

**CITY OF DECORAH
DECORAH, IOWA**

FINANCIAL REPORT

JUNE 30, 2011

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CITY OF DECORAH

OFFICIALS
June 30, 2011

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, 2011, 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, 2011, 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 9, 2011, 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 36 through 39 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 9, 2011

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, 2011. Please read this in conjunction with the transmittal letter and the City's financial statements contained within this audit report.

2011 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased \$1,160,620 or approximately 15.2% from FY2010 to FY2011. Property taxes for all purposes increased \$391,221.
- Program expenditures excluding debt service and capital projects decreased \$26,406.
- The City's total net assets are \$42,249,319. Of this amount, the governmental activities claim net assets of \$33,324,653.

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 balances.

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 net assets and a statement of cash flows.

Condensed Statement of Net Assets

(In Thousands)

	Governmental Activities		Business-type Activities		Total		Percent Change
	2010	2011	2010	2011	2010	2011	
Current and other assets	\$ 7,826	\$ 8,191	\$ 1,130	\$ 1,032	\$ 8,956	\$ 9,223	2.98%
Capital assets	30,080	31,569	9,673	9,311	39,753	40,880	2.84%
Total assets	37,906	39,760	10,803	10,343	48,709	50,103	2.86%
Long-term debt outstanding	1,935	1,583	1,320	1,150	3,255	2,733	-16.04%
Other liabilities	4,571	4,852	271	268	4,842	5,120	5.74%
Total liabilities	6,506	6,435	1,591	1,418	8,097	7,853	-3.01%
Net assets							
Invested in capital assets, net of related debt	27,893	29,772	8,181	7,991	36,074	37,763	4.68%
Restricted	1,363	1,485	-	-	1,363	1,485	8.95%
Unrestricted	2,144	2,068	1,031	934	3,175	3,002	-5.45%
Total net assets	\$ 31,400	\$ 33,325	\$ 9,212	\$ 8,925	\$ 40,612	\$ 42,250	4.03%

The following analysis shows the change in net assets for the year ending June 30, 2011:

	Changes in Net Assets of Governmental Activities						
	(In Thousands)						
	Governmental Activities		Business-type Activities		Total		Percent Change
	2010	2011	2010	2011	2010	2011	
Revenues:							
Program revenue							
Charges for service	\$ 653	\$ 743	\$ 1,387	\$ 1,358	\$ 2,040	\$ 2,101	2.99%
Operating grants	2,174	2,603	39	43	2,213	2,646	19.57%
Capital grants	15	501	-	-	15	501	3240.00%
General revenue							
Property taxes	2,983	3,375	-	-	2,983	3,375	13.14%
Tax increment financing collections	586	311	-	-	586	311	-46.93%
Other city taxes	309	335	-	-	309	335	8.41%
Local option sales tax	819	856	-	-	819	856	4.52%
Unrestricted investment earnings	62	44	6	4	68	48	-29.41%
Gain (loss) on the sale of capital assets	(1)	(9)	-	-	(1)	(9)	
Other revenue	48	51	-	-	48	51	6.25%
Total revenues	7,648	8,810	1,432	1,405	9,080	10,215	12.50%
Program expenses:							
Public safety	2,095	1,945	-	-	2,095	1,945	-7.16%
Public works	1,034	1,978	-	-	1,034	1,978	91.30%
Health & social services	21	31	-	-	21	31	47.62%
Culture & recreation	1,778	1,802	-	-	1,778	1,802	1.35%
Community & economic development	1,427	264	-	-	1,427	264	-81.50%
General government	465	774	-	-	465	774	66.45%
Interest on long-term debt	106	91	-	-	106	91	-14.15%
Other expenses	-	-	1,623	1,692	1,623	1,692	4.25%
Total expenses	6,926	6,885	1,623	1,692	8,549	8,577	0.33%
Increase (decrease) in net assets before transfers	722	1,925	(191)	(287)	531	1,638	208.47%
Transfers	(23)	-	23	-	-	-	
Increase (decrease) in net assets	699	1,925	(168)	(287)	531	1,638	208.47%
Net assets beginning of year	30,701	31,400	9,380	9,212	40,081	40,612	1.32%
Net assets end of year	\$ 31,400	\$ 33,325	\$ 9,212	\$ 8,925	\$ 40,612	\$ 42,250	4.03%

Individual Major Fund Analysis

At the end of FY10-11, the City reflected a combined fund balance for its governmental funds of \$3,747,935. (See Exhibit D for details). This compares to \$3,669,741 for the combined fund balance for governmental funds at the end of FY09-10. This is an increase of \$78,194. The general fund showed an increase of \$114,811 from the prior year to \$1,880,520.

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 2011 with a \$652,272 balance compared to the prior year ending fund balance of \$550,933.

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, 2011 is \$22,821,410.

Proprietary Fund Highlights

The water fund, which accounts for the operation and maintenance of the City's water system, ended fiscal year 2011 with a net asset balance of \$2,471,411. This reflects an decrease of \$7,116 from the end of fiscal year 2010 when the net asset balance was \$2,478,527.

The sewer fund, which accounts for the operation and maintenance of the sewer system and the wastewater treatment facility, ended fiscal year 2011 with a net asset balance of \$6,453,255. This reflects a decrease of \$280,711 from the end of fiscal year 2010 when the net asset balance was \$6,733,966.

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 \$31,568,827 (net of accumulated depreciation). The capital assets for the business-type activities totaled \$9,311,306 (net of accumulated depreciation) as of June 30, 2011. 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 8, 9, 10, and 11, and 1 bridge, and street improvements. 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, 2011, the City's total outstanding G.O. debt of \$3,117,083 was well below the debt margin of \$22,821,410. 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 the 2008 economic downturn remain as continued issues facing Decorah. A brief review of pages 4b and 4c above will reveal that these problems persist albeit at a slower pace. In last year's *management and discussion analysis*, it was reported that there had been a decline in total revenues of 6.09 percent at the end of FY 2010. That decline was reversed in FY 2011 as the City saw an increase in revenues of 12.50 percent for the year ending June 30, 2011. This slight increase brings revenues back up after a three year decline of more than \$600,000.

This increase in property taxes is an indicator that there is a modest recovery in the overall economy. However, the current year's increase in property tax revenues does not make up the last three years' decline in revenues and only begins to allow the City to catch up on projects and maintenance issues that may have been postponed due to declining revenues the past several years. The majority of the increase in overall revenues can be traced to capital and operating grants that are restricted for special projects.

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 2010-11 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.

It should be noted that part of the increase in revenues for FY 11 include a 4.5 percent increase in Local Option Sales taxes, from \$819,000 to \$856,000. It will be interesting to watch this number in the coming years as the Trout Run Trail is completed to see if there is a correlation between the trail use and LOST revenues. The revenue for FY 11 in this category is the highest reported in four years.

Despite continued financial struggles in recent years, 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 4.03 percent. It should also be pointed out that the business-type activities experienced a decline in net assets of 3.2 percent; this decline is in contrast to the 1.8 percent drop experienced in the previous fiscal year. The loss of major industrial customers combined with an overall concern about increasing rates during a touch 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 City experienced a 2% decline or \$15,538 in total Road Use Tax dollars on the year. This will continue to tighten already strained road repair and maintenance budgets.

Returning to some brief key additional points about property taxes, it should be noted that the increase referred to above was aligned with City's property tax rate increase two years ago to \$12.54 per thousand up from the consistently held \$12.42. This 12 cent increase combined with 1.5 percent increase in the assessed valuation (without utilities) for FY 2011. 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 2010.

Also of note, the tax increment financing collections decreased by almost 47 percent or \$275,000. This decrease was primarily attributable to a \$200,000 one time increase last 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 a 16.04 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 *notes to the financial statements* within this financial report. The City's overall debt position remains strong at less than 16% issued debt of the City's overall debt capacity.

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 and in FY 2006 for the water fund. Both funds continue to struggle financially. For the period covered in this report, the two departments combined for a loss of \$287,827. That is a loss in the water department of \$7,116 and a loss in the sewer department of \$280,711. 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 2012 or as soon as practical.

Below is a summary of the tax levy rates per \$1,000 of taxable valuation for FY 10-11:

Purpose	Rate
General levy	\$8.10
Liability and property insurance	0.41263
Employee benefits	3.31569
Debt service	0.71651
Emergency	0.0
Total	\$12.54483

Also, a rate of \$0.31251 generated \$10,000 for a Self-Supporting Municipal Improvement District in the Central Business District during FY 10-11 on a district-wide valuation of \$31.9 million, up from the previous year of \$27.8 million. Finally, the agricultural property tax rate for such land in the City was at \$3.00279.

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

- a. Health and Social Services Program exceeded the original budget amount by \$9,235 due to TIF LM&I Contribution to the Northeast Iowa Regional Housing Agency to assist low to moderate income families make needed repairs to their homes. The proceeds for this contribution came from the Low-to-Moderate Income set asides prescribed for specific TIF projects.
- b. Culture and Recreation Program exceeded the original budget amount by \$24,674 largely due to water damages in the Library Building, reimbursed by the insurance company and land purchase for the Park and Recreation Department not budgeted but for which funds had been set aside.
- c. Economic and Community Betterment Program exceeded the original budget amount by \$9,540 due to expenses associated with the Water Street Park. The project is funded entirely by private donation and grant dollars.
- d. The General Government Program exceeded the original budget amount by \$341,472 largely due to expenses associated with an Office of Energy and Independence Grant received to assist residents in making their homes/businesses more energy efficient. These expenses are funded by the grant money received. There were additional unexpected smaller expenses which included \$27,000 to replace the City Hall Emergency Generator and \$10,000 for personal replacement for which cash on hand was used to fund.

Public Safety, Public Works, Capital Projects/Debt Service and Business-type Activities Program did not exceed the original budgeted amounts. Additional details behind the approved budget amendment are reflected in the amendment document as well as in the annual financial report.

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 Chad Bird, 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, 2011

	Governmental Activities	Business-type Activities	Total	Decorah Volunteer Fire Department
ASSETS				
Cash and pooled investments	\$ 3,286,063	\$ 662,229	\$ 3,948,292	\$ 67,461
Receivables				
Accounts and unbilled usage, net	15,519	298,749	314,268	
Property tax				
Current	26,296		26,296	
Succeeding year	3,388,943		3,388,943	
Special assessments				
Current	38,753		38,753	
Deferred	149,386		149,386	
Accrued interest	3,405		3,405	
Due from other governments	806,981	47,268	854,249	
Inventories		15,000	15,000	
Prepaid expenses	26,761	8,512	35,273	
Restricted assets				
Investments	449,064		449,064	
Nondepreciable assets	2,800,118	79,775	2,879,893	
Capital assets, net of accumulated depreciation	28,768,709	9,231,531	38,000,240	
Total assets	\$ 39,759,998	\$ 10,343,064	\$ 50,103,062	\$ 67,461
LIABILITIES AND NET ASSETS				
Accounts payable	\$ 760,462	\$ 43,622	\$ 804,084	
Salaries and benefits payable	113,354	25,601	138,955	
Accrued interest payable	5,931	2,650	8,581	
Deferred revenue				
Succeeding year property tax	3,388,943		3,388,943	
Other	149,386		149,386	
Long-term liabilities				
Portion due within one year				
Bonds payable	219,300	105,700	325,000	
Loan payable		45,000	45,000	
Notes payable	183,907	25,481	209,388	
Compensated absences	31,091	19,705	50,796	
Portion due after one year				
Bonds payable	1,295,656	869,344	2,165,000	
Loan payable		266,250	266,250	
Notes payable	98,178	8,266	106,444	
Compensated absences	155,457		155,457	
Net OPEB liability	33,680	6,779	40,459	
Total liabilities	6,435,345	1,418,398	7,853,743	\$ None
NET ASSETS				
Invested in capital assets, net of related debt	29,771,786	7,991,265	37,763,051	
Restricted for				
Debt service	65,607		65,607	
Other special revenue purposes	1,419,024		1,419,024	
Other purposes				67,461
Unrestricted	2,068,236	933,401	3,001,637	
Total net assets	33,324,653	8,924,666	42,249,319	67,461
Total liabilities and net assets	\$ 39,759,998	\$ 10,343,064	\$ 50,103,062	\$ 67,461

See Notes to Financial Statements.

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CITY OF DECORAH
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

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	\$ 1,944,932		\$ 62,650	
Public works	1,978,301	\$ 90,307	742,511	\$ 77,082
Health and social services	30,284			
Culture and recreation	1,801,715	589,679	1,521,334	59,023
Community and economic development	264,179		86,376	365,166
General government	774,234	63,048	189,764	
Interest on long-term debt	90,858			
Total governmental activities	<u>6,884,503</u>	<u>743,034</u>	<u>2,602,635</u>	<u>501,271</u>
Business-type activities				
Water utilities	604,065	595,680		
Sewer utilities	1,088,069	761,932	42,588	
Total business-type activities	<u>1,692,134</u>	<u>1,357,612</u>	<u>42,588</u>	<u>-</u>
Total primary government	<u>\$ 8,576,637</u>	<u>\$ 2,100,646</u>	<u>\$ 2,645,223</u>	<u>\$ 501,271</u>
Component Unit				
Decorah Volunteer Fire Department	\$ 36,189			\$ 43,810
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				
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
\$ (1,882,282)		\$ (1,882,282)	
(1,068,401)		(1,068,401)	
(30,284)		(30,284)	
368,321		368,321	
187,363		187,363	
(521,422)		(521,422)	
(90,858)		(90,858)	
<u>(3,037,563)</u>		<u>(3,037,563)</u>	
	\$ (8,385)	(8,385)	
	(283,549)	(283,549)	
<u>-</u>	<u>(291,934)</u>	<u>(291,934)</u>	
<u>(3,037,563)</u>	<u>(291,934)</u>	<u>(3,329,497)</u>	
			\$ <u>7,621</u>
3,185,240		3,185,240	
189,307		189,307	
311,411		311,411	
334,615		334,615	
855,738		855,738	
44,225	4,107	48,332	507
50,706		50,706	
(9,357)		(9,357)	
<u>4,961,885</u>	<u>4,107</u>	<u>4,965,992</u>	<u>507</u>
1,924,322	(287,827)	1,636,495	8,128
<u>31,400,331</u>	<u>9,212,493</u>	<u>40,612,824</u>	<u>59,333</u>
<u>\$ 33,324,653</u>	<u>\$ 8,924,666</u>	<u>\$ 42,249,319</u>	<u>\$ 67,461</u>

CITY OF DECORAH
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

	General	Special Revenue Employee Benefits	Capital Projects Local Trail Development	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 1,907,717	\$ 211,529		\$ 845,651	\$ 2,964,897
Investments				321,166	321,166
Receivables					
Property taxes					
Current	18,369	5,261		2,666	26,296
Succeeding year	2,302,878	879,901		206,164	3,388,943
Special assessments					
Current	38,753				38,753
Deferred	149,386				149,386
Interest		2,233		1,172	3,405
Other	9,656			5,863	15,519
Due from other funds	29,657			175,622	205,279
Due from other governments	218,456		\$ 588,525		806,981
Prepaid expenditures	26,761				26,761
Restricted assets					
Investments		449,064			449,064
Total assets	\$ 4,701,633	\$ 1,547,988	\$ 588,525	\$ 1,558,304	\$ 8,396,450
LIABILITIES AND FUND BALANCES					
Accounts payable	\$ 255,673		\$ 440,483	\$ 64,306	\$ 760,462
Salaries and benefits payable	86,600	\$ 15,815		10,939	113,354
Due to other funds			175,622	29,657	205,279
Deferred revenues	2,452,264	879,901		206,164	3,538,329
Compensated absences	26,576			4,515	31,091
Total liabilities	2,821,113	895,716	616,105	315,581	4,648,515
FUND BALANCES					
Nonspendable	26,761				26,761
Restricted				523,777	523,777
Committed	4,144			718,946	723,090
Assigned	289,704	652,272			941,976
Unassigned	1,559,911		(27,580)		1,532,331
Total fund balances	1,880,520	652,272	(27,580)	1,242,723	3,747,935
Total liabilities and fund balances	\$ 4,701,633	\$ 1,547,988	\$ 588,525	\$ 1,558,304	\$ 8,396,450

See Notes to Financial Statements.

CITY OF DECORAH
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

Reconciliation of governmental fund balances to net assets	
Total governmental fund balances	\$ 3,747,935
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 \$ 16,696,249	
	31,568,827
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	(1,514,956)
Notes payable	(282,085)
Compensated absences	(155,457)
Net OPEB liability	(33,680)
Accrued interest	(5,931)
	<hr/>
Net assets of governmental activities	<u>\$ 33,324,653</u>

See Notes to Financial Statements.

CITY OF DECORAH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	General	Special Revenue Employee Benefits	Capital Projects Local Trail Development	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$ 2,309,210	\$ 876,030		\$ 189,307	\$ 3,374,547
Tax increment financing collections				311,411	311,411
Other City tax	901,663	17,888	\$ 117,737	153,065	1,190,353
Licenses and permits	29,852				29,852
Use of money and property	41,294	5,763		4,428	51,485
Intergovernmental	800,175		1,177,361	742,511	2,720,047
Charges for service	496,138				496,138
Miscellaneous	182,437	18,545	213,573	229,794	644,349
Total revenues	4,760,769	918,226	1,508,671	1,630,516	8,818,182
EXPENDITURES					
Current operating					
Public safety	1,421,903	410,762		1,500	1,834,165
Public works	967,440	127,556		693,591	1,788,587
Health and social services	21,129			9,155	30,284
Culture and recreation	1,421,321	214,586		56,482	1,692,389
Community and economic development	29,703			234,476	264,179
General government	759,884	63,983			823,867
Capital projects	25,000		1,750,735	48,657	1,824,392
Debt service					
Principal				390,146	390,146
Interest and other charges				91,979	91,979
Total expenditures	4,646,380	816,887	1,750,735	1,525,986	8,739,988
EXCESS REVENUES OVER (UNDER) EXPENDITURES	114,389	101,339	(242,064)	104,530	78,194
OTHER FINANCING SOURCES (USES)					
Transfers in (out)	422			(422)	-
Total other financing sources (uses)	422	-	-	(422)	-
EXCESS REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	114,811	101,339	(242,064)	104,108	78,194
FUND BALANCES, beginning of year	1,765,709	550,933	214,484	1,138,615	3,669,741
FUND BALANCES, end of year	\$ 1,880,520	\$ 652,272	\$ (27,580)	\$ 1,242,723	\$ 3,747,935

See Notes to Financial Statements.

CITY OF DECORAH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

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	\$	78,194
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	\$ (1,198,376)	
Capital outlays	<u>2,687,251</u>	1,488,875
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.		
		390,146
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.		
		1,346
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	(21,693)	
Net OPEB liability	<u>(12,546)</u>	<u>(34,239)</u>
Change in net assets of governmental activities	\$	<u>1,924,322</u>

See Notes to Financial Statements.

CITY OF DECORAH
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2011

	Water Utilities	Sewer Utilities	Total
ASSETS			
Cash	\$ 219,839	\$ 442,390	\$ 662,229
Receivables			
Accounts and unbilled usage, net	122,748	176,001	298,749
Due from other governments		47,268	47,268
Inventory	15,000		15,000
Prepaid expenses	4,108	4,404	8,512
	<u>361,695</u>	<u>670,063</u>	<u>1,031,758</u>
Total current assets			
Noncurrent assets			
Land		79,775	79,775
Net capital assets	2,782,217	6,449,314	9,231,531
	<u>2,782,217</u>	<u>6,529,089</u>	<u>9,311,306</u>
Total noncurrent assets			
	<u>\$ 3,143,912</u>	<u>\$ 7,199,152</u>	<u>\$ 10,343,064</u>
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable	\$ 27,436	\$ 16,186	\$ 43,622
Salaries and benefits payable	9,198	16,403	25,601
Accrued interest payable	915	1,735	2,650
Long-term liabilities			
Loan payable	45,000		45,000
Bonds payable	29,900	75,800	105,700
Notes payable, bank	15,949	9,532	25,481
Compensated absences	8,517	11,188	19,705
	<u>136,915</u>	<u>130,844</u>	<u>267,759</u>
Total current liabilities			
Noncurrent liabilities			
Long-term liabilities			
Loan payable	266,250		266,250
Bonds payable	260,980	608,364	869,344
Notes payable, bank	5,266	3,000	8,266
Net OPEB liability	3,090	3,689	6,779
	<u>535,586</u>	<u>615,053</u>	<u>1,150,639</u>
Total long-term liabilities			
Total liabilities			
	<u>672,501</u>	<u>745,897</u>	<u>1,418,398</u>
Net assets			
Invested in capital assets, net of related debt	2,158,872	5,832,393	7,991,265
Unrestricted	312,539	620,862	933,401
	<u>2,471,411</u>	<u>6,453,255</u>	<u>8,924,666</u>
Total net assets			
Total liabilities and net assets			
	<u>\$ 3,143,912</u>	<u>\$ 7,199,152</u>	<u>\$ 10,343,064</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, 2011

	Water Utilities	Sewer Utilities	Total
OPERATING REVENUES			
Charges for service			
Sewer rental fees		\$ 742,795	\$ 742,795
Sale of water	\$ 580,464		580,464
Miscellaneous	14,282	16,638	30,920
Intergovernmental			
Freeport share		42,588	42,588
Miscellaneous	934	2,499	3,433
Total operating revenues	595,680	804,520	1,400,200
OPERATING EXPENSES			
Salaries	211,897	259,481	471,378
Payroll taxes and fringe benefits	84,154	147,120	231,274
Insurance	16,756	13,539	30,295
Training	3,281	3,750	7,031
Vehicle repair and maintenance	2,122	15,319	17,441
Office supplies	7,593	6,132	13,725
Sales tax	31,252	12,147	43,399
Building maintenance and utilities	112,987	118,085	231,072
Emergency expense	197	5,183	5,380
Vehicle gas and oil	3,697	9,332	13,029
Engineering expense	8,042	8,020	16,062
Operating supplies and maintenance	14,277	47,815	62,092
Chemicals and testing	16,982		16,982
Hydrants, meters, and other parts		96,868	96,868
Depreciation	76,960	319,692	396,652
Total operating expenses	590,197	1,062,483	1,652,680
Total operating income (loss)	5,483	(257,963)	(252,480)
NONOPERATING REVENUES (EXPENSES)			
Interest income	1,269	2,838	4,107
Interest and other charges	(13,868)	(25,586)	(39,454)
Net nonoperating expenses	(12,599)	(22,748)	(35,347)
(Loss) before contributions and transfers	(7,116)	(280,711)	(287,827)
CAPITAL CONTRIBUTIONS AND TRANSFERS			
Transfers in	48,750	93,000	141,750
Transfers out	(48,750)	(93,000)	(141,750)
	-	-	-
Change in net assets	(7,116)	(280,711)	(287,827)
NET ASSETS, beginning of year	2,478,527	6,733,966	9,212,493
NET ASSETS, end of year	\$ 2,471,411	\$ 6,453,255	\$ 8,924,666

See Notes to Financial Statements.

CITY OF DECORAH
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2011

	Water Utilities	Sewer Utilities	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from rent		\$ 750,832	\$ 750,832
Cash received from charges for services	\$ 602,318	16,638	618,956
Cash payments to employees for services	(317,197)	(417,614)	(734,811)
Cash payments to suppliers for services	(194,218)	(282,689)	(476,907)
Net cash provided by operating activities	90,903	67,167	158,070
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in	48,750	93,000	141,750
Operating transfers out	(48,750)	(93,000)	(141,750)
Net cash provided by noncapital financing activities	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal payments on notes payable	(12,153)	(7,268)	(19,421)
Principal payments on bond	(29,900)	(20,800)	(50,700)
Principal payments on loan payable	(48,750)		(48,750)
Principal payments on revolving loan		(53,000)	(53,000)
Interest paid on long-term borrowing	(13,999)	(25,795)	(39,794)
Acquisition of capital assets	(29,231)	(5,619)	(34,850)
Net cash (used in) capital and related financing activities	(134,033)	(112,482)	(246,515)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	1,269	2,838	4,107
Net cash provided by investing activities	1,269	2,838	4,107
Net (decrease) in cash and cash equivalents	(41,861)	(42,477)	(84,338)
CASH and CASH EQUIVALENTS, beginning of year	261,700	484,867	746,567
CASH and CASH EQUIVALENTS, end of year	\$ 219,839	\$ 442,390	\$ 662,229
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	\$ 5,483	\$ (257,963)	\$ (252,480)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation and depletion	76,960	319,692	396,652
Decrease in accounts receivable	6,638	8,037	14,675
(Increase) decrease in prepaid expense	(448)	58	(390)
Increase (decrease) in accounts payable	6,660	(5,183)	1,477
Increase in salaries and benefits payable	1,138	2,770	3,908
Decrease in accrued compensated absences	(6,690)	(1,569)	(8,259)
Increase in other postemployment benefits	1,162	1,325	2,487
Net cash provided by operating activities	\$ 90,903	\$ 67,167	\$ 158,070

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:

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, 2011. 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, 2011 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 1½% per month penalty for delinquent payments; is based on January 1, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March 2010.

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, 2011, 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
Intangibles	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
Intangibles	5-20

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, 2011 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, 2011 is as follows:

Governmental	\$ 186,548
Enterprise	19,705
 Total	 \$ 206,253

These liabilities have been computed based on rates of pay as of June 30, 2011.

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, fund balances are classified as follows:

Nonspendable

Amounts which cannot be spent either because they are in a nonspendable form or 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.

Committed

Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the City Council through ordinance or resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the City Council removes or changed the specified use by taking the same action it employed to commit those amounts.

Assigned

Amounts the City Council intend to use for specific purposes.

Unassigned

All amounts not included in other spendable classifications.

Budgets and Budgetary Accounting

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

NOTES TO FINANCIAL STATEMENTS

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

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Fund Equity (Continued)

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.

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.

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, 2011 the City had the following investments:

Type	Fair Value	Quoted Prices in Active Market for Identical Assets (Level 1)
Federal Home Loan Mortgage Corporation	\$ 16	\$ 16
Federal Home Loan Banks	226,042	226,042
United States Treasury Notes	138,043	138,043
Vanguard Intermediate-Term Treasury Fund	78,516	78,516
Goldman Sachs	6,447	6,447
	\$ 449,064	\$ 449,064

NOTES TO FINANCIAL STATEMENTS

2. Cash and Pooled Investments (Continued)

Interest Rate Risk

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

Credit Risk

The City's Federal Home Loan Banks, United States Treasury Notes, Vanguard, and Goldman Sachs investment at June 30, 2011 is rated AAA by Standard & Poor's Investor service.

The City's Federal Home Loan Mortgage Corporation investment is unrated at June 30, 2011.

3. Capital Assets

Capital assets activity for the year ended June 30, 2011 was as follows:

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 916,748	\$ 54,000		\$ 970,748
Infrastructure in progress	550,438	1,561,018	\$ 282,086	1,829,370
Total capital assets not being depreciated	1,467,186	1,615,018	282,086	2,800,118
Capital assets being depreciated				
Buildings and improvements	5,561,504	54,642		5,616,146
Improvements other than buildings	2,072,762			2,072,762
Equipment	3,346,083	58,745	216,878	3,187,950
Vehicles	1,639,367	21,554	36,937	1,623,984
Infrastructure	31,735,381	1,228,735		32,964,116
Total capital assets being depreciated	44,355,097	1,363,676	253,815	45,464,958
Less accumulated depreciation				
Buildings and improvements	2,303,736	133,659		2,437,395
Improvements other than buildings	1,248,387	36,048		1,284,435
Equipment	2,765,099	159,812	207,521	2,717,390
Vehicles	1,277,824	101,993	36,937	1,342,880
Infrastructure	8,147,285	766,864		8,914,149
Total accumulated depreciation	15,742,331	1,198,376	244,458	16,696,249
Total capital assets being depreciated, net	28,612,766	165,300	9,357	28,768,709
Governmental activities capital assets, net	\$ 30,079,952	\$ 1,780,318	\$ 291,443	\$ 31,568,827

NOTES TO FINANCIAL STATEMENTS

3. Capital Assets (Continued)

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
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	3,574,038			3,574,038
Improvements other than buildings	2,890,960			2,890,960
Equipment	4,847,380	20,719		4,868,099
Vehicles	189,732			189,732
Infrastructure, water and sewer network	5,367,080	14,131		5,381,211
Total capital assets being depreciated	16,869,190	34,850	None	16,904,040
Less accumulated depreciation				
Buildings and improvements	1,390,984	86,560		1,477,544
Improvements other than buildings	1,493,026	77,571		1,570,597
Equipment	2,096,263	144,508		2,240,771
Vehicles	162,219	10,572		172,791
Infrastructure, water and sewer network	2,133,365	77,441		2,210,806
Total accumulated depreciation	7,275,857	396,652	None	7,672,509
Total capital assets being depreciated, net	9,593,333	(361,802)	None	9,231,531
Business-type activities capital assets, net	\$ 9,673,108	\$ (361,802)	\$ None	\$ 9,311,306

NOTES TO FINANCIAL STATEMENTS

3. Capital Assets (Continued)

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

Governmental activities			
Public safety	\$	132,766	
Public works		884,359	
Culture and recreation		149,996	
General government		31,255	
Total depreciation expense	\$	1,198,376	
Business-type activities			
Water	\$	76,960	
Sewer			
Sanitary sewer	\$	69,575	
Sewer utility		31,557	
Wastewater		218,560	319,692
Total depreciation expense	\$	396,652	

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 4.50% of their annual salary and the City is required to contribute 6.95% of annual covered payroll. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$134,084, \$127,897, and \$118,238, 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, 2011, 2010 and 2009 were \$133,473, \$115,634, and \$126,924, 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, 2011. The lease requires a \$133,379 payment for the year to the City. The City also has other nominal leases with various parties and terms.

At June 30, 2011 future minimum lease receipts were as follows:

Year ending June 30,		
2012	\$	144,965
2013		11,586
2014		120
2015		120
2016		120
Later years		480
	\$	157,391

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, 2011:

Year ending June 30,		
2012	\$	1,331
2013		1,331
2014		1,331
2015		1,331
2016		1,331
Later years		2,662
Total minimum payments required	\$	9,317

6. Long-term Debt

Bonded Debt

General Obligation Bonds/Notes

As of June 30, 2011 one general obligation corporate purpose note originally totaling \$2,115,000 is outstanding. As of June 30, 2011, \$1,380,000 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, 2011, \$485,000 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)

As of June 30, 2011 one general obligation corporate purpose note originally totaling \$750,000 is outstanding. As of June 30, 2011, \$625,000 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, 2011:

Hawkeye Tri-County Electric Cooperative

Rural Economic Development Loan

0.0% note payable due \$3,750 monthly beginning June 1, 2011 through February 2018.

\$ 311,250

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.

315,832

\$ 627,082

A summary of the changes in debt, by type, for the year ended June 30, 2011 is as follows:

	Balance June 30, 2010	Borrowed	Paid	Balance June 30, 2011	Amounts Due Within One Year
General Obligation					
Corporate Purpose Notes					
2006 Bond	\$ 1,575,000		\$ (195,000)	\$ 1,380,000	\$ 205,000
2008 Bond	690,000		(65,000)	625,000	65,000
General Obligation Sewer					
Improvement Bond	538,000		(53,000)	485,000	55,000
Total bonded debt	<u>\$ 2,803,000</u>	<u>\$ None</u>	<u>\$ (313,000)</u>	<u>\$ 2,490,000</u>	<u>\$ 325,000</u>
Notes Payable					
Rural Economic					
Development Loan	\$ 360,000		\$ (48,750)	\$ 311,250	\$ 45,000
2002 Street Project	516,099	\$ None	(200,267)	315,832	209,388
	<u>\$ 876,099</u>	<u>\$ None</u>	<u>\$ (249,017)</u>	<u>\$ 627,082</u>	<u>\$ 254,388</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
2012	\$ 325,000	\$ 97,482	\$ 254,388	\$ 11,894
2013	341,000	84,682	151,444	2,401
2014	358,000	71,457	45,000	
2015	370,000	57,455	45,000	
2016	386,000	42,859	45,000	
2017-2018	710,000	44,222	86,250	
	\$ 2,490,000	\$ 398,157	\$ 627,082	\$ 14,295

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, 2011, the outstanding bond payable for the water fund, sewer fund and road use fund are:

Governmental funds	\$ 134,956
Water fund	290,880
Sewer fund	199,164
	\$ 625,000

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, 2011 the outstanding note payable for the governmental funds, water fund and sewer fund are:

Governmental funds	\$ 282,085
Water fund	21,215
Sewer fund	12,532
	\$ 315,832

NOTES TO FINANCIAL STATEMENTS

6. Long-term Debt (Continued)

At June 30, 2011 the debt issued by the City did not exceed its legal debt margin compiled as follows:

Total assessed valuation	\$ 456,428,197
Debt limit – 5% of total assessed valuation	\$ 22,821,410
Debt applicable to debt limit	
Bank notes and bonded debt outstanding	3,117,082
Legal debt margin	\$ 19,704,328

The City currently has Low-to-Moderate (LMI) set aside of \$183,532.

7. Interfund Transfers

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

	Transfer In	Transfer Out
General fund	\$ 422	
Special revenue fund		\$ 422
	\$ 422	\$ 422

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, 2011 interfund receivables and payables that resulted from various interfund transactions were as follows:

Receivable Fund	Payable Fund	Amount
General	Special revenue	
General	Tax incremental financing	\$ 29,657
Special revenue	Capital projects	
State road use tax	Local trail development	175,622
		\$ 205,279

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 61 active and 4 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, 2011, 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		1,017
Adjustment to annual required contribution		(972)
Annual OPEB cost		47,136
Contributions made		(32,103)
Interest in net OPEB obligation		15,033
Net OPEB obligation beginning of year		25,426
Net OPEB obligation end of year	\$	40,459

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, 2011.

For the year ended June 30, 2011, the City contributed \$32,103 to the medical plan. Plan members eligible for benefits contributed \$46,087, or 59% 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, 2011 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
June 30, 2011	47,091	68.2%	40,459

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, 2010 through June 30, 2011, 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 \$2,880,445 and the ratio of the UAAL to covered payroll was 16.1%. As of June 30, 2011, 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 from RP-2000 Combined Mortality Table projected to 2010 using Scale AA.

10. Net Assets

The government wide statement of net assets reports \$1,484,631 of restricted net assets at June 30, 2011. The amounts restricted are as follows:

Restricted net assets	
Special revenue fund	
Employee benefits	\$ 652,272
Self-supported municipal improvement district	3,686
Tax increment financing	254,543
Police forfeitures	5,720
Memorial	49,503
Park commission special gifts	259,669
Library board special gifts	193,631
Debt service fund	65,607
	65,607
	\$ 1,484,631

NOTES TO FINANCIAL STATEMENTS

10. Net Assets (Continued)

Nonspendable	
General fund	
Prepaid insurance	\$ 26,761
<hr/>	
Restricted	
Special revenue fund	
State road use tax	\$ 399,261
Self-supported municipal improvement district	3,686
Police forfeitures	5,720
Memorial	49,503
Debt service fund	65,607
<hr/>	
	\$ 523,777
<hr/>	
Committed	
General fund	
OEI grant	\$ 4,144
Special revenue funds	
Tax increment financing	254,543
Park commission special gifts	259,669
Library board special gifts	193,631
Capital projects funds	
Capital projects interest	737
Metronet	10,366
<hr/>	
	\$ 723,090
<hr/>	
Assigned	
General fund	
Visioning committee	\$ 1,275
City hall equipment	10,051
Skate park	105
Airport equipment	18,945
Swimming pool equipment	89,455
Recreation equipment	39,943
New shelter	5,596
Library technology	2,678
Softball/tennis improvement	25,127
Park equipment	25,737
Police equipment	11,373
Park land acquisition	30,683
Sidewalk	17,713
Fire department equipment	11,023
Special revenue fund	
Employee benefits	652,272
<hr/>	
	\$ 941,976
<hr/>	

11. 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, 2011 approximately \$4,947,156 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, 2011 the balance outstanding was \$553,118.

12. Development and Rebate Agreement

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

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

13. 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 \$18,762 during the year ended June 30, 2011.

- The transaction with Randy Schissel consisted of retail purchases with total payments to Storey Kenworthy of \$8,645. 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 \$5,411. 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 \$4,706. Mr. Wanless is an owner of the Sports Shop.

14. Risk Management

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

14. Risk Management (Continued)

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, 2011, the maximum potential additional City liability because of this plan was \$90,570.

15. Contingent Liabilities

The City participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of June 30, 2011 significant amounts of grant expenditures have not been audited by granting authorities but the City believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the City.

16. 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.

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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, 2011

	Governmental Fund Type Actual	Proprietary Fund Type Actual	Total Actual
RECEIPTS			
Property taxes	\$ 3,322,518		\$ 3,322,518
Tax increment financing collections	309,909		309,909
Other City taxes	1,186,261		1,186,261
Licenses and permits	31,256		31,256
Use of money and property	52,476	\$ 4,107	56,583
Intergovernmental revenues	2,061,564	50,980	2,112,544
Charges for services	494,930	1,364,555	1,859,485
Special assessments	11,895	712	12,607
Miscellaneous	689,615		689,615
Total receipts	8,160,424	1,420,354	9,580,778
DISBURSEMENTS			
Public safety	1,774,008		1,774,008
Public works	2,005,301		2,005,301
Health and social services	30,364		30,364
Culture and recreation	1,691,172		1,691,172
Community and economic development	521,912		521,912
General government	820,762		820,762
Debt service	199,815		199,815
Capital projects	1,426,795		1,426,795
Total governmental activities disbursements	8,470,129	-	8,470,129
Business-type enterprises		1,504,693	1,504,693
Total disbursements	8,470,129	1,504,693	9,974,822
EXCESS RECEIPTS OVER (UNDER) DISBURSEMENTS	(309,705)	(84,339)	(394,044)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	150,422	40,000	190,422
Operating transfers out	(150,422)	(40,000)	(190,422)
OTHER FINANCING SOURCES (USES), NET	-	-	-
EXCESS RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	(309,705)	(84,339)	(394,044)
FUND BALANCE/RETAINED EARNINGS, July 1, 2010	4,044,835	746,568	4,791,403
FUND BALANCE/RETAINED EARNINGS, June 30, 2011	\$ 3,735,130	\$ 662,229	\$ 4,397,359

See Notes to Required Supplementary Information.

Budget Amounts		Variance - Favorable (Unfavorable)
Original	Final	
\$ 3,335,186	\$ 3,335,186	\$ (12,668)
301,873	307,473	2,436
1,090,334	1,140,501	45,760
24,575	29,475	1,781
88,321	91,417	(34,834)
3,303,679	3,788,502	(1,675,958)
1,822,936	1,845,075	14,410
		12,607
516,249	653,525	36,090
10,483,153	11,191,154	(1,610,376)
1,801,482	1,940,942	166,934
2,500,302	2,619,451	614,150
21,129	30,409	45
1,666,498	1,805,643	114,471
512,373	602,873	80,961
479,290	1,003,690	182,928
199,965	199,965	150
2,575,444	2,612,594	1,185,799
9,756,483	10,815,567	2,345,438
1,622,377	1,732,847	228,154
11,378,860	12,548,414	2,573,592
(895,707)	(1,357,260)	963,216
190,000	190,000	422
(190,000)	(190,000)	(422)
-	-	-
(895,707)	(1,357,260)	\$ 963,216
4,791,403	4,791,403	
\$ 3,895,696	\$ 3,434,143	

CITY OF DECORAH
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 BUDGET TO GAAP RECONCILIATION
 Year Ended June 30, 2011

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 8,160,424	\$ 657,758	\$ 8,818,182
Expenditures	8,470,129	269,859	8,739,988
Net	(309,705)	387,899	78,194
Beginning fund balance	4,044,835	(375,094)	3,669,741
Ending fund balance	<u>\$ 3,735,130</u>	<u>\$ 12,805</u>	<u>\$ 3,747,935</u>
	Proprietary Fund Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 1,420,354	\$ (16,047)	\$ 1,404,307
Expenditures	1,504,693	187,441	1,692,134
Net	(84,339)	(203,488)	(287,827)
Beginning fund balance	746,568	8,465,925	9,212,493
Ending fund balance	<u>\$ 662,229</u>	<u>\$ 8,262,437</u>	<u>\$ 8,924,666</u>

See Notes to Required Supplementary Information.

CITY OF DECORAH

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2011

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 \$1,169,554. This budget amendment is reflected in the final budgeted amounts.

CITY OF DECORAH
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
 (in thousands)

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%	\$ 2,469	18.8%
2011	July 1, 2009	-	\$ 464,242	\$ 464,242	0.0%	\$ 2,880	16.1%

See Note 9 in the 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, 2011, 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 and schedule of revenues by source and expenditures by function are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements, schedule of revenues by source and expenditures by function, and schedule of expenditures of federal awards 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 2010, (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 eight years in the period ended June 30, 2010, appearing on page 43, 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 9, 2011

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CITY OF DECORAH
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2011

	Special Revenue Funds				
	State Road Use Tax	Self-supported Municipal Improvement District	Tax Increment Financing	Police Forfeitures	Memorial
ASSETS					
Cash	\$ 241,371	\$ 3,660	\$ 296,646	\$ 5,720	\$ 69,109
Investments					
Due from other funds	175,622				
Receivables					
Taxes					
Current		26	1,503		
Succeeding year		10,000			
Interest					
Inventories	5,863				
Total assets	\$ 422,856	\$ 13,686	\$ 298,149	\$ 5,720	\$ 69,109
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 8,141		\$ 13,949		\$ 19,606
Salaries and benefits payable	10,939				
Due to other funds			29,657		
Deferred revenues		\$ 10,000			
Compensated absences	4,515				
Total liabilities	23,595	10,000	43,606	\$ -	19,606
Fund balances					
Restricted	399,261	3,686		5,720	49,503
Committed			254,543		
Assigned					
Total fund balances	399,261	3,686	254,543	5,720	49,503
Total liabilities and fund balances	\$ 422,856	\$ 13,686	\$ 298,149	\$ 5,720	\$ 69,109

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 1

Special Revenue Funds			Debt Service Fund	Capital Projects Funds			Total Nonmajor Governmental Funds
Park Commission Special Gifts	Library Board Special Gifts	Total		Capital Projects Interest	Metronet	Total	
\$ 86,622	\$ 47,052	\$ 750,180	\$ 64,470	\$ 737	\$ 30,264	\$ 31,001	\$ 845,651
175,166	146,000	321,166					321,166
		175,622					175,622
		1,529	1,137				2,666
		10,000	196,164				206,164
593	579	1,172					1,172
		5,863					5,863
<u>\$ 262,381</u>	<u>\$ 193,631</u>	<u>\$ 1,265,532</u>	<u>\$ 261,771</u>	<u>\$ 737</u>	<u>\$ 30,264</u>	<u>\$ 31,001</u>	<u>\$ 1,558,304</u>
\$ 2,712		\$ 44,408			\$ 19,898	\$ 19,898	\$ 64,306
		10,939					10,939
		29,657					29,657
		10,000	\$ 196,164				206,164
		4,515					4,515
2,712	\$ -	99,519	196,164	\$ -	19,898	19,898	315,581
259,669	193,631	458,170	65,607				523,777
		707,843		737	10,366	11,103	718,946
							-
259,669	193,631	1,166,013	65,607	737	10,366	11,103	1,242,723
<u>\$ 262,381</u>	<u>\$ 193,631</u>	<u>\$ 1,265,532</u>	<u>\$ 261,771</u>	<u>\$ 737</u>	<u>\$ 30,264</u>	<u>\$ 31,001</u>	<u>\$ 1,558,304</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, 2011

	Special Revenue Funds				
	State Road Use Tax	Self-supported Municipal Improvement District	Hotel/Motel Tax	Emergency	Tax Increment Financing
REVENUES					
Property taxes					
Tax increment financing collections					\$ 311,411
Other City tax		\$ 9,953	\$ 139,246		
Use of money and property	\$ 191				
Intergovernmental	742,511				
Miscellaneous	64,709				
Total revenues	807,411	9,953	139,246	\$ -	311,411
EXPENDITURES					
Current					
Public safety					
Public works	693,591				
Health and social services					9,155
Culture and recreation					
Community and economic development	20,256	11,000	139,246		27,101
Capital projects					
Debt service					
Principal	14,300				195,000
Interest and other charges	6,160				66,850
Total expenditures	734,307	11,000	139,246	-	298,106
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	73,104	(1,047)	-	-	13,305
OTHER FINANCING SOURCES (USES)					
Transfers in/(out)				(422)	
Total other financing sources (uses)	-	-	-	(422)	-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	73,104	(1,047)	-	(422)	13,305
FUND BALANCES, beginning of year	326,157	4,733		422	241,238
FUND BALANCES, end of year	\$ 399,261	\$ 3,686	\$ -	\$ -	\$ 254,543

See Independent Auditor's Report on the Supplementary Information.

Special Revenue Funds					Capital Projects Funds				Total Nonmajor Governmental Funds
Police Forfeitures	Memorial	Park Commission Special Gifts	Library Board Special Gifts	Total	Debt Service Fund	Capital Projects Interest	Metronet	Total	
				\$ -	\$ 189,307				\$ 189,307
				311,411					311,411
				149,199	3,866			\$ -	153,065
		\$ 1,345	\$ 2,155	3,691		\$ 737		737	4,428
				742,511				-	742,511
	\$ 86,376	10,240	9,446	170,771			\$ 59,023	59,023	229,794
\$ -	86,376	11,585	11,601	1,377,583	193,173	737	59,023	59,760	1,630,516
1,500				1,500					1,500
				693,591					693,591
				9,155					9,155
		33,009	23,473	56,482					56,482
	36,873			234,476					234,476
							48,657	48,657	48,657
				209,300	180,846				390,146
				73,010	18,969				91,979
1,500	36,873	33,009	23,473	1,277,514	199,815	-	48,657	48,657	1,525,986
(1,500)	49,503	(21,424)	(11,872)	100,069	(6,642)	737	10,366	11,103	104,530
				(422)					(422)
-	-	-	-	(422)	-	-	-	-	(422)
(1,500)	49,503	(21,424)	(11,872)	99,647	(6,642)	737	10,366	11,103	104,108
7,220		281,093	205,503	1,066,366	72,249				1,138,615
\$ 5,720	\$ 49,503	\$ 259,669	\$ 193,631	\$ 1,166,013	\$ 65,607	\$ 737	\$ 10,366	\$ 11,103	\$ 1,242,723

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

	Modified Accrual Basis								
	2011	2010	2009	2008	2007	2006	2005	2004	2003
Revenues									
Property tax	\$3,374,547	\$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	311,411	586,153	351,092	412,913	121,451	211,559	236,228	230,703	214,658
Other City tax	1,190,353	1,128,426	1,176,038	1,091,758	1,161,593	958,282	1,043,493	967,761	916,921
Licenses and permits	29,852	27,511	27,876	29,527	31,567	21,690	27,983	23,165	27,828
Use of money and property	51,485	69,068	90,233	154,927	200,056	157,361	170,653	111,644	61,477
Intergovernmental	2,720,047	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	496,138	437,368	445,392	410,662	393,374	415,992	405,666	396,387	370,216
Miscellaneous	644,349	725,574	998,901	602,745	608,238	196,906	296,929	310,379	326,796
Total	\$8,818,182	\$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	\$1,834,165	\$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	1,788,587	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	30,284	21,209	21,129	17,129	17,129	27,579	10,450	11,000	15,200
Culture and recreation	1,692,389	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 and economic development	264,179	1,436,641	1,223,052	1,582,343	1,066,783	977,114	809,164	504,369	221,366
General government	823,867	462,811	417,998	400,494	423,004	363,985	302,879	328,983	330,474
Debt service	482,125	483,205	467,575	454,742	502,553	828,262	653,552	1,035,212	705,979
Capital projects	1,824,392	481,161	1,043,181	2,034,181	1,250,087	1,522,421	504,879	1,402,525	1,851,670
Total	\$8,739,988	\$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.

CITY OF DECORAH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Significant deficiencies in internal control over the major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 81.128-Energy Efficiency and Conservation Block Grant
 - CFDA Number 20.219-Recreational Trails Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) City of Decorah did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

11-1 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.

CITY OF DECORAH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

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

INTERNAL CONTROL DEFICIENCIES (Continued):

11-1 Financial Report Preparation (Continued)

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.

11-2 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.

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

CITY OF DECORAH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 81.128, Energy Efficiency and Conservation Block Grant Program
Federal Award Year: 2011
U.S. Department of Energy
Passed through the Iowa Office of Energy Independence

CFDA Number 20.219, Recreational Trails Program
Federal Award Year: 2011
U.S. Department of Transportation
Passed through the Iowa Department of Transportation

See 11-1 and 11-2 above.

Part IV: Other Findings Related to Required Statutory Reporting:

See Management Letter dated November 9, 2011.

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

Comment Reference	Comment Title	Status	Explanation
10-1	Financial report preparation	Not corrected	Management does not have the necessary training to prepare year-end financial statements.
10-2	Segregation of Duties	Not corrected	The City has limited staff and segregates duties to the best of their abilities.

CITY OF DECORAH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2011

Grant Title	CFDA Number	Grant Number	Amount of Grant	Program Expenditures
Corporation for National and Community Service				
Direct				
Retired and Senior Volunteer Program	94.002	08SRNIA011	\$ 46,683	\$ 39,141
		08SRNIQ011	45,323	<u>12,411</u>
				<u>51,552</u>
U.S. Department of Energy				
Indirect				
Passed through Iowa Office of Energy Independence Energy Efficiency and Conservation Block Grant	81.128	EECBG #10-3404/3352/3366	881,363	<u>352,152</u>
U.S. Department of Transportation				
Indirect				
U.S. Highway Administration Passed-through Iowa Department of Transportation Recreational Trails Program	20.219	STP-ES-1867(606)--81-96	750,000	<u>480,011</u>
U.S. Department of Justice				
Indirect				
Passed-through Governor's Office of Drug Control Policy Edward Byrne Memorial Justice Assistance Grant Program	16.738	09JAG/ARRA-3559B	14,000	<u>14,000</u>
Total Expenditures of Federal Awards				<u>\$ 897,715</u>

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

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

Note 2. Loans Outstanding

The City of Decorah has outstanding notes payable to the Iowa Finance Authority totaling \$485,000 as of June 30, 2011. The proceeds from this note was advanced under the Capitalization Grants for Clean Water State Revolving Funds.

See Independent Auditor's Report on the Supplementary Information.

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Decorah as of and for the year ended June 30, 2011, which collectively comprise City of Decorah's basic financial statements and have issued our report thereon dated November 9, 2011. 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, described in the accompanying schedule of findings and questioned costs as items 11-1 and 11-2 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.

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 9, 2011.

The City of Decorah's responses to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit City of Decorah's responses, and, accordingly, we express no opinion on them.

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

Hacker, Nelson & Co., P.C.

Decorah, Iowa
November 9, 2011

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited City of Decorah's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Decorah's major federal programs for the year ended June 30, 2011. City of Decorah's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Decorah's management. Our responsibility is to express an opinion on City of Decorah's compliance based on our audit.

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

In our opinion, City of Decorah complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of City of Decorah is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Decorah's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Decorah's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 11-1 and 11-2. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

City of Decorah's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit City of Decorah's responses and, accordingly, we express no opinion on them.

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

Hacker, Nelson & Co., P.C.

Decorah, Iowa
November 9, 2011

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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, 2011, 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 9, 2011, contains our report on significant deficiencies in the City's internal control. This letter does not affect our report dated November 9, 2011 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, 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.

1. Certified Budget
Disbursements for the year ended June 30, 2011, did not exceed the amounts budgeted.
2. Questionable Disbursements
We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
3. Travel Expense
No expenditures of City money for travel expenses of spouses of City officials and/or employees were noted.

4. **Business Transactions**

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Randy Schissel, City Council Account Executive, Storey Kenworthy	Retail purchases	\$ 8,645
Brett Willie, Airport Commission Member, Manager Sherwin Williams	Retail purchases	\$ 5,411
Paul Wanless, City Council Member, Owner Sports Shop	Retail purchases	\$ 4,706

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 9, 2011