

CITY OF WAUKON
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

June 30, 2011

HAGEN & KALLEVANG, P.C.
Certified Public Accountants

CITY OF WAUKON

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CITY OF WAUKON

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2011)		
Loren Beneke	Mayor	December 31, 2011
Trent Mitchell	Mayor Pro Tem	December 31, 2011
Dave Sanderson	Council Member	December 31, 2011
Joe Cunningham	Council Member	December 31, 2013
John Ellingson	Council Member	December 31, 2013
Steve Wiedner	Council Member	December 31, 2013
Diane Sweeney	Clerk/Treasurer	December 31, 2010
James Garrett	Attorney	December 31, 2010
Jeff Swartz	Assistant Attorney	December 31, 2010
(After January 2011)		
Loren Beneke	Mayor	December 31, 2011
Trent Mitchell	Mayor Pro Tem	December 31, 2011
Dave Sanderson	Council Member	December 31, 2011
Joe Cunningham	Council Member	December 31, 2013
John Ellingson	Council Member	December 31, 2013
Steve Wiedner	Council Member	December 31, 2013
Diane Sweeney	Clerk/Treasurer	December 31, 2011
James Garrett	Attorney	December 31, 2011
Jeff Swartz	Assistant Attorney	December 31, 2011

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Waukon, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Waukon's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements referred to above include the primary government of the City of Waukon, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Waukon as of June 30, 2011, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information for the primary government of the City of Waukon as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated March 5, 2012 on our consideration of the City's internal control over financial reporting and 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 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.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 11 and 27 and 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Hagen & Kallewang, P.C." The signature is written in black ink on a white background.

March 5, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Waukon provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follows.

2011 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased 38.8%, or approximately \$1,545,000 from fiscal 2010 to fiscal 2011. The receipt sources with major changes from the prior year are as follows:

	Increase (Decrease)
Taxes	\$ 51,000
Grants and contributions	(375,000)
Local option sales tax	71,000
Charges for services	44,000
Loan proceeds	1,868,000
All others, net	(114,000)
	<u>\$ 1,545,000</u>

Disbursements increased, 4.1%, or \$171,000 in fiscal 2011 from fiscal 2010. The disbursements with major changes from the prior year are as follows:

Public safety	\$ (147,000)
Culture and recreation	42,000
Debt service	967,000
Capital projects	(648,000)
All others, net	(43,000)
	<u>\$ 171,000</u>

The City's total cash basis net assets increased 33.5%, or approximately \$1,139,000, from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities increased approximately \$1,203,000 and the assets of the business type activities decreased by approximately \$64,000. The significant increase in the cash basis net assets is from the timing of loan proceeds in June 2011 and the use of those proceeds won't occur until the year ending June 30, 2012.

USING THIS ANNUAL REPORT

The 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.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the indebtedness of the City.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax, state and federal grants, and debt proceeds finance most of these activities.
- Business-Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government 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 statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

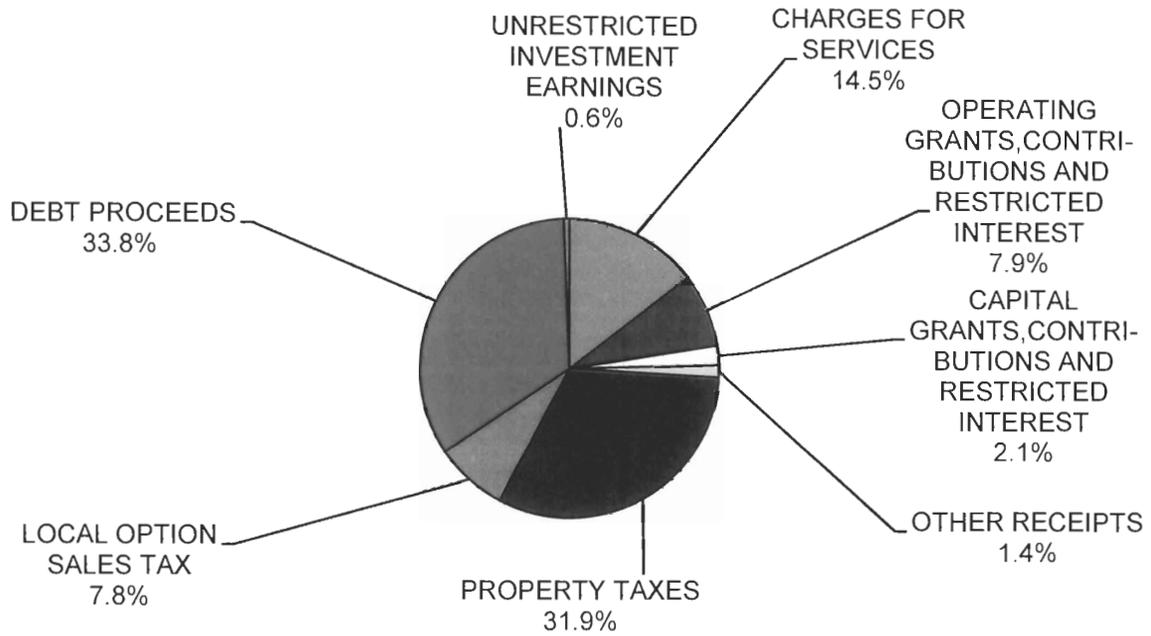
GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

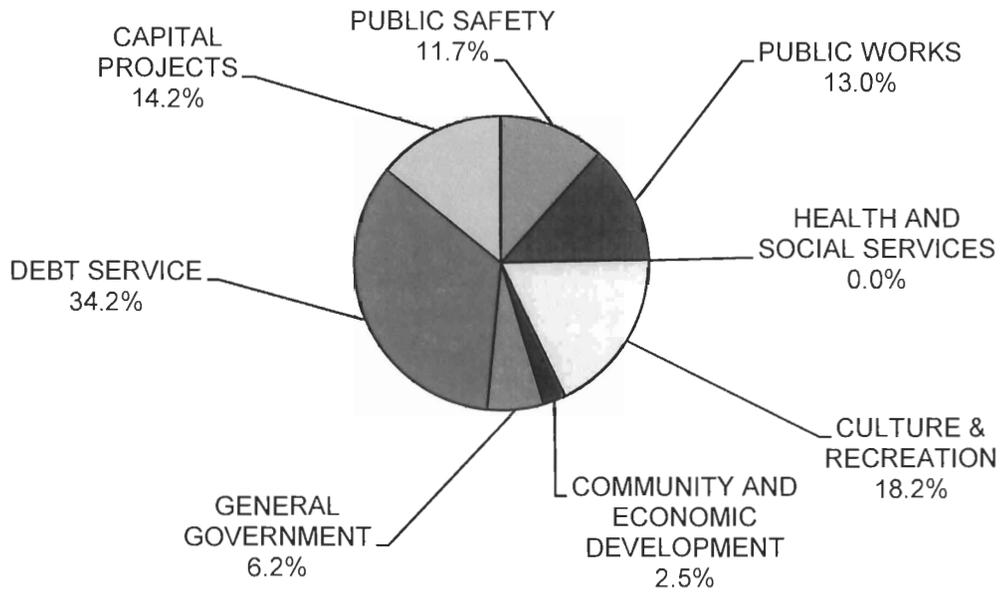
Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)

	Year ended June 30,							
	2011	2010	2009	2008	2007	2006	2005	2004
Receipts:								
Program receipts:								
Charges for service	\$ 804	\$ 760	\$ 784	\$ 751	\$ 524	\$ 391	\$ 400	\$ 415
Operating grants, contributions and restricted interest	439	653	411	404	390	403	408	411
Capital grants, contributions and restricted interest	114	275	52	1,019	1,191	223	115	77
General receipts:								
Property tax	1,763	1,712	1,667	1,492	1,415	1,332	1,475	1,438
Local option sales tax	434	363	327	290	320	257	296	265
Grants and contributions not restricted to specific purposes	-	-	-	-	-	-	-	-
Unrestricted investment earnings	34	50	69	90	90	64	33	22
Loan proceeds	1,868	-	-	-	3,900	-	1,420	500
Other general receipts	75	173	19	133	-	8	28	27
Total receipts	<u>5,531</u>	<u>3,986</u>	<u>3,329</u>	<u>4,179</u>	<u>7,830</u>	<u>2,678</u>	<u>4,175</u>	<u>3,155</u>
Disbursements:								
Public safety	502	649	478	437	435	439	364	527
Public works	561	599	593	559	778	550	544	466
Health and social services	-	-	-	-	-	9	9	9
Culture and recreation	784	742	737	628	420	423	366	385
Community and economic development	109	100	104	55	49	44	45	60
General government	268	282	232	231	242	247	222	220
Debt service	1,474	507	621	669	453	377	275	738
Capital projects	610	1,258	455	3,459	3,207	1,608	1,471	709
Total disbursements	<u>4,308</u>	<u>4,137</u>	<u>3,220</u>	<u>6,038</u>	<u>5,584</u>	<u>3,697</u>	<u>3,296</u>	<u>3,114</u>
Change in cash basis net assets before transfers	1,223	(151)	109	(1,859)	2,246	(1,019)	879	41
Transfers, net	(20)	(168)	-	-	(8)	11	12	10
Change in cash basis net assets	1,203	(319)	109	(1,859)	2,238	(1,008)	891	51
Cash basis net assets beginning of year	1,818	2,137	2,028	3,887	1,649	2,657	1,766	1,715
Cash basis net assets end of year	<u>\$ 3,021</u>	<u>\$ 1,818</u>	<u>\$ 2,137</u>	<u>\$ 2,028</u>	<u>\$ 3,887</u>	<u>\$ 1,649</u>	<u>\$ 2,657</u>	<u>\$ 1,766</u>

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased approximately \$1,545,000, which reflects an increase in taxes, charges for services and loan proceeds. The total cost of all programs and services increased by approximately \$171,000, which reflects the increase of total debt costs.

The cost of all governmental activities this year was approximately \$4,308 million compound to approximately \$4,137 million last year. However, as shown in the Statement of Activities and Net Assets on page 12, the amount the taxpayers ultimately financed for these activities was only \$2,952 million because some of the cost was paid by those directly benefited from charges for service of nearly \$804,000, and another \$553,000 from grants, contributions and restricted interest.

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

	Year ended June 30,							
	2011	2010	2009	2008	2007	2006	2005	2004
Receipts:								
Program receipts:								
Charges for service								
Water	\$ 393	\$ 360	\$ 375	\$ 382	\$ 383	\$ 395	\$ 382	\$ 388
Sewer	353	348	384	382	378	390	355	346
General receipts:								
Unrestricted investment earnings	8	11	15	14	13	8	6	4
Other general receipts and loan proceeds	876	-	-	-	-	-	46	67
Total receipts	<u>1,630</u>	<u>719</u>	<u>774</u>	<u>778</u>	<u>774</u>	<u>793</u>	<u>789</u>	<u>805</u>
Disbursements:								
Water	692	476	291	235	386	344	330	317
Sewer	1,022	414	398	367	283	321	393	275
Total disbursements	<u>1,714</u>	<u>890</u>	<u>689</u>	<u>602</u>	<u>669</u>	<u>665</u>	<u>723</u>	<u>592</u>
Change in cash basis net assets before transfers	(84)	(171)	85	176	105	128	66	213
Transfers, net	20	168	-	-	8	(11)	(12)	(10)
Change in cash basis net assets	(64)	(3)	85	176	113	117	54	203
Cash basis net assets beginning of year	1,587	1,590	1,505	1,329	1,216	1,099	1,045	842
Cash basis net assets end of year	<u>\$1,523</u>	<u>\$1,587</u>	<u>\$1,590</u>	<u>\$1,505</u>	<u>\$1,329</u>	<u>\$1,216</u>	<u>\$1,099</u>	<u>\$1,045</u>

Total business type activities receipts for the fiscal year were \$1,630,000 compared to \$719,000 last year. The increase was due primarily to an increase in loan proceeds. The cash balance decreased \$64,000. Total disbursements and transfers for the fiscal year increased 63.9% to a total of \$1,734,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Waukon completed this year, its governmental funds reported a combined fund balance of \$3,020,789, an increase of \$1,203,051 from last year's total of \$1,817,728. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$61,626 from the prior year of \$397,787. This was due to an increase in summer recreation fees and property tax revenue and decrease in public safety, culture and recreation and general government cost. The cash balance at year-end was \$459,413.
- The Road Use Tax Fund cash balance increased \$27,248 from the prior year to \$90,078 due to decrease in snow removal and equipment repairs costs.
- The Urban Renewal Tax Increment Fund cash balance increased by \$80,890 from the prior year to \$228,281. The fund is used for urban renewal tax increment capital projects and debt payments.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS (continued)

- The Local Option Sales Tax Fund was established upon approval of a referendum imposing a 1% local option sales and service tax for reconstruction/repair/replacement of existing streets and curbs, storm sewers, sanitary sewers, water mains and other structures that relate to streets. At the end of the fiscal year the cash balance was \$900,490. The City continues to use proceeds from this fund for street improvements each year.
- The Debt Service Fund cash balance at year end was \$65,225.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise, Water Fund cash balance increased by \$115,772 to \$972,783 due to the annual operational costs were less than the total of operating receipts. Receipts totaling \$398,226 for 2011 is an increase by \$31,475 compared to last year's total.

The Enterprise, Sewer Fund cash balance decreased by \$179,768 to \$550,145, due to expenditures were more than revenues this fiscal year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget twice. The City of Waukon's 2011 final amended budget for expenditures was \$6,569,973. Proceeds from the sale of \$1,890,000 General Obligation Corporate Purpose Bonds were used to retire interim finance notes at the local banks, with the remaining bond proceeds to be used for various capital project costs which occurred towards the end of the fiscal year.

DEBT ADMINISTRATION

At June 30, 2011, the City had approximately \$6,276,884 in bonds and other long term debt, compared to approximately \$4,697,521 from last year.

Outstanding Debt at Year-End (Expressed in Thousands)

	Year ended June 30,							
	2011	2010	2009	2008	2007	2006	2005	2004
General obligation bonds	\$6,277	\$4,698	\$4,991	\$5,271	\$5,585	\$1,801	\$1,900	\$ 535
Revenue notes	-	-	-	-	-	100	190	275
Real estate contract payable	-	65	-	-	-	-	-	-
Urban renewal tax increment financing revenue bonds	-	-	-	108	211	311	432	548
Total	\$6,277	\$4,763	\$4,991	\$5,379	\$5,796	\$2,212	\$2,522	\$1,358

The City was assigned by a national rating agency bond rating of A2 on its \$1,890 million general obligation bond issued this year.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$6,276,884 is below its constitutional debt limit of \$9,063,116.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Waukon has amended its budget for fiscal year 2012 by \$382,332 for police costs, sewer operation costs, economic development costs, capital improvement projects and payment of interest.

The City of Waukon is working on the 2012 street improvement project estimated to cost \$1,097,700.

A capital fundraising campaign to expand Robey Memorial Library is in progress. The expansion project is estimated to cost \$1,400,000. Sources of revenue for this project are Library trust funds, grants/capital campaign funds and the City's contribution of \$493,460.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Diane Sweeney, City Clerk, City of Waukon, 101 Allamakee Street, Waukon, IA 52172 (563-568-3492).

BASIC FINANCIAL STATEMENTS

CITY OF WAUKON

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

As of and for the year ended June 30, 2011

Functions/Programs	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs							
Governmental activities							
Public safety	\$ (501,648)	\$ 14,606	\$ -	\$ 257	\$ (486,785)	\$ -	\$ (486,785)
Public works	(561,219)	243,326	382,544	-	64,651	-	64,651
Health and social services	-	-	-	-	-	-	-
Culture and recreation	(784,295)	380,631	53,558	29,883	(320,223)	-	(320,223)
Community and economic development	(108,846)	-	-	-	(108,846)	-	(108,846)
General government	(267,993)	56,042	-	-	(211,951)	-	(211,951)
Debt service	(1,474,317)	109,200	2,651	-	(1,362,466)	-	(1,362,466)
Capital projects	(610,093)	-	-	84,141	(525,952)	-	(525,952)
Total governmental activities	(4,308,411)	803,805	438,753	114,281	(2,951,572)	-	(2,951,572)
Business type activities							
Water	(691,818)	393,401	-	-	-	(298,417)	(298,417)
Sewer	(1,022,082)	352,601	-	-	(669,481)	-	(669,481)
Total business type activities	(1,713,900)	746,002	-	-	(967,898)	-	(967,898)
Total	\$ (6,022,311)	\$ 1,549,807	\$ 438,753	\$ 114,281	(2,951,572)	(967,898)	(3,919,470)
General Receipts and Transfers							
Property and other city tax levied for							
General purposes					988,722	-	988,722
Debt service					133,867	-	133,867
Tax increment financing					640,990	-	640,990
Local option sales tax					433,853	-	433,853
Unrestricted interest on investments					34,034	7,637	41,671
Debt proceeds					1,868,071	876,341	2,744,412
Sale of capital assets					75,010	-	75,010
Transfers					(19,924)	19,924	-
Total general receipts and transfers					4,154,623	903,902	5,058,525
Change in cash basis net assets					1,203,051	(63,996)	1,139,055
Cash basis net assets beginning of year					1,817,738	1,586,924	3,404,662
Cash basis net assets end of year					\$ 3,020,789	\$ 1,522,928	\$ 4,543,717
Cash Basis Fund Balances							
Restricted For							
Urban renewal purposes					\$ 228,281	\$ -	\$ 228,281
Debt service					65,225	-	65,225
Streets					90,078	-	90,078
Streets and related infrastructure					900,490	-	900,490
Other purposes					506,361	-	506,361
Committed for special purposes					44,969	-	44,969
Assigned for special purposes					184,297	-	184,297
Unassigned					1,001,088	1,522,928	2,524,016
Total cash basis fund balances					\$ 3,020,789	\$ 1,522,928	\$ 4,543,717

See notes to financial statements.

CITY OF WAUKON

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2011

	Special Revenue						Total
	General	Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax	Debt Service	Other Nonmajor Governmental Funds	
Receipts							
Property tax	\$ 809,885	\$ -	\$ -	\$ -	\$ 131,887	\$ 133,277	\$ 1,075,049
Tax increment financing	-	-	640,990	-	-	-	640,990
Other city tax	43,079	-	-	433,853	1,980	2,481	481,393
Licenses and permits	16,907	-	-	-	-	-	16,907
Use of money and property	59,728	-	-	-	111,851	10,548	182,127
Intergovernmental	55,033	369,724	-	-	-	127,809	552,566
Charges for service	291,055	-	-	-	-	218,668	509,723
Special assessments	-	-	-	-	-	-	-
Miscellaneous	79,894	-	-	-	-	49,656	129,550
Total receipts	1,355,581	369,724	640,990	433,853	245,718	542,439	3,588,305
Disbursements							
Operating							
Public safety	426,681	-	-	-	-	74,967	501,648
Public works	218,743	342,476	-	-	-	-	561,219
Health and social services	-	-	-	-	-	-	-
Culture and recreation	439,952	-	-	-	-	344,343	784,295
Community and economic development	74,065	-	32,270	-	-	2,511	108,846
General government	252,358	-	690	-	-	14,945	267,993
Debt service	-	-	65,912	-	1,408,405	-	1,474,317
Capital projects	-	-	-	-	-	610,093	610,093
Total disbursements	1,411,799	342,476	98,872	-	1,408,405	1,046,859	4,308,411
Excess of receipts over (under) disbursements	(56,218)	27,248	542,118	433,853	(1,162,687)	(504,420)	(720,106)
Other financing sources (uses)							
General obligation bond proceeds (net of \$21,929 discount)	-	-	-	-	946,105	921,966	1,868,071
Sale of capital assets	75,000	-	-	-	-	10	75,010
Operating transfers in	95,329	-	70,352	-	267,190	383,880	816,751
Operating transfers out	(52,485)	-	(531,580)	(142,848)	-	(109,762)	(836,675)
Total other financing sources (uses)	117,844	-	(461,228)	(142,848)	1,213,295	1,196,094	1,923,157
Net change in cash balances	61,626	27,248	80,890	291,005	50,608	691,674	1,203,051
Cash balances beginning of year, as restated	397,787	62,830	147,391	609,485	14,617	585,628	1,817,738
Cash balances end of year	\$ 459,413	\$ 90,078	\$ 228,281	\$ 900,490	\$ 65,225	\$ 1,277,302	\$ 3,020,789

CITY OF WAUKON

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2011

	Special Revenue							Total
	General	Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax	Debt Service	Other Nonmajor Governmental Funds		
Cash Basis Fund Balances Restricted For								
Urban renewal purposes	\$ -	\$ -	228,281	\$ -	\$ -	\$ -	\$ 228,281	
Debt service	-	-	-	-	65,225	-	65,225	
Streets	-	90,078	-	-	-	-	90,078	
Streets and related infrastructure	-	-	-	900,490	-	-	900,490	
Other purposes	22,794	-	-	-	-	483,567	506,361	
Committed for special purposes	44,969	-	-	-	-	-	44,969	
Assigned for special purposes	180,724	-	-	-	-	3,573	184,297	
Unassigned	210,926	-	-	-	-	790,162	1,001,088	
Total cash basis fund balances	\$ 459,413	\$ 90,078	\$ 228,281	\$ 900,490	\$ 65,225	\$ 1,277,302	\$ 3,020,789	

CITY OF WAUKON

RECONCILIATION OF THE STATEMENT OF CASH
RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2011

Total governmental funds cash balances (page 13)	\$ 3,020,789
Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:	
Not applicable	<u>-</u>
Cash basis net assets of governmental activities (page 12)	<u>\$ 3,020,789</u>
Net change in cash balances (page 13)	\$ 1,203,051
Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:	
Not applicable	<u>-</u>
Change in cash balance of governmental activities (page 12)	<u>\$ 1,203,051</u>

CITY OF WAUKON

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

As of and for the year ended June 30, 2011

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 391,250	\$ 351,496	\$ 742,746
Miscellaneous	2,151	1,105	3,256
Total operating receipts	<u>393,401</u>	<u>352,601</u>	<u>746,002</u>
Operating disbursements:			
Business type activities	289,494	535,348	824,842
Total operating disbursements	<u>289,494</u>	<u>535,348</u>	<u>824,842</u>
Excess of operating receipts over (under) operating disbursements	<u>103,907</u>	<u>(182,747)</u>	<u>(78,840)</u>
Non-operating receipts (disbursements):			
Interest on investments	4,825	2,812	7,637
General obligation bond proceeds	392,246	484,095	876,341
Capital projects	(402,324)	(486,734)	(889,058)
Total non-operating receipts (disbursements)	<u>(5,253)</u>	<u>173</u>	<u>(5,080)</u>
Excess of receipts over (under) disbursements	<u>98,654</u>	<u>(182,574)</u>	<u>(83,920)</u>
Transfers			
Operating transfers in	141,720	47,806	189,526
Operating transfers out	(124,602)	(45,000)	(169,602)
Total transfers, net	<u>17,118</u>	<u>2,806</u>	<u>19,924</u>
Net change in cash balances	115,772	(179,768)	(63,996)
Cash balances beginning of year	857,011	729,913	1,586,924
Cash balances end of year	<u>\$ 972,783</u>	<u>\$ 550,145</u>	<u>\$ 1,522,928</u>
Cash Basis Fund Balances			
Restricted for debt service	\$ -	\$ -	\$ -
Unrestricted	<u>972,783</u>	<u>550,145</u>	<u>1,522,928</u>
Total cash basis fund balances	<u>\$ 972,783</u>	<u>\$ 550,145</u>	<u>\$ 1,522,928</u>

See notes to financial statements.

CITY OF WAUKON

RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
PROPRIETARY FUNDS

As of and for the year ended June 30, 2011

Total enterprise funds cash balances (page 16)	\$ 1,522,928
Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:	
Not applicable	<u>-</u>
Cash basis net assets of business type activities (page 12)	<u>\$ 1,522,928</u>
Net change in cash balances (page 16)	\$ (63,996)
Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:	
Not applicable	<u>-</u>
Change in cash balance of business type activities (page 12)	<u>\$ (63,996)</u>

CITY OF WAUKON

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Waukon is a political subdivision of the State of Iowa located in Allamakee County. It was first incorporated in 1883 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a nonpartisan basis. 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. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, except as noted below, City of Waukon 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.

These financial statements present the City of Waukon (the primary government) and excludes all component units. The component units discussed below are not included in the City's reporting entity for various reasons although the operational or financial relationship with the City may or may not be significant.

Excluded Component Units:

The Veterans Memorial Hospital was established under Chapter 392 of the Code of Iowa. The Hospital has the potential to provide specific benefits to, or impose specific burdens on the City. The Hospital is governed by an elected five-member board of trustees. The Hospital has been audited separately and the report is filed under separate cover. The financial statements can be obtained from the Hospital's administrative office.

The Waukon Economic Development Corporation and Waukon Trees Forever, are non-profit corporations but have the potential to provide specific benefits to, or impose specific burdens on the City.

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: Allamakee County Economic Development and Tourism Commission, Allamakee County Assessor's Conference Board, Upper Explorerland Regional Housing Authority, Allamakee County Joint E911 Service Board, and Waukon Area Fire Protection District (28E).

CITY OF WAUKON

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation

Government-wide Financial Statement – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City. The City currently does not have any nonexpendable restricted net assets.

Expendable 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 preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts 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 and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts 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 disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

CITY OF WAUKON

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation (continued)

Special Revenue (continued):

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections, the repayment of tax increment financing indebtedness, and other costs associated with urban renewal projects.

The Local Option Sales Tax Fund is used to account for the City's share of local option sales tax collected and disbursed by the State of Iowa

The Debt Service fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restricted classifications – committed, assigned, and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

CITY OF WAUKON

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements for debt service exceeded the amounts budgeted.

NOTE 2 - CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2011 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.

Even though allowed by statute, the City's investment policy only allows the following: interest bearing savings, money market, and checking accounts at any bank, savings and loan association or credit union in the State of Iowa. Obligations of the United States government, its agencies and instrumentalities and certificates of deposit and other evidence of deposit at federally insured Iowa depository institutions are also eligible.

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.

CITY OF WAUKON

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2011

NOTE 3 - BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2012	\$ 333,264	\$ 231,944
2013	371,030	216,728
2014	383,930	204,306
2015	396,966	191,389
2016	410,148	177,513
2017 - 2021	2,039,006	686,191
2022 - 2026	1,977,540	297,839
2027 - 2031	365,000	45,750
	<u>\$ 6,276,884</u>	<u>\$ 2,051,660</u>

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund.

One general obligation bearer bond issued in 1976 in the amount of \$10,000 remains outstanding as of June 30, 2011. Efforts by the City to ascertain the identity of the bondholder have not been successful.

Real Estate Contract Payable - The City entered into a contract to purchase real estate in April 2010 for an urban renewal project. The contract for \$86,850 stated a down payment of \$21,712.50 with the balance to be paid by January 15, 2011 with interest at two percent per annum. The contract was paid off in January 2011.

NOTE 4 - PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which 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.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$75,572, \$68,377, and \$64,485, respectively, equal to the required contributions for each year.

NOTE 5 - SELF FUNDING

The City has established a partially self funded group medical plan. The plan allows the City lower monthly premiums for coverage in exchange for the potential of claims actually filed. If all the covered individuals submitted the maximum claim to be paid by the City, the total would be estimated at \$50,652.

CITY OF WAUKON

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2011

NOTE 6 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description - The City of Waukon operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses until they become Medicare eligible. There are currently 18 active and no retired members enrolled in the plan. To qualify for the retiree benefit, the retiree must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a partially self insured plan design. Wellmark Blue Cross and Blue Shield of Iowa is the provider of the fully insured high deductible benefits and Group Services, Inc. administers the self funded portion of the plan. Retirees pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements for the medical/prescription drug plan are established and may be amended by the City. Retirees pay 100% of the premium for their coverage. The most recent active member monthly premiums are \$405.23/Single, \$900.31 Employee/Spouse, \$828.15 Employee/Children, and \$1,270.70/Family. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City contributed \$125,232.56 and plan members eligible for benefits contributed \$21,095.24 to the plan.

NOTE 7 - COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2011, primarily relating to the General Fund, is as follows:

Vacation	\$ 60,675
Sick Leave	112,821
Total	<u>\$ 173,496</u>

Sick leave is forfeited if not used by the employee before termination. Upon retirement an employee is eligible for payment of 50% of the unused sick leave. This liability has been computed based on rates of pay in effect at June 30, 2011.

NOTE 8 - RISK MANAGEMENT

The City 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.

NOTE 9 - ECONOMIC DEVELOPMENT

The City, to encourage economic development, provides rebates to businesses and developers. The rebates are paid only from incremental property taxes; therefore, do not constitute a general obligation of the City. Terms of the rebates vary according to the agreement. The City, as of June 30, 2011, had a total of \$569,134 to pay in rebates through the year 2022.

The City will provide additional rebates contingent on the business or developer fulfilling its share of the terms of agreements with the City.

CITY OF WAUKON

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2011

NOTE 10 - LEASES

The City leases real estate to a communications company for a communication tower. The lease agreement started March 2006 and is for five years with options to renew every five years for a maximum of thirty years. The rent will start at \$700 per month and may be adjusted at each renewal. The current rent is \$777.26 per month due to the adjustment that's based on the change in the "Consumer Price Index". The City subleases space back from the communication company at \$150 per month. The net effect of the leases is the City has monthly income of \$627 or \$7,524 on an annual basis.

The City leases real estate to a medical clinic. The lease started in 2005 and is for 20 years. The City receives monthly payments of \$9,100. The lease payments are then used to pay the underlying debt on the property which has a balance outstanding of \$1,121,884 as of June 30, 2011.

The City in October 2002 entered into a 25 year agreement to allow a Company the right to maintain an antenna on the City's water tower and other equipment on City property. In exchange the City would receive free high speed internet connection e-mail for a certain number of computers located at City Hall.

The City entered into a lease agreement in June 2008 for the use of a copier. The lease is for five years with monthly payments of \$161.

Minimum lease payments are as follows:

Year Ending June 30,	As Lessor	As Lessee
2012	118,527	1,935
2013	118,527	1,935
2014	118,527	-
2015	118,527	-
2016	118,527	-
2017 - 2021	592,635	-
2022 - 2026	592,635	-
2027 - 2031	46,635	-
2032 - 2036	46,635	-
2037 - 2039	27,981	-
	1,899,156	3,870
Less sublease	(50,400)	-
	\$ 1,848,756	\$ 3,870

The City's non-cancelable lease expense for 2011 was \$1,935.

NOTE 11 - CONTINGENCIES

The City participates in state and federal assisted grant programs. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at June 30, 2011.

CITY OF WAUKON

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2011

NOTE 12 - INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

	<u>Transfer In</u>		<u>Transfer Out</u>
Governmental			
General		General	
General	\$ 11,090	General	\$ 75
General	19,768	General	4,104
General	3,750	General	5,500
General	40,000	General	167
Library	11,117	Economic Development Special	2,639
Self Insurance	4,104	Economic Development Special	40,000
Ambulance	5,500		<u>\$ 52,485</u>
	<u>\$ 95,329</u>	Special Revenue-major	
Special Revenue-major		Urban Renewal Increment	\$ 3,000
Urban Renewal Increment	\$ 65,912	Urban Renewal Increment	560
Urban Renewal Increment	4,440	Urban Renewal Increment	78,947
	<u>\$ 70,352</u>	Urban Renewal Increment	4,440
Debt Service	<u>\$ 267,190</u>	Urban Renewal Increment	3,750
Special Revenue-non major		Urban Renewal Increment	5,982
Wellness Center Trust	<u>\$ 5,000</u>	Urban Renewal Increment	43,089
Capital Projects-non major		Urban Renewal Increment	19,768
Park Capital Improvement	\$ 75	Urban Renewal Increment	24,313
IDOT Project	74,038	Urban Renewal Increment	6,503
C Mart	3,000	Urban Renewal Increment	74,038
Lomen	78,947	Urban Renewal Increment	267,190
Airport Improvement	560		<u>\$ 531,580</u>
Airport Improvement	6,028	Local Option Sales Tax	<u>\$ 142,848</u>
Street Improvements Projects	142,848	Special Revenue-non major	
Wellness Center Maintenance Project	5,982	Employee Benefits	\$ 11,117
2010 Storm Sewer	24,313	Employee Benefits	11,090
Kitchen Krafts	43,089		<u>\$ 22,207</u>
	<u>\$ 378,880</u>	Wellness Center Operations	<u>\$ 5,000</u>
		Capital Projects-non major	
		Lomen	\$ 65,912
		Airport Improvement	16,643
			<u>\$ 82,555</u>
Total Governmental	<u>\$ 816,751</u>	Total Governmental	<u>\$ 836,675</u>

CITY OF WAUKON

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2011

NOTE 12 - INTERFUND TRANSFERS (continued)

The detail of interfund transfers for the year ended June 30, 2011 continued:

	<u>Transfer In</u>		<u>Transfer Out</u>
Enterprise		Enterprise	
Water Capital Equipment	\$ 15,000	Water	\$ 15,000
Water O & M	100,000	Water	100,000
SW Water Capital Project	3,574	Water O & M	3,574
SW Water Capital Project	6,503	Water O & M	6,028
Water O & M	16,643		<u>\$ 124,602</u>
	<u>\$ 141,720</u>		
Sewer O & M	\$ 40,000	Sewer	\$ 40,000
Sewer Capital Equipment	5,000	Sewer	5,000
Sewer O & M	167		<u>\$ 45,000</u>
SW Sewer Capital Project	2,639		
	<u>\$ 47,806</u>		
Total Enterprise	<u>\$ 189,526</u>	Total Enterprise	<u>\$ 169,602</u>

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

NOTE 13 - RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials or employees totaling \$1,156 during the year ended June 30, 2011.

NOTE 14 - SUBSEQUENT EVENTS AND COMMITMENTS

The City has committed \$7,300 to a regional revolving loan fund. Cities and counties in the area and the federal government have committed a total of \$500,000. The funds will be used for economic development. After approval of an application the various governmental units will then submit their committed funds. As of June 30, 2010, no funds have been requested of the City.

The City has outstanding construction contracts of \$1,743,610 at June 30, 2011. The costs will be paid from various revenue sources available to the City. The City has also acquired \$123,662 of equipment since the year end.

Management has evaluated subsequent events through March 5, 2012, the date on which the financial statements were available to be issued.

NOTE 15 – ACCOUNTING CHANGE/RESTATEMENT

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

Required Supplementary Information

CITY OF WAUKON

BUDGETARY COMPARISON SCHEDULE
 OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
 BUDGET AND ACTUAL (CASH BASIS) -
 ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted	Total	Budgeted Amounts		Final to Total Variance
					Original	Final	
Receipts							
Property tax	\$ 1,075,049	\$ -	\$ -	\$ 1,075,049	\$ 1,070,352	\$ 1,070,352	\$ 4,697
Tax increment financing	640,990	-	-	640,990	675,000	675,000	(34,010)
Other city tax	481,393	-	-	481,393	380,962	380,962	100,431
Licenses and permits	16,907	-	-	16,907	10,745	10,745	6,162
Use of money and property	182,127	7,637	-	189,764	179,300	179,300	10,464
Intergovernmental	552,566	-	-	552,566	420,716	435,358	117,208
Charges for service	509,723	742,746	-	1,252,469	1,146,100	1,146,100	106,369
Special assessments	-	-	-	-	1,000	1,000	(1,000)
Miscellaneous	129,550	3,256	-	132,806	207,304	207,304	(74,498)
Total receipts	3,588,305	753,639	-	4,341,944	4,091,479	4,106,121	235,823
Disbursements							
Public safety	501,648	-	-	501,648	511,730	511,730	(10,082)
Public works	561,219	-	-	561,219	612,473	612,473	(51,254)
Health and social services	-	-	-	-	-	-	-
Culture and recreation	784,295	-	-	784,295	831,365	831,365	(47,070)
Community and economic development	108,846	-	-	108,846	99,401	112,691	(3,845)
General government	267,993	-	-	267,993	337,758	351,133	(83,140)
Debt service	1,474,317	-	-	1,474,317	510,016	1,410,016	64,301
Capital projects	610,093	889,058	-	1,499,151	929,717	1,782,075	(282,924)
Business type activities	-	824,842	-	824,842	858,490	958,490	(133,648)
Total disbursements	4,308,411	1,713,900	-	6,022,311	4,690,950	6,569,973	(547,662)
Excess of receipts over (under) disbursements	(720,106)	(960,261)	-	(1,680,367)	(599,471)	(2,463,852)	783,485
Other financing sources, net	1,923,157	896,265	-	2,819,422	412,500	2,112,500	706,922
Excess of receipts and other financing sources over (under) disbursements and other financing uses	1,203,051	(63,996)	-	1,139,055	(186,971)	(351,352)	1,490,407
Balances beginning of year	1,817,738	1,586,924	-	3,404,662	3,035,340	3,035,340	369,322
Balances end of year	\$ 3,020,789	\$ 1,522,928	\$ -	\$ 4,543,717	\$ 2,848,369	\$ 2,683,988	\$ 1,859,729

CITY OF WAUKON

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING

June 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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 except Internal Service Funds. The City had no Internal Services Funds for the year ended June 30, 2011. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and 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 fund. During the year, two budget amendments increased budgeted disbursements by \$1,879,023. The budget amendments are reflected in the final budgeted amounts.

At year ended June 30, 2011, disbursements exceeded the amounts budgeted in the debit service function.

Other Supplementary Information

CITY OF WAUKON

SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES -
NONMAJOR GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2011

	Special Revenue							Total
	Employee Benefits	Library Memorial	Park Memorial	I-Jobs Street Imp. Projects	Wellness Center Operations	Trust	Capital Projects	
Receipts								
Property tax	\$ 133,277	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 133,277
Other city tax	2,481	-	-	-	-	-	-	2,481
Use of money and property	-	3,566	216	-	6,307	385	74	10,548
Intergovernmental	-	130	-	21,954	21,584	-	84,141	127,809
Charges for services	-	-	-	-	218,668	-	-	218,668
Special assessments	-	-	-	-	-	-	-	-
Miscellaneous	-	8,981	5,318	-	7,676	25,716	1,965	49,656
Total receipts	135,758	12,677	5,534	21,954	254,235	26,101	86,180	542,439
Disbursements								
Operating								
Public safety	74,967	-	-	-	-	-	-	74,967
Public works	-	-	-	-	-	-	-	-
Culture and recreation	11,117	21,896	-	-	280,504	30,826	-	344,343
Community and economic development	2,511	-	-	-	-	-	-	2,511
General government	14,945	-	-	-	-	-	-	14,945
Capital projects	-	-	-	21,954	-	-	588,139	610,093
Total disbursements	103,540	21,896	-	21,954	280,504	30,826	588,139	1,046,859
Excess of receipts over (under) disbursements	32,218	(9,219)	5,534	-	(26,269)	(4,725)	(501,959)	(504,420)
Other financing sources (uses)								
General obligation bond proceeds	-	-	-	-	-	-	921,966	921,966
Sale of capital assets	-	-	-	-	-	-	10	10
Operating transfers in	-	-	-	-	-	5,000	378,880	383,880
Operating transfers out	(22,207)	-	-	-	(5,000)	-	(82,555)	(109,762)
Total other financing sources (uses)	(22,207)	-	-	-	(5,000)	5,000	1,218,301	1,196,094
Net change in cash balances	10,011	(9,219)	5,534	-	(31,269)	275	716,342	691,674
Cash balances beginning of year, as restated	57,148	259,486	17,184	-	68,511	37,107	146,192	585,628
Cash balances end of year	\$ 67,159	\$ 250,267	\$ 22,718	\$ -	\$ 37,242	\$ 37,382	\$ 862,534	\$ 1,277,302
Cash Basis Fund Balances								
Restricted For								
Other purposes	\$ 67,159	\$ 250,267	\$ 22,718	\$ -	\$ 37,242	\$ 37,382	\$ 68,799	\$ 483,567
Assigned for special purposes	-	-	-	-	-	-	3,573	3,573
Unassigned	-	-	-	-	-	-	790,162	790,162
Total cash basis fund balances	\$ 67,159	\$ 250,267	\$ 22,718	\$ -	\$ 37,242	\$ 37,382	\$ 862,534	\$ 1,277,302

See accompanying independent auditor's report.

CITY OF WAUKON

SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General Obligation Bonds								
Hospital	Sept 1, 1976	5.00 - 6.25%	\$ 800,000	\$ 10,000	\$ -	\$ -	10,000	\$ -
Aquatic Center Bond	Dec 1, 1996	4.60 - 5.50	800,000	150,000	-	75,000	75,000	7,763
Medical Clinic	May 20, 2005	4.65	710,000	588,761	-	27,827	560,934	26,773
Medical Clinic	May 20, 2005	4.65	710,000	588,760	-	27,810	560,950	26,790
G.O. Urban Renewal								
Corporate Purpose	Oct 11, 2006	3.70 - 5.00	3,500,000	3,110,000	-	140,000	2,970,000	127,190
Corporate Purpose	June 1, 2007	4.15 - 4.50	400,000	250,000	-	40,000	210,000	10,862
Corporate Purpose	June 21, 2011	.65 - 4.15	1,890,000	-	1,890,000	-	1,890,000	-
			\$ 4,697,521	\$ 1,890,000	\$ 310,637	\$ 6,276,884	\$ 199,378	
Real Estate Contract Payable								
Mark Lomen	April 6, 2010	2.00%	\$ 86,850	\$ 65,138	\$ -	\$ 65,138	\$ -	\$ 774
General Obligation Anticipation Loans								
Farmers and Merchants	July 19, 2010	3.50%	\$ 438,170	\$ -	\$ 438,170	\$ 438,170	\$ -	\$ 10,937
Waukon State	July 19, 2010	3.50%	438,170	-	438,170	438,170	-	11,113
			\$ -	\$ 876,340	\$ 876,340	\$ -	\$ -	\$ 22,050

See accompanying independent auditor's report.

CITY OF WAUKON
BOND AND NOTE MATURITIES

June 30, 2011

GENERAL OBLIGATION BONDS

Year Ending June 30,	Hospital		Aquatic Center		Medical Clinic		Medical Clinic		G.O. Urban Renewal		Corporate Purpose																																																																																											
	Issued Interest Rates	Amount	Issued Interest Rates	Amount	Issued Interest Rates	Amount	Issued Interest Rates	Amount	Issued Interest Rates	Amount	Issued Interest Rates	Amount																																																																																										
2012		\$ 10,000	5.20%	\$ 75,000	4.65%	\$ 29,132	4.65%	\$ 29,132	4.50%	\$ 150,000	4.50%	\$ 40,000																																																																																										
2013		-	-	-	4.65	30,515	4.65	30,515	4.50	155,000	4.50	40,000																																																																																										
2014		-	-	-	4.65	31,965	4.65	31,965	4.50	160,000	4.15	40,000																																																																																										
2015		-	-	-	4.65	33,483	4.65	33,483	4.50	165,000	4.20	45,000																																																																																										
2016		-	-	-	4.65	35,074	4.65	35,074	3.70	175,000	4.25	45,000																																																																																										
2017		-	-	-	4.65	36,740	4.65	36,740	3.75	180,000	-	-																																																																																										
2018		-	-	-	4.65	38,485	4.65	38,485	3.80	185,000	-	-																																																																																										
2019		-	-	-	4.65	40,314	4.65	40,314	3.83	195,000	-	-																																																																																										
2020		-	-	-	4.65	42,229	4.65	42,229	3.85	205,000	-	-																																																																																										
2021		-	-	-	4.65	44,235	4.65	44,235	3.90	210,000	-	-																																																																																										
2022		-	-	-	4.65	46,336	4.65	46,336	3.95	220,000	-	-																																																																																										
2023		-	-	-	4.65	48,537	4.65	48,537	4.00	230,000	-	-																																																																																										
2024		-	-	-	4.65	50,843	4.65	50,843	4.05	240,000	-	-																																																																																										
2025		-	-	-	4.65	53,046	4.65	53,062	4.10	245,000	-	-																																																																																										
2026		-	-	-	-	-	-	-	4.125	255,000	-	-																																																																																										
2027		-	-	-	-	-	-	-	-	-	-	-																																																																																										
2028		-	-	-	-	-	-	-	-	-	-	-																																																																																										
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CITY OF WAUKON

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS

FOR THE LAST EIGHT YEARS

	Years ended June 30,							
	2011	2010	2009	2008	2007	2006	2005	2004
Receipts								
Property tax	\$1,075,049	\$1,005,549	\$ 974,518	\$ 923,499	\$ 931,811	\$ 853,693	\$ 785,895	\$ 812,094
Tax increment financing	640,990	650,698	636,692	487,998	452,561	448,923	653,627	589,101
Other city tax	481,393	418,428	382,991	370,726	350,641	286,452	331,177	301,291
Licenses and permits	16,907	12,884	10,979	13,463	11,301	14,683	8,126	19,143
Use of money and property	182,127	196,141	218,447	255,387	312,123	82,703	41,479	29,745
Intergovernmental	552,566	784,002	426,795	1,216,107	1,451,962	394,135	399,854	472,624
Charges for service	509,723	484,973	508,645	467,718	285,540	289,470	294,924	291,507
Special assessments	-	2,384	4,036	3,727	3,463	5,464	5,830	15,192
Miscellaneous	129,550	257,373	147,094	307,617	130,383	295,087	210,022	124,786
Total	\$3,588,305	\$3,812,432	\$3,310,197	\$4,046,242	\$3,929,785	\$2,670,610	\$2,730,934	\$2,655,483
Disbursements								
Operating								
Public safety	\$ 501,648	\$ 648,958	\$ 478,171	\$ 436,920	\$ 434,797	\$ 438,537	\$ 363,429	\$ 526,815
Public works	561,219	598,711	593,093	558,547	778,560	550,421	544,427	465,949
Health and social services	-	-	-	119	-	9,000	9,000	9,000
Culture and recreation	784,295	742,157	737,415	628,303	420,223	422,983	365,944	384,617
Community and economic development	108,846	100,128	103,857	54,665	49,349	44,269	44,704	60,595
General government	267,993	282,378	232,376	231,418	241,774	246,945	221,971	220,089
Debt service	1,474,317	506,910	620,567	668,463	452,906	377,036	275,081	737,950
Capital projects	610,093	1,258,058	454,702	3,459,224	3,206,539	1,607,830	1,470,751	709,056
Total	\$4,308,411	\$4,137,300	\$3,220,181	\$6,037,659	\$5,584,148	\$3,697,021	\$3,295,307	\$3,114,071

See accompanying independent auditor's report.

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Waukon, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated March 5, 2012. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with another comprehensive basis of accounting. 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 the City of Waukon'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 our opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Waukon's 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 a material misstatement of City of Waukon'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, 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, described in Part II of the accompanying Schedule of Findings as items II-A-11, II-B-11, and II-C-11 that we considered to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Waukon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 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.

City of Waukon's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City of Waukon, and other parties to whom the City of Waukon may report including federal awarding agencies and pass-through entities. This 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 personnel of City of Waukon during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Hagen & Kallenberg, P.C.

March 5, 2012

CITY OF WAUKON
SCHEDULE OF FINDINGS
Year ended June 30, 2011

Part I: Summary of the Independent Auditor's Results

- a. Unqualified opinions were issued on the primary government financial statements which were prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- b. Significant deficiencies and no material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- c. The audit did not disclose any non-compliance which is material to the financial statements.
- d. A Single Audit was not necessary since Federal funds expended during the year were less than \$500,000.

Part II: Findings Related to the Financial Statements

Internal Control Deficiencies

II-A-11

Segregation of Duties - The City is not large enough to permit an adequate segregation of duties for an effective system of internal control. The concentration of closely related duties and responsibilities such as recording and processing cash receipts, preparing and signing checks, preparing journals and general financial information for ledger posting and analyzing financial information by a small staff makes it impossible to establish an adequate system of automatic internal checks on the accuracy and reliability of the financial statements. While we do recognize that the City is not large enough to permit a segregation of duties for an effective internal control structure, we believe that it is important that the Council be aware that this condition does exist.

Recommendation - We realize this condition will be difficult to improve on. However, we do believe it is important that council be aware this condition does exist and make changes when appropriate and cost effective.

Response and Corrective Action Planned - The City continues to work on this.

Conclusion - Response accepted

II-B-11

Preparation of Financial Statements – Reporting financial data reliably in accordance with the Governmental Accounting Standards Board (GASB) and the cash basis of accounting requires management to possess expertise in preparing year-end financial statements, including footnote disclosures. As is common in small entities, management has the ability to review the financial statements and footnote disclosures for errors, but they presently lack the training to prepare the year-end financial statements and footnote disclosures on their own. As such, management requested us to prepare the financial statements and related disclosures.

CITY OF WAUKON
SCHEDULE OF FINDINGS
Year ended June 30, 2011

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

Recommendation - We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with GASB and the cash basis of accounting can be considered costly and ineffective. However, obtaining additional GASB and the cash basis of accounting knowledge through reading relevant accounting literature and attending continuing education courses should help management improve in their ability to prepare/review internally and take responsibility for reliable GASB and the cash basis of accounting financial statements.

Response and Corrective Action Planned – The City of Waukon will continue to work on this.

Conclusion - Response accepted

Instances of Non-Compliance

No matters were noted.

II-C-11

Payroll Process/Calculation - The City pays its employees on the bi-weekly method. Therefore, annual salaried employees' bi-weekly amount is based on the number of pay periods within any given year which can be either 26 or 27 times. The Iowa Auditor of State office has determined governmental entities using this method in any given year will either underpay or overpay the employee in relation to the amount approved by the governmental body. The more accurate method to be calculated for the bi-weekly salaries should be on a daily rate which is based on the number of working days in the fiscal year which can range from 260 to 262. There were 261 actual working days in fiscal year 2011.

Recommendation – We recommend the City change over to the more accurate method.

Response – The City will change over to this method as of July 1, 2012, allowing time to inform employees of this change.

Conclusion - Response accepted

Part III: Other Findings Related to Required Statutory Reporting

III-A-11

Certified Budget – Disbursements at the year ended June 30, 2011 exceed the amounts budgeted in the debt service 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.

CITY OF WAUKON
 SCHEDULE OF FINDINGS
 Year ended June 30, 2011

Part III: Other Findings Related to Required Statutory Reporting (continued)

Response – The City will amend the budget if necessary.

Conclusion – Response accepted

III-B-11

Questionable Disbursements - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

III-C-11

Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-11

Business Transactions - The following business transactions between the City and City officials or employees were noted:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Diane Sweeney, City Clerk Husband owns Sweeney Oil	Fuel & Oil	\$ 556
Richard Herman, Employee Part-owner Herk's Lawn and Garden	Tiling and Seeding	600

In accordance with Chapter 362.5(10) of the Code of Iowa the transactions with the related party does not appear to represent a conflict of interest since total transactions were less than \$1,500 during the fiscal year.

III-E-11

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.

III-F-11

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

III-G-11

Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.