

**CITY OF DECORAH
DECORAH, IOWA**

FINANCIAL REPORT

JUNE 30, 2010

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CITY OF DECORAH

OFFICIALS
June 30, 2010

Name	Title	Term Expires
Donald Arendt	Mayor	01-02-14
John Franzen	First Ward	01-02-14
Karen Tjossem	Second Ward	01-02-12
Paul Wanless	Third Ward	01-02-14
Steve Matter	Fourth Ward	01-02-12
Randy Schissel	Fifth Ward	01-02-14
Gary Rustad	At-Large	01-02-14
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, 2010, 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, 2010, 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 November 8, 2010, on our consideration of 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 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.

U.S. generally accepted accounting principles require that the management's discussion and analysis, budgetary comparison information, and funding progress for the retiree health plan on page 4 and pages 35 through 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
November 8, 2010

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, 2010. Please read this in conjunction with the transmittal letter and the City's financial statements contained within this audit report.

2010 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased \$424,904 or approximately 5.3% from FY2009 to FY2010. Property taxes for all purposes decreased \$71,873.
- Program expenditures excluding debt service and capital projects increased \$581,936.
- The City's total net assets are \$40,612,824. Of this amount, the governmental activities claim net assets of \$31,400,331.

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 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
	2009	2010	2009	2010	2009	2010	
Current and other assets	\$ 7,104	\$ 7,826	\$ 1,624	\$ 1,130	\$ 8,728	\$ 8,956	2.61%
Capital assets	29,899	30,080	9,479	9,673	39,378	39,753	0.95%
Total assets	37,003	37,906	11,103	10,803	48,106	48,709	1.25%
Long-term debt outstanding	2,189	1,935	1,475	1,320	3,664	3,255	-11.16%
Other liabilities	4,113	4,571	248	271	4,361	4,842	11.03%
Total liabilities	6,302	6,506	1,723	1,591	8,025	8,097	0.90%
Net assets							
Invested in capital assets, net of related debt	27,336	27,893	7,870	8,181	35,206	36,074	2.47%
Restricted	1,428	1,363	-	-	1,428	1,363	-4.55%
Unrestricted	1,937	2,144	1,510	1,031	3,447	3,175	-7.89%
Total net assets	\$ 30,701	\$ 31,400	\$ 9,380	\$ 9,212	\$ 40,081	\$ 40,612	1.32%

The following analysis shows the change in net assets for the year ending June 30, 2010:

	Changes in Net Assets of Governmental Activities						
	(In Thousands)						
	Governmental Activities		Business-type Activities		Total		Percent Change
	2009	2010	2009	2010	2009	2010	
Revenues:							
Program revenue							
Charges for service	\$ 712	\$ 653	\$ 1,496	\$ 1,387	\$ 2,208	\$ 2,040	-7.61%
Operating grants	2,246	2,174	90	39	2,336	2,213	-5.27%
Capital grants	318	15	-	-	318	15	-95.28%
General revenue							
Property taxes	3,055	2,983	-	-	3,055	2,983	-2.36%
Tax increment financing collections	351	586	-	-	351	586	66.95%
Other city taxes	329	309	-	-	329	309	-6.08%
Local option sales tax	847	819	-	-	847	819	-3.31%
Unrestricted investment earnings	84	62	10	6	94	68	-27.66%
Gain (loss) on the sale of capital assets	-	(1)	-	-	-	(1)	
Other revenue	131	48	-	-	131	48	-63.36%
Total revenues	8,073	7,648	1,596	1,432	9,669	9,080	-6.09%
Program expenses:							
Public safety	2,100	2,095	-	-	2,100	2,095	-0.24%
Public works	676	1,034	-	-	676	1,034	52.96%
Health & social services	21	21	-	-	21	21	0.00%
Culture & recreation	1,775	1,778	-	-	1,775	1,778	0.17%
Community & economic development	1,223	1,427	-	-	1,223	1,427	16.68%
General government	443	465	-	-	443	465	4.97%
Interest on long-term debt	123	106	-	-	123	106	-13.82%
Other expenses	-	-	1,943	1,623	1,943	1,623	-16.47%
Total expenses	6,361	6,926	1,943	1,623	8,304	8,549	2.95%
Increase (decrease) in net assets before transfers	1,712	722	(347)	(191)	1,365	531	-61.10%
Transfers	-	(23)	-	23	-	-	
Increase (decrease) in net assets	1,712	699	(347)	(168)	1,365	531	-61.10%
Net assets beginning of year	28,989	30,701	9,727	9,380	38,716	40,081	3.53%
Net assets end of year	\$ 30,701	\$ 31,400	\$ 9,380	\$ 9,212	\$ 40,081	\$ 40,612	1.32%

Individual Major Fund Analysis

At the end of FY09-10, the City reflected a combined fund balance for its governmental funds of \$3,669,741. (See Exhibit D for details). This compares to \$3,511,095 for the combined fund balance for governmental funds at the end of FY08-09. This is an increase of \$158,646. The general fund showed an increase of \$186,723 from the prior year to \$1,765,709.

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 2010 with a \$550,933 balance compared to the prior year ending fund balance of \$638,663.

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, 2010 is \$17,848,090.

Proprietary Fund Highlights

The water fund, which accounts for the operation and maintenance of the City's water system, ended fiscal year 2010 with a net asset balance of \$2,478,527. This reflects an increase of \$30,923 from the end of fiscal year 2009 when the net asset balance was \$2,447,604.

The sewer fund, which accounts for the operation and maintenance of the sewer system and the wastewater treatment facility, ended fiscal year 2010 with a net asset balance of \$6,733,966. This reflects a decrease of \$198,073 from the end of fiscal year 2009 when the net asset balance was \$6,932,039.

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 \$103,338 due almost entirely to an unusually significant increase in health insurance premiums; unexpected repairs to the Fire department's aerial ladder truck; and Police Department's Task Force expenses. The Task Force's additional expenses were reimbursed to the City. As for the expenses to the Fire Department's ladder truck, the area's benefiting communities contributed \$22,000 to the costs for these repairs which were just over \$30,000.
- b. Culture and Recreation Program exceeded its original budget amount by \$118,234 for which an amendment was approved. There were a series of moderate expenses that led to this amendment. Again, the exorbitant rise in health insurance premiums were a significant part of this overrun amounting to \$25,474 over the budgeted amount. In addition to that, the Library received several grants for which no revenues or expenditures had been originally included in the budget. A dump truck was purchased by the Parks and Recreation Department which had not been budgeted but for which funds had been set aside. About \$15,000 for concessions (cost of goods sold) was expended by the Parks and Recreation Department. This expense, of course, was offset by the revenue derived from the sales.
- c. The Public Works Program exceeded the budgeted amount by \$273,199. Engineering expenses for street-related improvements accounted for about \$100,000 of this amount. This expense was paid for with cash-on-hand from the Local Option Sales tax revenue. The next largest item involved the acquisition of a loader for the street department in the amount of about \$62,000. This was paid for from proceeds set aside in the street equipment fund. Approximately \$50,000 in unanticipated expenses occurred when unexpected trash needed to be collected and hauled to the landfill during the construction of a storm sewer project. Most of these costs were paid for with I-JOBS proceeds. Finally, employee health insurance premiums increased to about \$18,000 over that which had been budgeted in this program.
- d. The Health and Social Services Program was amended by \$45,000 as a decision was made by the City Council to assist Habitat for Humanity with the purchase of a lot for a future construction project. The proceeds for this assistance came from the Low-to-Moderate Income set asides prescribed for specific TIF Projects.

- e. The Community and Economic Development Program exceeded the amount budgeted by \$21,500 due in large part to \$20,000 in directed to the Self-Supporting Municipal Improvement District (SSMID) for improvements that were more than had been expected when the budget was prepared. This amount was offset by the SSMID tax revenues from this District. The additional \$1,500 was an increased amount of TIF proceeds received over that which had been projected.
- f. The amendment to the General Government's Program amounted to \$79,371. Of this, \$33,776 was for the remodeling project in the Police Department. The funds were derived from an equipment replacement fund established for such a purpose. Health insurance increases under this program totaled \$13,717.
- g. The Enterprise Program's excess amount over the original budget totaled \$605,182. The expenditures and proceeds from a bond issue not included when the budget was prepared accounts for \$103,782 of this total particular amendment. These bond proceeds were used for several water tank improvements. The construction of the new tank at the Decorah Business Park for approximately \$400,000 accounted for the majority of this unbudgeted expenditure.

No budget amendments were required for the capital projects 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 \$30,079,952 (net of accumulated depreciation). The capital assets for the business-type activities totaled \$9,673,108 (net of accumulated depreciation) as of June 30, 2010. Detailed information regarding specific capital asset categories and depreciation can be found in Note 3 under the notes to the financial statements.

The major capital outlays for this fiscal year within the governmental activities involved street and alley improvements, trail segments 2, 5, 7, 8, 9, and 11, and 1 bridge, and improvements at the airport including apron expansion and rehabilitation. The major capital outlay with the business-type activities was water tank improvements.

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, 2010, the City's total outstanding G.O. debt of \$3,679,099 was well below the debt margin of \$21,527,189. 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.

Details of the debt issued by the City's specific debt issues can be found in Note 6 under the notes to the financial statements.

ECONOMIC FACTORS BEARING ON THE CITY'S FUTURE

As discussed in last year's report, the difficult budgetary and financial issues that have faced and continue to plague many cities throughout the country starting with 2008-2009 economic malaise also remain as major problems for Decorah. A brief review of pages 4b and 4c above will reveal that these problems persist. In last year's *management and discussion analysis*, it was reported that there had been a decline in total revenues of 2.61 percent at the end of FY 2009. That decline increased to 6.09 percent for the year ending June 30, 2010. The overall decline in property tax proceeds of 2.35 percent when compared to the previous fiscal year is a strong indicator of the budgetary issues challenging this city. One very significant economic factor related to this particular revenue source centers around the multitude of concerns surrounding the State-wide property tax formulas especially as these matters affect commercial properties. The manner in which this central property tax issue ultimately manifests itself, of course, has no bearing on an analysis of the FY 2009-10 period. However, the high regard over this matter necessitates that there be at least an acknowledgement of the potential impact a reconfiguration of property tax legislation may have upon Decorah's overall financial condition going forward.

Also of note is a decline in the proceeds from the Local Option Sales taxes when comparing the two most recent fiscal years. This decline was 3.3 percent or \$27,716. However, from all early indications, although FY 2011 probably will not reach the \$846,754 amount attained in FY 09, it does appear that the City will not experience a similar decline this year but rather should receive an amount close to that realized in FY 10.

Despite this overall revenue decline, 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 4c above. The total net assets increased from those of the past year by a modest 1.3 percent. It should also be pointed out that the business-type activities experienced a decline in net assets of 1.8 percent however; this decline is in sharp contrast to the seven percent drop experienced in the previous fiscal year. The loss of major industrial customers combined with an overall concern about increasing rates during a tough economic period all point to the need for a thorough examination of a balanced rate increase.

Again, as discussed in *management discussion and analysis* during the last several years, Decorah is among the many cities that continue to plead for an adjustment to the Road Use Tax formula. 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, continue to fall far short of meeting the full array of identified street construction and maintenance needs. In relative terms, the 10.4 percent increase appears significant however; the \$73,454 that this represents does not significantly impact the street, sidewalk and storm sewer improvements along with the maintenance expenses that need to be more comprehensively addressed. On a positive note, the higher vehicle registration fees phased in beginning in 2008 and the addition of some of the TIME-21 funding, tentatively indicate that the per capita amounts will go to \$94.00 in FY 2012 and \$97.00 in FY 2013 which will be up from the FY 11 amount of \$90.50.

Returning to some brief key additional points about property taxes, it should be noted that the decrease referred to above was aligned with City's property tax rate that was virtually the same as the previous year at \$12.42. In fact, this is a rate that was held constant back to FY 2005. Combined with that fact, the assessed valuation (without utilities) for FY 2010 had increased only 0.47 percent over the prior year. In addition to all of that, the final major component of the property tax formula – the rollback – was increased, albeit slightly, for both commercial and residential properties from that of FY 2009.

Also of note, the tax increment financing collections increased by almost 67 percent or \$235,061. This increase was primarily attributable to \$200,000 in tax increment financing certified for only one year to cover trail and storm sewer improvements within the Airport–Decorah Business Park Urban Renewal District. 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 for the City’s long-term debt obligations, the *condensed statement of net assets* (on page 4b) indicates that there was an 11.26 percent decrease in the City’s long-term obligations. Details with regard to each of the City’s debt obligations including the pledged funding sources can be found under the auditor’s *notes to the financial statements* within this financial report.

Just as the City was far into an adjustment to the State’s severe reductions imposed several years ago to some of the previously shared revenue sources, the impact of the general economic downturn created additional challenges. The City, in turn, has developed a comprehensive response to all that which has affected the revenues needed for City services and capital improvements. Foremost among the responses has been the curtailment of major street and other public works improvements. As an additional example, the Trout Run Trail Project has managed to continue its progress. This, of course, is due to the persistent search for outside funding sources combined with generous local private contributions. As a final note intended to illustrate the response to these events of the past few years, every City department has closely monitored and planned for its operating costs in addressing the availability of funds upon which they rely.

Of continuing concern are the water and sewer funds as reflected in both the statement of net assets and the cash flow statement. The last rate increase was approved for the sewer fund late in the fourth quarter of FY 2008. The sewer fund however continues to experience a loss of total operating income (after nonoperating revenues and expenses). For the period covered in this report, that loss amounts to \$206,703. The water fund, on the other hand, showed a profit of \$16,761. As such, as stated earlier, a review of the rates and rates structure should be undertaken in the near future. An increase in the rates for the sewer fund and, in all probability, for the water fund should be approved during FY 2011.

Below is a summary of the tax levy rates per \$1,000 of taxable valuation for FY 09-10:

Purpose	Rate
General levy	\$8.10
Liability and property insurance	0.52283
Employee benefits	2.74077
Debt service	0.85813
Emergency	0.20813
Total	\$12.42986

Also, a rate of \$0.35860 generated \$10,000 for a Self-Supporting Municipal Improvement District in the Central Business District during FY 09-10. Finally, the agricultural property tax rate for such land in the City was at \$2.48291.

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 Manager, 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, 2010

	Governmental Activities	Business-type Activities	Total	Decorah Volunteer Fire Department
ASSETS				
Cash and pooled investments	\$ 3,601,453	\$ 746,567	\$ 4,348,020	\$ 59,333
Receivables				
Accounts and unbilled usage, net	8,283	308,735	317,018	
Property tax				
Current	25,272		25,272	
Succeeding year	3,335,186		3,335,186	
Special assessments				
Current	40,224	-	40,224	
Deferred	182,861	-	182,861	
Accrued interest	4,395		4,395	
Due from other governments	146,381	51,957	198,338	
Inventories	11,726	15,000	26,726	
Prepaid expenses	27,148	8,122	35,270	
Restricted assets				
Investments	443,382		443,382	
Nondepreciable assets	1,467,186	79,775	1,546,961	
Capital assets, net of accumulated depreciation	28,612,766	9,593,333	38,206,099	
Total assets	\$ 37,906,263	\$ 10,803,489	\$ 48,709,752	\$ 59,333
LIABILITIES AND NET ASSETS				
Accounts payable	\$ 508,807	\$ 42,145	\$ 550,952	
Salaries and benefits payable	102,964	21,693	124,657	
Accrued interest payable	7,277	2,990	10,267	
Deferred revenue				
Succeeding year property tax	3,335,186	-	3,335,186	
Other	182,861	-	182,861	
Long-term liabilities				
Portion due within one year				
Bonds payable	209,300	103,700	313,000	
Loan payable	-	45,000	45,000	
Revolving loan payable		-	-	
Notes payable	176,941	23,333	200,274	
Compensated absences	26,752	27,964	54,716	
Portion due after one year				
Bonds payable	1,514,956	975,044	2,490,000	
Loan payable	-	315,000	315,000	
Revolving loan payable		-	-	
Notes payable	285,990	29,835	315,825	
Compensated absences	133,764		133,764	
Net OPEB liability	21,134	4,292	25,426	
Total liabilities	6,505,932	1,590,996	8,096,928	\$ None
NET ASSETS				
Invested in capital assets, net of related debt	27,892,765	8,181,196	36,073,961	
Restricted for				
Debt service	72,249		72,249	
Other special revenue purposes	847,760		847,760	
Other purposes				59,333
Unrestricted	2,587,557	1,031,297	3,618,854	
Total net assets	31,400,331	9,212,493	40,612,824	59,333
Total liabilities and net assets	\$ 37,906,263	\$ 10,803,489	\$ 48,709,752	\$ 59,333

See Notes to Financial Statements.

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CITY OF DECORAH
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2010

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	\$ 2,094,458		\$ 217,674	\$ -
Public works	1,034,392	\$ 44,262	758,349	-
Health and social services	21,209			-
Culture and recreation	1,777,756	555,188	1,027,128	-
Community and economic development	1,427,082			15,123
General government	465,153	53,059	170,950	-
Capital projects				-
Interest on long-term debt	106,019			
Total governmental activities	<u>6,926,069</u>	<u>652,509</u>	<u>2,174,101</u>	<u>15,123</u>
Business-type activities				
Water utilities	591,205	605,911		
Sewer utilities	1,031,088	781,254	38,980	
Total business-type activities	<u>1,622,293</u>	<u>1,387,165</u>	<u>38,980</u>	<u>-</u>
Total primary government	<u>\$ 8,548,362</u>	<u>\$ 2,039,674</u>	<u>\$ 2,213,081</u>	<u>\$ 15,123</u>
Component Unit				
Decorah Volunteer Fire Department	<u>\$ 83,633</u>			<u>\$ 68,954</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				
Loss on sale of capital asset				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets, beginning of year				
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
\$ (1,876,784)		\$ (1,876,784)	
(231,781)		(231,781)	
(21,209)		(21,209)	
(195,440)		(195,440)	
(1,411,959)		(1,411,959)	
(241,144)		(241,144)	
-		-	
(106,019)		(106,019)	
<u>(4,084,336)</u>		<u>(4,084,336)</u>	
	\$ 14,706	14,706	
	(210,854)	(210,854)	
-	(196,148)	(196,148)	
<u>(4,084,336)</u>	<u>(196,148)</u>	<u>(4,280,484)</u>	
			\$ (14,679)
2,766,988		2,766,988	
216,338		216,338	
586,153		586,153	
309,388		309,388	
819,038		819,038	
62,348	6,206	68,554	1,188
47,925		47,925	
(1,707)		(1,707)	
(22,792)	22,792	-	-
<u>4,783,679</u>	<u>28,998</u>	<u>4,812,677</u>	<u>1,188</u>
699,343	(167,150)	532,193	(13,491)
<u>30,700,988</u>	<u>9,379,643</u>	<u>40,080,631</u>	<u>72,824</u>
<u>\$ 31,400,331</u>	<u>\$ 9,212,493</u>	<u>\$ 40,612,824</u>	<u>\$ 59,333</u>

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CITY OF DECORAH
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010

	General	Special Revenue	
		Employee Benefits	State Road Use Tax
ASSETS			
Cash	\$ 1,892,234	\$ 119,411	\$ 421,259
Investments	-		
Receivables			
Property taxes			
Current	17,499	5,558	
Succeeding year	2,252,799	876,381	
Special assessments			
Current	40,224		
Deferred	182,861		
Interest	-	2,224	
Other	8,283		
Due from other funds	29,657		-
Due from other governments	146,381		-
Inventories			11,726
Prepaid expenditures	27,148		
Restricted assets			
Investments		443,382	
Total assets	<u>\$ 4,597,086</u>	<u>\$ 1,446,956</u>	<u>\$ 432,985</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 295,567	\$ 3,809	\$ 93,095
Salaries and benefits payable	77,199	15,833	9,932
Due to other funds	-		
Deferred revenues	2,435,660	876,381	
Compensated absences	22,951		3,801
Total liabilities	<u>2,831,377</u>	<u>896,023</u>	<u>106,828</u>
FUND BALANCES			
Reserved for			
Debt service			
Other special revenue purposes		107,551	
Unreserved, reported in			
General fund	1,765,709		
Capital projects fund			
Special revenue fund		443,382	326,157
Total fund balances	<u>1,765,709</u>	<u>550,933</u>	<u>326,157</u>
Total liabilities and fund balances	<u>\$ 4,597,086</u>	<u>\$ 1,446,956</u>	<u>\$ 432,985</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>
\$ 302,268	\$ 546,138	\$ 3,281,310
	320,143	320,143
	2,215	25,272
	206,006	3,335,186
		40,224
		182,861
	2,171	4,395
-	-	8,283
		29,657
	-	146,381
		11,726
		27,148
		443,382
<u>\$ 302,268</u>	<u>\$ 1,076,673</u>	<u>\$ 7,855,968</u>
\$ 87,784	\$ 28,552	\$ 508,807
		102,964
	29,657	29,657
	206,006	3,518,047
		26,752
<u>87,784</u>	<u>264,215</u>	<u>4,186,227</u>
	72,249	72,249
	740,209	847,760
		1,765,709
214,484	-	214,484
	-	769,539
<u>214,484</u>	<u>812,458</u>	<u>3,669,741</u>
<u>\$ 302,268</u>	<u>\$ 1,076,673</u>	<u>\$ 7,855,968</u>

CITY OF DECORAH
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010

Reconciliation of governmental fund balances to net assets	
Total governmental fund balances	\$ 3,669,741
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 \$ 15,742,331	30,079,952
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	(1,724,256)
Notes payable	(462,931)
Compensated absences	(133,764)
Net OPEB liability	(21,134)
Accrued interest	(7,277)
Net assets of governmental activities	<u>\$ 31,400,331</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, 2010

	General	Special Revenue	
		Employee Benefits	State Road Use Tax
REVENUES			
Property taxes	\$ 2,076,530	\$ 642,172	
Tax increment financing collections			
Other City tax	864,213	14,359	
Licenses and permits	27,511		
Use of money and property	42,168	19,568	\$ 485
Intergovernmental	335,823		758,049
Charges for service	437,368		
Miscellaneous	330,661	13,599	21,216
Total revenues	4,114,274	689,698	779,750
EXPENDITURES			
Current operating			
Public safety	1,627,933	374,719	
Public works	253,789	115,271	739,318
Health and social services	21,209		
Culture and recreation	1,238,565	214,160	
Community and economic development	27,286		55,620
General government	389,533	73,278	
Capital projects	419,161		62,000
Debt service			
Principal	-		13,200
Interest and other charges	-		6,639
Total expenditures	3,977,476	777,428	876,777
EXCESS REVENUES OVER (UNDER) EXPENDITURES	136,798	(87,730)	(97,027)
OTHER FINANCING SOURCES (USES)			
Proceeds from capital assets sold	-		-
Proceeds from issuance of debt	-		-
Transfers in (out)	49,925		(100,881)
Total other financing sources (uses)	49,925	-	(100,881)
EXCESS REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	186,723	(87,730)	(197,908)
FUND BALANCES, beginning of year	1,578,986	638,663	524,065
FUND BALANCES, end of year	\$ 1,765,709	\$ 550,933	\$ 326,157

See Notes to Financial Statements.

EXHIBIT D

<u>Capital Projects Local Trail Development</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	\$ 264,624	\$ 2,983,326
	586,153	586,153
\$ 100,458	149,396	1,128,426
		27,511
184	6,663	69,068
608,172	-	1,702,044
		437,368
308,907	51,191	725,574
<u>1,017,721</u>	<u>1,058,027</u>	<u>7,659,470</u>
	342	2,002,994
		1,108,378
		21,209
	28,908	1,481,633
894,211	459,524	1,436,641
		462,811
		481,161
	362,056	375,256
	101,310	107,949
<u>894,211</u>	<u>952,140</u>	<u>7,478,032</u>
<u>123,510</u>	<u>105,887</u>	<u>181,438</u>
	-	-
-	-	-
100,881	(72,717)	(22,792)
<u>100,881</u>	<u>(72,717)</u>	<u>(22,792)</u>
224,391	33,170	158,646
(9,907)	779,288	3,511,095
<u>\$ 214,484</u>	<u>\$ 812,458</u>	<u>\$ 3,669,741</u>

CITY OF DECORAH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2010

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	\$	158,646
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	\$ (1,274,573)	
Capital outlays	<u>1,455,835</u>	181,262
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.		
		375,256
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.		
		2,155
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	3,158	
Net OPEB liability	<u>(21,134)</u>	<u>(17,976)</u>
Change in net assets of governmental activities	\$	<u>699,343</u>

See Notes to Financial Statements.

CITY OF DECORAH
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2010

	Water Utilities	Sewer Utilities	Total
ASSETS			
Cash	\$ 261,700	\$ 484,867	\$ 746,567
Receivables			
Accounts and unbilled usage, net	129,386	179,349	308,735
Special assessments			
Current	-	-	-
Deferred	-	-	-
Due from other governments		51,957	51,957
Inventory	15,000		15,000
Prepaid expenses	3,660	4,462	8,122
	<u>409,746</u>	<u>720,635</u>	<u>1,130,381</u>
Noncurrent assets			
Land		79,775	79,775
Net capital assets	2,829,946	6,763,387	9,593,333
	<u>2,829,946</u>	<u>6,843,162</u>	<u>9,673,108</u>
	<u>\$ 3,239,692</u>	<u>\$ 7,563,797</u>	<u>\$ 10,803,489</u>
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable	\$ 20,776	\$ 21,369	\$ 42,145
Salaries and benefits payable	8,060	13,633	21,693
Accrued interest payable	1,046	1,944	2,990
Deferred revenues	-	-	-
Long-term liabilities			
Loan payable	45,000		45,000
Bonds payable	29,900	73,800	103,700
Notes payable, bank	14,605	8,728	23,333
Compensated absences	15,207	12,757	27,964
	<u>134,594</u>	<u>132,231</u>	<u>266,825</u>
Noncurrent liabilities			
Long-term liabilities			
Loan payable	315,000		315,000
Bonds payable	290,880	684,164	975,044
Notes payable, bank	18,763	11,072	29,835
Net OPEB liability	1,928	2,364	4,292
	<u>626,571</u>	<u>697,600</u>	<u>1,324,171</u>
	<u>761,165</u>	<u>829,831</u>	<u>1,590,996</u>
Net assets			
Invested in capital assets, net of related debt	2,115,798	6,065,398	8,181,196
Unrestricted	362,729	668,568	1,031,297
	<u>2,478,527</u>	<u>6,733,966</u>	<u>9,212,493</u>
Total liabilities and net assets	<u>\$ 3,239,692</u>	<u>\$ 7,563,797</u>	<u>\$ 10,803,489</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, 2010

	Water Utilities	Sewer Utilities	Total
OPERATING REVENUES			
Charges for service			
Sewer rental fees		\$ 753,520	\$ 753,520
Sale of water	\$ 582,073		582,073
Miscellaneous	17,859	26,900	44,759
Intergovernmental			
Freeport share		38,980	38,980
Miscellaneous	5,979	834	6,813
Total operating revenues	605,911	820,234	1,426,145
OPERATING EXPENSES			
Salaries	214,156	262,904	477,060
Payroll taxes and fringe benefits	77,799	137,272	215,071
Insurance	16,404	13,069	29,473
Training	2,753	4,462	7,215
Vehicle repair and maintenance	1,525	14,013	15,538
Office supplies	9,321	6,527	15,848
Sales tax	30,422	13,358	43,780
Building maintenance and utilities	100,479	104,302	204,781
Emergency expense	1,352	5,293	6,645
Vehicle gas and oil	1,506	10,342	11,848
Engineering expense	15,549	27,988	43,537
Operating supplies and maintenance	17,012	36,283	53,295
Chemicals and testing	20,090	785	20,875
Hydrants, meters, and other parts		46,768	46,768
Depreciation	67,388	319,535	386,923
Total operating expenses	575,756	1,002,901	1,578,657
Total operating income (loss)	30,155	(182,667)	(152,512)
NONOPERATING REVENUES (EXPENSES)			
Interest income	2,055	4,151	6,206
Interest and other charges	(15,449)	(28,187)	(43,636)
Net nonoperating expenses	(13,394)	(24,036)	(37,430)
Profit (loss) before contributions and transfers	16,761	(206,703)	(189,942)
CAPITAL CONTRIBUTIONS AND TRANSFERS			
Transfers in	14,162	59,630	73,792
Transfers out	-	(51,000)	(51,000)
	14,162	8,630	22,792
Change in net assets	30,923	(198,073)	(167,150)
NET ASSETS, beginning of year	2,447,604	6,932,039	9,379,643
NET ASSETS, end of year	\$ 2,478,527	\$ 6,733,966	\$ 9,212,493

See Notes to Financial Statements.

CITY OF DECORAH
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2010

	Water Utilities	Sewer Utilities	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from rent		\$ 799,737	\$ 799,737
Cash received from charges for services	\$ 604,814	26,900	631,714
Cash payments to employees for services	(303,216)	(403,025)	(706,241)
Cash payments to suppliers for services	(214,884)	(242,407)	(457,291)
Net cash provided by operating activities	86,714	181,205	267,919
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in	14,162	59,630	73,792
Operating transfers out		(51,000)	(51,000)
Net cash provided by noncapital financing activities	14,162	8,630	22,792
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal payments on notes payable	(12,260)	(7,471)	(19,731)
Principal payments on bond	(27,600)	(19,200)	(46,800)
Principal payments on revolving loan		(51,000)	(51,000)
Payments on interfund borrowing	-	-	-
Interest paid on long-term borrowing	(15,636)	(28,425)	(44,061)
Acquisition of capital assets	(562,908)	(18,134)	(581,042)
Net cash (used in) capital and related financing activities	(618,404)	(124,230)	(742,634)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	2,055	4,151	6,206
Net cash provided by investing activities	2,055	4,151	6,206
Net increase (decrease) in cash and cash equivalents	(515,473)	69,756	(445,717)
CASH and CASH EQUIVALENTS, beginning of year	777,173	415,111	1,192,284
CASH and CASH EQUIVALENTS, end of year	\$ 261,700	\$ 484,867	\$ 746,567
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	\$ 30,155	\$ (182,667)	\$ (152,512)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation and depletion	67,388	319,535	386,923
Decrease (increase) in accounts receivable	(1,097)	46,217	45,120
Decrease in prepaid expense	1,098	950	2,048
Decrease in accounts payable	(15,973)	(13,050)	(29,023)
Increase in salaries and benefits payable	1,491	5,492	6,983
Increase in accrued compensated absences	1,724	2,364	4,088
Increase in other postemployment benefits	1,928	2,364	4,292
Net cash provided by operating activities	\$ 86,714	\$ 181,205	\$ 267,919

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, 2010. 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, 2010 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, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March 2009.

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, 2010, 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, 2010 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, 2010 is as follows:

Governmental	\$ 160,516
Enterprise	27,964
 Total	 \$ 188,480

These liabilities have been computed based on rates of pay as of June 30, 2010.

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, 2010 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, 2010 the City had the following investments:

Type	Fair Value	Quoted Prices in Active Market for Identical Assets (Level 1)
Federal Home Loan Mortgage Corporation	\$ 22	\$ 22
Federal Home Loan Banks	227,843	227,843
United States Treasury Notes	139,417	139,417
Federal Farm Credit Bank	62,625	62,625
Goldman Sachs	13,475	13,475
	\$ 443,382	\$ 443,382

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 Home Loan Banks, United States Treasury Notes, Federal Farm Credit Bank, and Goldman Sachs investment at June 30, 2010 is rated AAA by Standard & Poor's Investor service.

The City's Federal Home Loan Mortgage Corporation investment is unrated at June 30, 2010.

NOTES TO FINANCIAL STATEMENTS

3. Capital Assets

Capital assets activity for the year ended June 30, 2010 was as follows:

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 916,748			\$ 916,748
Infrastructure in progress	359,706	\$ 440,990	\$ 250,258	550,438
Total capital assets not being depreciated	1,276,454	440,990	250,258	1,467,186
Capital assets being depreciated				
Buildings and improvements	5,561,504			5,561,504
Improvements other than buildings	2,048,949	23,813		2,072,762
Equipment	3,355,847	129,375	139,139	3,346,083
Vehicles	1,617,907	21,460		1,639,367
Infrastructure	30,643,219	1,092,162		31,735,381
Total capital assets being depreciated	43,227,426	1,266,810	139,139	44,355,097
Less accumulated depreciation				
Buildings and improvements	2,170,282	133,454		2,303,736
Improvements other than buildings	1,211,762	36,625		1,248,387
Equipment	2,616,320	286,211	137,432	2,765,099
Vehicles	1,172,103	105,721		1,277,824
Infrastructure	7,434,723	712,562		8,147,285
Total accumulated depreciation	14,605,190	1,274,573	137,432	15,742,331
Total capital assets being depreciated, net	28,622,236	(7,763)	1,707	28,612,766
Governmental activities capital assets, net	\$ 29,898,690	\$ 433,227	\$ 251,965	\$ 30,079,952

NOTES TO FINANCIAL STATEMENTS

3. Capital Assets (Continued)

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
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	562,908		3,574,038
Improvements other than buildings	2,872,826	18,134		2,890,960
Equipment	4,858,890		11,510	4,847,380
Vehicles	189,732			189,732
Infrastructure, water and sewer network	5,367,080			5,367,080
Total capital assets being depreciated	16,299,658	581,042	11,510	16,869,190
Less accumulated depreciation				
Buildings and improvements	1,313,871	77,113		1,390,984
Improvements other than buildings	1,415,909	77,117		1,493,026
Equipment	1,962,836	144,937	11,510	2,096,263
Vehicles	151,647	10,572		162,219
Infrastructure, water and sewer network	2,056,181	77,184		2,133,365
Total accumulated depreciation	6,900,444	386,923	11,510	7,275,857
Total capital assets being depreciated, net	9,399,214	194,119	None	9,593,333
Business-type activities capital assets, net	\$ 9,478,989	\$ 194,119	\$ None	\$ 9,673,108

NOTES TO FINANCIAL STATEMENTS

3. Capital Assets (Continued)

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

Governmental activities			
Public safety	\$	137,175	
Public works		824,945	
Culture and recreation		282,423	
General government		30,030	
Total depreciation expense	\$	1,274,573	
Business-type activities			
Water	\$	67,388	
Sewer			
Sanitary sewer	\$	69,582	
Sewer utility		31,557	
Wastewater		218,396	319,535
Total depreciation expense	\$	386,923	

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, 2010, 2009 and 2008 were \$127,897, \$118,238, and \$110,398, 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 9.40% 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, 2010, 2009 and 2008 were \$115,634, \$126,924, and \$162,549, 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, 2010. The lease requires a \$130,134 payment for the year to the City. The City also has other nominal leases with various parties and terms.

At June 30, 2010 future minimum lease receipts were as follows:

Year ending June 30,		
2011	\$	133,474
2012		120
2013		120
2014		120
2015		120
Later years		480
	\$	134,434

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, 2010:

Year ending June 30,		
2011	\$	1,560
2012		1,210
2013		1,210
2014		1,210
2015		1,210
Later years		4,840
Total minimum payments required	\$	11,240

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, 2010. As of June 30, 2010, \$1,575,000 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, 2010, \$538,000 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, 2010. As of June 30, 2010, \$690,000 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, 2010:

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.

516,099

\$ 876,099

A summary of the changes in debt, by type, for the year ended June 30, 2010 is as follows:

	Balance June 30, 2009	Borrowed	Paid	Balance June 30, 2010	Amounts Due Within One Year
General Obligation					
Corporate Purpose Notes					
2006 Bond	\$ 1,765,000		\$ (190,000)	\$ 1,575,000	\$ 195,000
2008 Bond	750,000		(60,000)	690,000	65,000
General Obligation Sewer					
Improvement Bond	589,000		(51,000)	538,000	53,000
Total bonded debt	<u>\$ 3,104,000</u>	<u>\$ None</u>	<u>\$ (301,000)</u>	<u>\$ 2,803,000</u>	<u>\$ 313,000</u>
Notes Payable					
Rural Economic					
Development Loan	\$ 360,000			\$ 360,000	\$ 45,000
2002 Street Project	707,886	\$ None	\$ (191,787)	516,099	200,274
	<u>\$ 1,067,886</u>	<u>\$ None</u>	<u>\$ (191,787)</u>	<u>\$ 876,099</u>	<u>\$ 245,274</u>

NOTES TO FINANCIAL STATEMENTS

6. Long-term Debt (Continued)

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

Year Ending June 30,	Bonded Indebtedness			
	General Obligation		Bank Notes Payable	
	Principal	Interest	Principal	Interest
2010	\$ 313,000	\$ 109,798	\$ 245,274	\$ 21,008
2011	325,000	97,482	254,388	11,894
2012	341,000	84,682	151,437	2,401
2013	358,000	71,457	45,000	
2014	370,000	57,455	45,000	
2015-2018	1,096,000	87,081	135,000	
	<u>\$ 2,803,000</u>	<u>\$ 507,955</u>	<u>\$ 876,099</u>	<u>\$ 35,303</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, 2010, the outstanding bond payable for the water fund, sewer fund and road use fund are:

Governmental funds	\$ 149,256
Water fund	320,780
Sewer fund	<u>219,964</u>
	<u>\$ 690,000</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, 2010 the outstanding note payable for the water fund, sewer fund and governmental fund are:

Governmental funds	\$ 462,931
Water fund	33,368
Sewer fund	<u>19,800</u>
	<u>\$ 516,099</u>

NOTES TO FINANCIAL STATEMENTS

6. Long-term Debt (Continued)

At June 30, 2010 the debt issued by the City did not exceed its legal debt margin compiled as follows:

Total assessed valuation	\$ 430,543,782
Debt limit – 5% of total assessed valuation	\$ 21,527,189
Debt applicable to debt limit	
Bank notes and bonded debt outstanding	3,679,099
Legal debt margin	\$ 17,848,090

The City currently has Low-to-Moderate (LMI) set aside of \$168,833.

7. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

	Transfer In	Transfer Out
General fund	\$ 49,925	
Special revenue fund		\$ 100,881
Capital projects fund	100,881	
Nonmajor governmental		72,717
Enterprise fund	73,792	51,000
	\$ 224,598	\$ 224,598

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

8. Due From and Due to Other Funds

As of June 30, 2010 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.

9. Other Postemployment Benefits (OPEB)

Plan Description

The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 64 active and 5 retired members in the plan. Participants must be age 55 or older at retirement.

9. Other Postemployment Benefits (OPEB) (Continued)

Plan Description (Continued)

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy

The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB cost is calculated based on the annual required contribution (ARC) of the City, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the City's net OPEB obligation:

Annual required contribution	\$	47,091
Interest on net OPEB obligation		None
Adjustment to annual required contribution		None
Annual OPEB cost		47,091
Contributions made		21,665
Interest in net OPEB obligation		25,426
Net OPEB obligation beginning of year		None
Net OPEB obligation end of year	\$	25,426

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the City contributed \$21,665 to the medical plan. Plan members eligible for benefits contributed \$56,210, or 72% of the premium costs.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 47,091	46.0%	\$ 25,426

9. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$464,242, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$464,242. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2,468,681 and the ratio of the UAAL to covered payroll was 18.8%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with long-term perspective of the calculations.

As of July 1, 2009 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4% discount rate based on the City's funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching 5% ultimate trend rate.

Mortality rates are form RP-2000 Combined Mortality Table projected to 2010 using Scale AA.

10. Designated Net Assets

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

General	Visioning committee	\$	1,327
	Skate park		104
	Airport equipment		8,849
	Swimming pool equipment		64,003
	Recreation equipment		45,309
	Library technology		7,243
	Park equipment		25,607
	Police equipment		1,311
	Park land acquisition		25,658
	Sidewalk		47,029
	Fire department equipment		760
			227,200
		\$	227,200

NOTES TO FINANCIAL STATEMENTS

10. Designated Net Assets (Continued)

	Special Revenue		
	State road use	Street equipment	\$ 24,431

11. Fund Equity

The amounts reserved at June 30, 2010 are as follows:

	Restricted net assets		
	Special revenue fund		
	Employee benefit		
	Other special revenue		\$ 107,551
	Nonmajor governmental		
	Debt service		72,249
	Other special revenue		740,209
			812,458
			\$ 920,009

12. 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, 2010 approximately \$6,078,520 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, 2010 the balance outstanding was \$590,618.

13. Development and Rebate Agreement

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

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

14. 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 \$21,311 during the year ended June 30, 2010.

- The transaction with Randy Schissel consisted of retail purchases with total payments to Storey Kenworthy of \$11,977. Mr. Schissel is an account executive at Storey Kenworthy.
- The transaction with Brett Willie consisted of retail purchases with total payments to Sherwin Williams of \$4,144. 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 \$5,190. Mr. Wanless is an owner of the Sports Shop.

15. Risk Management

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

The City is partially self-insured for health care insurance of employees. The City purchases insurance with a \$2,000 deductible and self-insures to provide employees with deductibles of \$250 per person and \$500 per family per year. The City's maximum annual cost per employee of this coverage is \$2,250 per employee. The City has incurred costs totaling \$69,578 for the 2010 fiscal year. At June 30, 2010, the maximum potential additional City liability because of this plan was \$78,922.

16. Contingent Liabilities

The City participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of June 30, 2010 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.

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 54 Future Financial Statement Presentation

The Governmental Accounting Standards Board has issued GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions. This statement is effective for the City on July 15, 2010. The City will be implementing GASB 54 for the year ended June 30, 2011.

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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, 2010

	Governmental Fund Type Actual	Proprietary Fund Type Actual	Total Actual
RECEIPTS			
Property taxes	\$ 2,943,629		\$ 2,943,629
Tax increment financing collections	587,060		587,060
Other City taxes	1,107,732		1,107,732
Licenses and permits	25,825		25,825
Use of money and property	83,376	\$ 6,205	89,581
Intergovernmental revenues	1,977,795	83,352	2,061,147
Charges for services	432,344	1,381,962	1,814,306
Special assessments	-		-
Miscellaneous	909,857	6,813	916,670
Total receipts	8,067,618	1,478,332	9,545,950
DISBURSEMENTS			
Public safety	2,006,817		2,006,817
Public works	1,338,937		1,338,937
Health and social services	66,129		66,129
Culture and recreation	1,510,890		1,510,890
Community and economic development	520,341		520,341
General government	458,324		458,324
Debt service	221,283		221,283
Capital projects	1,306,728		1,306,728
Total governmental activities disbursements	7,429,449	-	7,429,449
Business-type enterprises		1,924,049	1,924,049
Total disbursements	7,429,449	1,924,049	9,353,498
EXCESS RECEIPTS OVER (UNDER) DISBURSEMENTS	638,169	(445,717)	192,452
Proceeds from long-term debt			-
Proceeds from fixed assets sold			-
Operating transfers in	170,806		170,806
Operating transfers out	(170,806)		(170,806)
OTHER FINANCING SOURCES (USES), NET	-		-
EXCESS RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	638,169	(445,717)	192,452
FUND BALANCE/RETAINED EARNINGS, July 1, 2009	3,406,666	1,192,285	4,598,951
FUND BALANCE/RETAINED EARNINGS, June 30, 2010	\$ 4,044,835	\$ 746,568	\$ 4,791,403

See Notes to Required Supplementary Information.

Budget Amounts		Variance -
Original	Final	Favorable (Unfavorable)
\$ 2,936,874	\$ 2,936,874	\$ 6,755
545,775	574,253	12,807
1,032,037	1,051,539	56,193
24,075	24,075	1,750
89,821	89,821	(240)
3,134,163	3,158,563	(1,097,416)
1,881,120	1,894,120	(79,814)
-	-	-
634,436	1,042,533	(125,863)
10,278,301	10,771,778	(1,225,828)
1,638,594	1,741,932	(264,885)
1,590,794	1,863,993	525,056
21,129	66,129	-
1,477,557	1,595,791	84,901
524,975	546,475	26,134
442,290	521,661	63,337
221,433	221,433	150
2,763,492	2,763,492	1,456,764
8,680,264	9,320,906	1,891,457
1,435,626	2,040,808	116,759
10,115,890	11,361,714	2,008,216
162,411	(589,936)	782,388
-	-	-
-	-	-
205,000	205,000	(34,194)
(205,000)	(205,000)	34,194
-	-	-
162,411	(589,936)	\$ 782,388
4,598,951	4,598,951	
\$ 4,761,362	\$ 4,009,015	

CITY OF DECORAH
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 BUDGET TO GAAP RECONCILIATION
 Year Ended June 30, 2010

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 8,067,618	\$ (408,148)	\$ 7,659,470
Expenditures	7,429,449	48,583	7,478,032
Net	638,169	(456,731)	181,438
Other financing sources, net	-	(22,792)	(22,792)
Beginning fund balance	3,406,666	104,429	3,511,095
Ending fund balance	<u>\$ 4,044,835</u>	<u>\$ (375,094)</u>	<u>\$ 3,669,741</u>
	Proprietary Fund Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 1,478,332	\$ (45,981)	\$ 1,432,351
Expenditures	1,924,049	(301,756)	1,622,293
Net	(445,717)	255,775	(189,942)
Other financing sources, net	-	22,792	22,792
Beginning fund balance	1,192,285	8,187,358	9,379,643
Ending fund balance	<u>\$ 746,568</u>	<u>\$ 8,465,925</u>	<u>\$ 9,212,493</u>

See Notes to Required Supplementary Information.

CITY OF DECORAH

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2010

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 \$1,245,824. This budget amendment is reflected in the final budgeted amounts.

CITY OF DECORAH
 SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
 Year Ended June 30, 2010

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	-	\$ 464,242	\$ 464,242	0.0%	\$ 2,468,681	18.8%

See Note 9 in accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

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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 financial statements of City of Decorah as of and for the year ended June 30, 2010, appears on pages 2-3. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

We have previously audited, in accordance with U.S. generally accepted auditing standards, the financial statements of the City of Decorah as of and for the years ended June 30, 2003 through 2009, (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 seven years in the period ended June 30, 2009, appearing on page 42, 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
November 8, 2010

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CITY OF DECORAH
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2010

	Special Revenue Funds			
	Self-supported Municipal Improvement District	Hotel/Motel Tax	Emergency	Tax Increment Financing
ASSETS				
Cash	\$ 4,680			\$ 299,447
Investments				
Receivables				
Taxes				
Current	53		\$ 422	-
Succeeding year	10,000			
Interest				
Total assets	<u>\$ 14,733</u>	<u>\$ -</u>	<u>\$ 422</u>	<u>\$ 299,447</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ -			\$ 28,552
Due to other funds				29,657
Deferred revenues	10,000			
Total liabilities	<u>10,000</u>			<u>58,209</u>
Fund balances				
Reserved for				
Debt service				
Other special revenue purposes	4,733		\$ 422	241,238
Unreserved				
Designated				
Undesignated				
Total fund balances	<u>4,733</u>		<u>422</u>	<u>241,238</u>
Total liabilities and fund balances	<u>\$ 14,733</u>	<u>\$ -</u>	<u>\$ 422</u>	<u>\$ 299,447</u>

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 1

Special Revenue Funds				Debt Service Fund	Capital Projects Funds Bowstring Bridge Trail Project	Total Nonmajor Governmental Funds
Police Forfeitures	Park Commission Special Gifts	Library Board Special Gifts	Total			
\$ 7,220	\$ 105,840 174,143	\$ 58,442 146,000	\$ 475,629 320,143	\$ 70,509	\$ -	\$ 546,138 320,143
			475	1,740		2,215
			10,000	196,006		206,006
	1,110	1,061	2,171			2,171
<u>\$ 7,220</u>	<u>\$ 281,093</u>	<u>\$ 205,503</u>	<u>\$ 808,418</u>	<u>\$ 268,255</u>	<u>\$ -</u>	<u>\$ 1,076,673</u>
	\$ -		\$ 28,552 29,657 10,000	\$ - 196,006	\$ -	\$ 28,552 29,657 206,006
			68,209	196,006	-	264,215
\$ 7,220	281,093	\$ 205,503	740,209	72,249		72,249 740,209
					-	-
					-	-
<u>7,220</u>	<u>281,093</u>	<u>205,503</u>	<u>740,209</u>	<u>72,249</u>	<u>-</u>	<u>812,458</u>
<u>\$ 7,220</u>	<u>\$ 281,093</u>	<u>\$ 205,503</u>	<u>\$ 808,418</u>	<u>\$ 268,255</u>	<u>\$ -</u>	<u>\$ 1,076,673</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, 2010

	Special Revenue Funds			
	Self-supported Municipal Improvement District	Hotel/Motel Tax	Emergency	Tax Increment Financing
REVENUES				
Property taxes			\$ 48,286	
Tax increment financing collections				\$ 586,153
Other City tax	\$ 9,844	\$ 133,486	1,570	
Use of money and property				
Intergovernmental				
Miscellaneous				
Total revenues	9,844	133,486	49,856	586,153
EXPENDITURES				
Current				
Public safety				
Culture and recreation				
Community and economic development	23,707	133,486		302,331
Debt service				
Principal				190,000
Interest and other charges				74,875
Total expenditures	23,707	133,486	-	567,206
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(13,863)	-	49,856	18,947
OTHER FINANCING SOURCES (USES)				
Proceeds from issuance of debt				
Sale of capital assets				
Transfers in/(out)			(49,925)	
Total other financing sources (uses)	None	None	(49,925)	None
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(13,863)	-	(69)	18,947
FUND BALANCES, beginning of year	18,596	-	491	222,291
FUND BALANCES, end of year	\$ 4,733	\$ -	\$ 422	\$ 241,238

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	
			\$ 48,286	\$ 216,338		\$ 264,624
			586,153			586,153
			144,900	4,496		149,396
	\$ 3,635	\$ 3,028	6,663			6,663
\$ -	13,022	28,610	41,632		\$ 9,559	51,191
-	16,657	31,638	827,634	220,834	9,559	1,058,027
342			342			342
	23,252	5,656	28,908			28,908
			459,524			459,524
			190,000	172,056		362,056
			74,875	26,435		101,310
342	23,252	5,656	753,649	198,491	-	952,140
(342)	(6,595)	25,982	73,985	22,343	9,559	105,887
						-
			(49,925)	(22,792)		(72,717)
None	-	None	(49,925)	(22,792)	-	(72,717)
(342)	(6,595)	25,982	24,060	(449)	9,559	33,170
7,562	287,688	179,521	716,149	72,698	(9,559)	779,288
\$ 7,220	\$ 281,093	\$ 205,503	\$ 740,209	\$ 72,249	\$ -	\$ 812,458

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

	Modified Accrual Basis							
	2010	2009	2008	2007	2006	2005	2004	2003
Revenues								
Property tax	\$ 2,983,326	\$ 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	586,153	351,092	412,913	121,451	211,559	236,228	230,703	214,658
Other City tax	1,128,426	1,176,038	1,091,758	1,161,593	958,282	1,043,493	967,761	916,921
Licenses and permits	27,511	27,876	29,527	31,567	21,690	27,983	23,165	27,828
Use of money and property	69,068	90,233	154,927	200,056	157,361	170,653	111,644	61,477
Intergovernmental	1,702,044	2,127,342	1,918,414	1,837,272	1,692,123	1,708,217	1,306,006	1,274,309
Charges for service	437,368	445,392	410,662	393,374	415,992	405,666	396,387	370,216
Miscellaneous	725,574	998,901	602,745	608,238	196,906	296,929	310,379	326,796
Total	\$ 7,659,470	\$ 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	\$ 2,002,994	\$ 1,966,056	\$ 1,627,775	\$ 1,706,035	\$ 1,501,249	\$ 1,385,420	\$ 1,375,223	\$ 1,365,603
Public works	1,108,378	1,345,113	1,176,561	1,320,506	788,113	883,506	1,018,018	1,104,002
Health and social services	21,209	21,129	17,129	17,129	27,579	10,450	11,000	15,200
Culture and recreation	1,481,633	1,511,608	1,477,976	1,456,849	1,281,232	1,221,974	1,371,093	1,145,998
Community & economic development	1,436,641	1,223,052	1,582,343	1,066,783	977,114	809,164	504,369	221,366
General government	462,811	417,998	400,494	423,004	363,985	302,879	328,983	330,474
Debt service	483,205	467,575	454,742	502,553	828,262	653,552	1,035,212	705,979
Capital projects	481,161	1,043,181	2,034,181	1,250,087	1,522,421	504,879	1,402,525	1,851,670
Total	\$ 7,478,032	\$ 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.

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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, 2010, which collectively comprise City of Decorah's basic financial statements and have issued our report thereon dated November 8, 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.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, as discussed below that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Decorah's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of City of Decorah in a separate letter dated November 8, 2010.

The City of Decorah's response to the findings identified in our audit is described above. 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
November 8, 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, 2010, 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 November 8, 2010, contains our report on significant deficiencies in the City's internal control. This letter does not affect our report dated November 8, 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, 2010 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, 2010, exceeded the amount budgeted in the public safety function. Chapter 384.20 of the Code of Iowa states, in part, "public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation

The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. We understand the cause of this budget problem was the change in the classification of flood expenditures.

Response

We had continuing unexpected expenses associated with the flooding of 2008. All expenses were properly authorized by Council prior to payment and all projects associated with this event have been completed. Whereas, due diligence is always followed in preparing the amendment to ensure we do not exceed budgeted amounts in any function these expenses were simply missed. Every effort will be made to not repeat such an oversight in the future.

Conclusion

Response accepted.

2. Questionable Disbursements

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

3. Travel Expense

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

4. Business Transactions

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Randy Schissel, City Council Account Executive, Storey Kenworthy	Retail purchases	\$ 11,977
Brett Willie, Airport Commission Member, Manager Sherwin Williams	Retail purchases	\$ 4,144
Paul Wanless, City Council Member, Owner Sports Shop	Supplies	\$ 5,190

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.

Brett Willie, Airport Commission, is the Manager of Sherwin Williams. Decorah has limited suppliers for certain products. Again, we try to buy locally when possible and purchases are monitored throughout the year.

Paul Wanless, City Council, Sports Shop owner. We try to utilize all local suppliers of clothing and printing supplies for our park and recreation programs. Mr. Wanless is one of those suppliers and purchases are monitored throughout the year.

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
November 8, 2010