398		345,398
			82,525	34,417		116,942
1,039	3,725	620	499,658	199,815	23,061	722,534
1,188	2,853	6,890	98,977	242	(23,061)	76,158
						-
			(49,531)		(28,921)	(78,452)
None	-	None	(49,531)	-	(28,921)	(78,452)
1,188	2,853	6,890	49,446	242	(51,982)	(2,294)
6,374	284,835	172,631	666,703	72,456	42,423	781,582
\$ 7,562	\$ 287,688	\$ 179,521	\$ 716,149	\$ 72,698	\$ (9,559)	\$ 779,288

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

	Modified Accrual Basis						
	2009	2008	2007	2006	2005	2004	2003
Revenues							
Property tax	\$ 3,055,199	\$ 2,766,021	\$ 2,792,106	\$ 2,658,525	\$ 2,595,871	\$ 2,381,158	\$ 2,365,896
Tax increment financing revenue	351,092	412,913	121,451	211,559	236,228	230,703	214,658
Other City tax	1,176,038	1,091,758	1,161,593	958,282	1,043,493	967,761	916,921
Licenses and permits	27,876	29,527	31,567	21,690	27,983	23,165	27,828
Use of money and property	90,233	154,927	200,056	157,361	170,653	111,644	61,477
Intergovernmental	2,127,342	1,918,414	1,837,272	1,692,123	1,708,217	1,306,006	1,274,309
Charges for service	445,392	410,662	393,374	415,992	405,666	396,387	370,216
Miscellaneous	998,901	602,745	608,238	196,906	296,929	310,379	326,796
Total	\$ 8,272,073	\$ 7,386,967	\$ 7,145,657	\$ 6,312,438	\$ 6,485,040	\$ 5,727,203	\$ 5,558,101
Expenditures							
Operating							
Public safety	\$ 1,966,056	\$ 1,627,775	\$ 1,706,035	\$ 1,501,249	\$ 1,385,420	\$ 1,375,223	\$ 1,365,603
Public works	1,345,113	1,176,561	1,320,506	788,113	883,506	1,018,018	1,104,002
Health and social services	21,129	17,129	17,129	27,579	10,450	11,000	15,200
Culture and recreation	1,511,608	1,477,976	1,456,849	1,281,232	1,221,974	1,371,093	1,145,998
Community and economic development	1,223,052	1,582,343	1,066,783	977,114	809,164	504,369	221,366
General government	417,998	400,494	423,004	363,985	302,879	328,983	330,474
Debt service	467,575	454,742	502,553	828,262	653,552	1,035,212	705,979
Capital projects	1,043,181	2,034,181	1,250,087	1,522,421	504,879	1,402,525	1,851,670
Total	\$ 7,995,712	\$ 8,771,201	\$ 7,742,946	\$ 7,289,955	\$ 5,771,824	\$ 7,046,423	\$ 6,740,292

See Independent Auditor's Report on the Supplementary Information.

CITY OF DECORAH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Significant deficiencies in internal control over the major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 97.036 - Disaster Grants – Public Assistance
 - CFDA Number 20.106 - Airport Improvement Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) City of Decorah did not qualify as a low-risk auditee.

CITY OF DECORAH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009

Part II: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES:

09-1 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 this determination is now required as part of the standards you are required 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, 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 accepted.

09-2 Segregation of Duties

One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Bank deposits are prepared by the same person who opens the bank statement. Disbursements and checks are prepared by one person.

Recommendation

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

Response and Corrective Action Planned

Management is cognizant of this limitation.

Conclusion

Response accepted.

CITY OF DECORAH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009

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

INSTANCES OF NONCOMPLIANCE

No matters were noted.

Part III: Findings and Questioned Costs for Federal Awards

INSTANCES OF NONCOMPLIANCE

No matters were noted.

SIGNIFICANT DEFICIENCIES:

CFDA Number 97.036, Disaster Grants – Public Assistance
Federal Award Year: 2009
U.S. Department of Homeland Security
Passed through Iowa Department of Public Defense

See 09-1 and 09-2 above

CFDA Number 20.106, Airport Improvement Program
Federal Award Year: 2009
U.S. Department of Transportation
Passed through Iowa Department of Transportation

See 09-1 and 09-2 above

Part IV: Other Findings Related to Required Statutory Reporting:

See management letter dated January 13, 2010

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

Comment Reference	Comment Title	Status	Explanation
08-1	Financial report preparation	Not corrected	Management does not have the necessary training to prepare year-end financial statements.
08-2	Segregation of duties	Not corrected	The City has limited staff and segregates duties to the best of their abilities.

CITY OF DECORAH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2009

Grant Title	CFDA Number	Grant Number	Amount of Grant	Program Expenditures
Corporation for National and Community Service				
Direct				
Retired and Senior Volunteer Program	94.002	08SRNIA011	\$ 30,284	\$ 22,209
		05SRNIA011	31,325	7,278
				<u>29,487</u>
U.S. Department of Transportation				
Direct				
Airport Improvement Program	20.106	3-19-0025-04	214,700	190,032
		3-19-0025-05	208,065	202,062
Indirect				
Passed-through Iowa Department of Transportation Airport Improvement Program	20.106	91090DEH100	16,556	16,556
				<u>408,650</u>
Indirect				
U.S. Highway Administration				
Passed-through Iowa Department of Transportation				
Highway Planning and Construction				
Highway Bridge Replacement and Rehabilitation Program	20.205	JCH-1867-001	16,278	16,278
Recreational Trails Program				
	20.219	STP-E-1867(605)--8V-96	74,100	74,100
		NRT-NT07(5)--9G-96	90,250	90,250
				<u>164,350</u>
Total Department of Transportation				<u>589,278</u>
U.S. Department of Homeland Security				
Indirect				
Passed-through Iowa Department of Public Defense				
Disaster Grants-Public Assistance (Presidentially Declared Disasters)	97.036	1763-DR-IA	288,902	288,902
U.S. Department of Agriculture				
Indirect				
Passed-through National Resource Conservation Service				
Emergency Watershed Protection Program	10.923	69-6114-8-20	63,636	63,636
U.S. Department of Justice				
Indirect				
Passed-through Governor's Office of Drug Control Policy				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	08JAG/C6-A18	11,000	10,925
Total Expenditures of Federal Awards				<u>\$ 982,228</u>

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

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

Note 2. Loans Outstanding

The City of Decorah has outstanding notes payable to the Iowa Finance Authority totaling \$589,000 as of June 30, 2009. The proceeds from this note was advanced under the Capitalization Grants for Clean Water State Revolving Funds.

See Independent Auditor's Report on the Supplementary Information.

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

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

We have audited the 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, 2009, which collectively comprise City of Decorah's basic financial statements and have issued our report thereon dated January 13, 2010. 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 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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 09-1 and 09-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity'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 that 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 January 13, 2010.

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

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
January 13, 2010

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

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

Compliance

We have audited the compliance of City of Decorah with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. City of Decorah's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Decorah's management. Our responsibility is to express an opinion on City of Decorah's compliance based on our audit.

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

In our opinion, City of Decorah complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of City of Decorah is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Decorah's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 09-1 and 09-2 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Decorah as of and for the year ended June 30, 2009, and have issued our report thereon dated January 13, 2010. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Hacker, Nelson & Co., P.C.

Decorah, Iowa
January 13, 2010

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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, 2009, 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 through 8 below are compliance comments required by the Iowa Auditor of State. A separate report dated January 13, 2010, contains our report on significant deficiencies in the City's internal control. This letter does not affect our report dated January 13, 2010 on the basic financial statements of City of Decorah. Comment 4 is an unresolved comment from the prior year. We did not audit the City's responses and, accordingly, we express no opinion on them.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 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, 2009, 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	\$ 8,668
Paul Wanless, City Council Member, Owner Sports Shop	Supplies	\$ 2,850
Randy Schissel, City Council Account Executive, Storey Kenworthy	Retail purchases	\$ 4,767

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

Randy Schissel, City Council, is an Account Executive with Storey Kenworthy, however, he is not the account representative for all City Departments. We monitor purchases with vendors, but try to buy locally when possible.

Conclusion

Response accepted.

5. **Bond Coverage**

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

6. **Council Minutes**

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

7. **Deposits and Investments**

No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

8. **Revenue Notes**

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

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

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

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

Hacker, Nelson & Co., P.C.

Decorah, Iowa
January 13, 2010