

**CITY OF WAUKON**

**FINANCIAL REPORT**

**JUNE 30, 2012**

## TABLE OF CONTENTS

		<u>Page</u>
OFFICIALS		1
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS		2-3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)		4
<b>BASIC FINANCIAL STATEMENTS</b>	<b><u>Exhibit</u></b>	
Government-Wide Financial Statements		
Statement of Activities and Net Assets – Cash Basis	A	5
Governmental Funds Financial Statements		
Statement of Cash Receipts, Disbursements and Changes in Cash Fund Balances	B	6-7
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	C	8
Proprietary Funds Financial Statements		
Statement of Cash Receipts, Disbursements and Changes in Cash Fund Balances	D	9
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	E	10
Notes to Financial Statements		11-21
<b>Other Information</b>		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances Budget and Actual (Cash Basis) – All Governmental and Proprietary Funds		22
Notes to Other Information – Budgetary Reporting		23
INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION		24
<b>SUPPLEMENTARY INFORMATION</b>	<b><u>Schedule</u></b>	
Governmental Activities		
Nonmajor Governmental Funds		
Schedule of Cash Receipts, Disbursements and Changes in Cash Fund Balances	1	25
Schedule of Indebtedness	2	26
Bond and Note Maturities	3	27
Schedule of Receipts by Source and Disbursements by Function	4	28
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 <i>GOVERNMENT AUDITING STANDARDS</i>		29-31
MANAGEMENT LETTER		32-34

CITY OF WAUKON

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OFFICIALS  
(Before January 2012)

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

(After January 2012)

Title	Name	Term Expires
Mayor	Loren Beneke	December 31, 2013
Mayor Pro Tem	Trent Mitchell	December 31, 2015
Council Member	Dave Sanderson	December 31, 2015
Council Member	Steve Wiedner	December 31, 2013
Council Member	Joe Cunningham	December 31, 2013
Council Member	John Ellingson	December 31, 2013
Clerk/Treasurer	Diane Sweeney	December 31, 2012
Attorney	James Garrett	December 31, 2012
Assistant Attorney	Jeff Swartz	December 31, 2012

**INDEPENDENT AUDITOR'S REPORT  
ON THE FINANCIAL STATEMENTS**

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Waukon, as of and for the year ended June 30, 2012, 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 Waukon's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, City of Waukon prepares its financial statements on the basis of cash receipts and disbursements, which are a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements do not include financial data for the City's legally separate component units. U.S. generally accepted accounting principles require the financial data for those component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Waukon as of June 30, 2012, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In our opinion, except for the effects of the omission of the financial activity of the component units for the year ended June 30, 2012 on the governmental activities, each major fund, and the aggregate remaining fund information, as described above, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information for the primary government of the City of Waukon as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2013, on our consideration of the City of Waukon'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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Waukon's basic financial statements as a whole. The management's discussion and analysis and budgetary comparison information on page 4 and pages 22 through 23 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*Hacker, Nelson & Co., P.C.*

Decorah, Iowa  
March 7, 2013

## CITY OF WAUKON

### MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the City of Waukon's financial performance provides an overview of the City's financial activities for the fiscal year ending June 30, 2012. Please read this in conjunction with the transmittal letter and the City's financial statements contained within this audit report.

#### 2012 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased \$1,859,243 or approximately 33.6% from FY 2011 to FY 2012. Of which, bond proceeds in 2011 accounted for \$1,868,071 of this decrease. Property taxes for all purposes decreased \$34,670.
- Program disbursements excluding debt service and capital projects increased \$145,219 or 6.53%.
- The City's total cash basis net assets are \$3,989,229. Of this amount, the governmental activities claim cash basis net assets of \$2,353,226.
- Net assets in the business-type activity, which represents the City's sewer and water operations, increased \$113,075. A decrease in operating disbursements is the primary reason for the increase.

#### 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 activities and net assets-cash basis. This provides information about the activities of the City as a whole and provides 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 governmental funds. In addition, the budgetary comparison schedules support the financial statements with a comparison of the City's budget for the year. Also, the schedule of indebtedness and bond and note maturities reflect the City's debt activity.

## BASIS OF ACCOUNTING

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

## REPORTING THE CITY'S FINANCIAL ACTIVITIES

### Government-wide Financial 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 activities and net assets-cash basis reports information which helps answer this question.

The statement of activities and net assets-cash basis presents information showing how the City's net cash assets changed during the most recent fiscal year. Over time, increases or decreases in the City's net cash assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities and net assets-cash basis report two kinds of activities:

1. **Governmental activities:** these include public safety, public works, health and social services, 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.

### Fund Financial Statements

The City has two kinds of funds:

**Governmental funds:** these account for most of the City's basic services. These 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 on the basis of cash receipts and disbursements. 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 are a statement of cash receipts, disbursements, and changes in cash fund balances.

**Proprietary (business-type) funds:** these account for the City's enterprise funds that charge fees to customers for the services rendered. Enterprise funds are reported in the same way as the government-wide financial statements.

**REPORTING THE CITY'S FINANCIAL ACTIVITIES (Continued)**

**Fund Financial Statements (Continued)**

The following analysis shows the change in net assets for the year ending June 30, 2012:

Changes in Cash Basis Net Assets of Governmental Activities (In Thousands)							
	Governmental Activities		Business-type Activities		Total		Percent Change
	2011	2012	2011	2012	2011	2012	
Receipts:							
Program revenue							
Charges for service	\$ 804	\$ 852	\$ 746	\$ 783	\$ 1,550	\$ 1,635	5.48%
Operating grants	439	459			439	459	4.56%
Capital grants	114	157			114	157	37.72%
General revenue							
Property taxes	1,122	1,088			1,122	1,088	-3.03%
Tax increment financing collections	641	807			641	807	25.90%
Local option sales tax	434	281			434	281	-35.25%
Unrestricted investment earnings	34	28	8	5	42	33	-21.43%
Bond proceeds	1,868		876		2,744	-	-100.00%
Other revenue	75			20	75	20	-73.33%
Total receipts	5,531	3,672	1,630	808	7,161	4,480	-37.44%
Program disbursements:							
Public safety	502	523			502	523	4.18%
Public works	561	569			561	569	1.43%
Culture and recreation	784	829			784	829	5.74%
Community and economic development	109	155			109	155	42.20%
General government	268	294			268	294	9.70%
Debt service	1,474	555			1,474	555	-62.35%
Capital projects	610	1,415			610	1,415	131.97%
Other expenses			1,714	695	1,714	695	-59.45%
Total disbursements	4,308	4,340	1,714	695	6,022	5,035	-16.39%
Increase (decrease) in cash basis net assets before transfers	1,223	(668)	(84)	113	1,139	(555)	-148.73%
Transfers	(20)	-	20	-	-	-	
Increase (decrease) in cash basis net assets	1,203	(668)	(64)	113	1,139	(555)	-148.73%
Cash basis net assets beginning of year	1,818	3,021	1,587	1,523	3,405	4,544	33.45%
Cash basis net assets end of year	\$ 3,021	\$ 2,353	\$ 1,523	\$ 1,636	\$ 4,544	\$ 3,989	-12.21%

**Individual Major Fund Analysis**

As the City completed the year, its governmental funds reported a combined cash fund balance of \$2,353,226, a \$667,563 decrease from the 2011 fiscal year end balance of \$3,020,789. In 2011, the City received bond proceeds for capital projects.

The general fund cash balance decreased \$63,363 from the prior year of \$459,413. This was due to an increase in public safety, public works, and culture and recreation disbursements as well as no gain on sale of capital assets. The cash balance at year end was \$396,050.

## REPORTING THE CITY'S FINANCIAL ACTIVITIES (Continued)

### Individual Major Fund Analysis (Continued)

The road use tax fund cash balance at June 30, 2012 was \$114,243. The balance was up \$24,165 from the prior year balance of \$90,078. Receipts and disbursements in this fund were comparable to those of the prior year.

The urban renewal tax increment fund cash balance increased \$425,661 from the prior year of \$228,281 to \$653,942. The fund is used for urban renewal tax increment capital projects and debt payments.

The local option sales tax fund was established upon approval of a referendum imposing a 1% local option sales tax and service tax for reconstruction/repair/replacement of existing streets and curbs, storm sewers, sanitary sewers, water mains, and other structures that relate to streets. At the end of the fiscal year, the cash balance was \$450,681. The City continues to use proceeds from this fund for street improvements each year.

The 2011 capital improvement fund within the capital projects fund of the City is used to account for bond proceeds used for capital improvement projects. The fund ended fiscal 2012 with a cash balance of \$307,265. This was a decrease of \$472,880 from the prior year balance of \$780,145.

The street improvement projects fund within the capital projects fund of the City is used to account for receipts used for street improvements. Disbursements increased \$590,069 which was covered by special assessments and transfers from the local option sales tax fund.

### Proprietary Fund Highlights

The water fund, which accounts for the operation and maintenance of the City's water system, ended fiscal year 2012 with a cash basis net asset balance of \$1,018,911. This reflects an increase of \$46,128 from the end of fiscal year 2011 when the net asset balance was \$972,783. The water fund had a net operating profit of \$35,345 for fiscal year 2012.

The sewer fund, which accounts for the operation and maintenance of the sewer system and the wastewater treatment facility, ended fiscal year 2012 with a net asset balance of \$617,092. This reflects an increase of \$66,947 from the end of fiscal year 2011 when the net asset balance was \$550,145. The sewer fund had a net operating profit of \$77,794 for fiscal year 2012.

### BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment increased budgeted disbursements by \$382,332 and budgeted receipts by \$1,601.

## DEBT ADMINISTRATION

At June 30, 2012, the City had \$5,953,621 in bonds and other long-term debt, compared to \$6,276,884 last year, as shown below:

	Outstanding Debt at Year-End				
	Year ended June 30,				
	2012	2011	2010	2009	2008
General obligation bonds	\$ 5,954,000	\$ 6,277,000	\$ 4,698,000	\$ 4,991,000	\$ 5,271,000
Real estate contract payable			65,000		
Urban renewal tax increment financing revenue bonds					108,000
Total	\$ 5,954,000	\$ 6,277,000	\$ 4,763,000	\$ 4,991,000	\$ 5,379,000

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is significantly below its constitutional debt limit of \$9,186,311.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

The City of Waukon is working on the 2013 street improvement project estimated to cost \$1,083,380.

A capital fundraising campaign to expand Robey Memorial Library is in progress. The expansion project is estimated to cost \$1,400,000. Sources of revenue for this project are Library trust funds, grants/capital campaign funds and the City's contribution of \$493,460. Robey Memorial Library has purchased the lot north of the Library which will be used for the parking area with the City to assist with funding for civil/civic improvements.

### 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 Diane Sweeney, City Clerk, at (563) 568-3492 or visit the City Hall Offices at 101 Allamakee Street in Waukon.

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CITY OF WAUKON  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
For the Year Ended June 30, 2012

Functions and Programs	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
<b>Primary Government</b>				
<b>Governmental activities</b>				
Public safety	\$ 523,096	\$ 13,955	\$ 13,190	\$ 289
Public works	568,883	247,921	369,635	
Culture and recreation	829,007	406,160	76,209	33,619
Community and economic development	154,750	381		
General government	293,484	74,889		
Debt service	555,208	109,200		
Capital projects	1,415,112			122,798
<b>Total governmental activities</b>	<b>4,339,540</b>	<b>852,506</b>	<b>459,034</b>	<b>156,706</b>
<b>Business-type activities</b>				
Water	393,440	416,022		
Sewer	301,775	366,806		
<b>Total business-type activities</b>	<b>695,215</b>	<b>782,828</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>\$ 5,034,755</b>	<b>\$ 1,635,334</b>	<b>\$ 459,034</b>	<b>\$ 156,706</b>

**General Receipts and Transfers**  
Property and other City tax levied for  
    General purposes  
    Debt service  
Tax increment financing  
Local option sales tax  
Unrestricted interest on investments  
Insurance proceeds  
Transfers

**Total general receipts and transfers**

Change in cash basis net assets  
Cash basis net assets beginning of year

Cash basis net assets end of year

**Cash Basis Fund Balances**  
Restricted for  
    Urban renewal purposes  
    Debt service  
    Streets  
    Streets and related infrastructure  
    Other purposes  
Committed for special purposes  
Assigned for special purposes  
Unassigned

**Total cash basis fund balances**

See Notes to Financial Statements.

EXHIBIT A

Net (Disbursements) Receipts and  
Changes in Cash Basis Net Assets

Governmental Activities	Business-type Activities	Total
\$ (495,662)		\$ (495,662)
48,673		48,673
(313,019)		(313,019)
(154,369)		(154,369)
(218,595)		(218,595)
(446,008)		(446,008)
(1,292,314)		(1,292,314)
(2,871,294)	\$ -	(2,871,294)
	22,582	22,582
	65,031	65,031
-	87,613	87,613
(2,871,294)	87,613	(2,783,681)
959,824		959,824
128,095		128,095
807,299		807,299
280,825		280,825
27,854	4,656	32,510
	20,640	20,640
(166)	166	-
2,203,731	25,462	2,229,193
(667,563)	113,075	(554,488)
3,020,789	1,522,928	4,543,717
\$ 2,353,226	\$ 1,636,003	\$ 3,989,229
\$ 653,942		\$ 653,942
17,642		17,642
114,243		114,243
450,681		450,681
440,209		440,209
48,564		48,564
470,947		470,947
156,998	\$ 1,636,003	1,793,001
\$ 2,353,226	\$ 1,636,003	\$ 3,989,229

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CITY OF WAUKON  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2012

	Special Revenue			
	General	Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax
<b>Receipts</b>				
Property tax	\$ 796,377			
Tax increment financing			\$ 807,299	
Other City tax	18,040			\$ 280,825
Licenses and permits	44,474			
Use of money and property	54,057			
Intergovernmental	55,163	\$ 369,635		
Charges for service	325,371			
Special assessments	600			
Miscellaneous	69,864			
<b>Total receipts</b>	<b>1,363,946</b>	<b>369,635</b>	<b>807,299</b>	<b>280,825</b>
<b>Disbursements</b>				
Operating				
Public safety	441,158			
Public works	223,413	345,470		
Culture and recreation	468,096			
Community and economic development	74,378		27,399	
General government	251,401			
Debt service				
Capital projects				
<b>Total disbursements</b>	<b>1,458,446</b>	<b>345,470</b>	<b>27,399</b>	<b>-</b>
<b>Excess of receipts over (under) disbursements</b>	<b>(94,500)</b>	<b>24,165</b>	<b>779,900</b>	<b>280,825</b>
<b>Other financing sources (uses)</b>				
Operating transfers in	78,844		443,145	
Operating transfers out	(47,707)		(797,384)	(730,634)
<b>Total other financing sources (uses)</b>	<b>31,137</b>	<b>-</b>	<b>(354,239)</b>	<b>(730,634)</b>
<b>Net change in cash balances</b>	<b>(63,363)</b>	<b>24,165</b>	<b>425,661</b>	<b>(449,809)</b>
Cash balances beginning of year, as restated	459,413	90,078	228,281	900,490
<b>Cash balances end of year</b>	<b>\$ 396,050</b>	<b>\$ 114,243</b>	<b>\$ 653,942</b>	<b>\$ 450,681</b>

See Notes to Financial Statements.

EXHIBIT B

Capital Projects					
2011 Capital Improvement	Street Improvement Projects	Debt Service	Other Nonmajor Governmental Funds		Total
		\$ 125,871	\$ 142,633		\$ 1,064,881
					807,299
		2,224	2,774		303,863
					44,474
\$ 2,851		109,200	9,949		176,057
			31,793		456,591
			239,058		564,429
	\$ 115,806				116,406
			68,279		138,143
2,851	115,806	237,295	494,486		3,672,143
			81,938		523,096
					568,883
			360,911		829,007
			52,973		154,750
23,030			19,053		293,484
		555,208			555,208
452,701	846,440		115,971		1,415,112
475,731	846,440	555,208	630,846		4,339,540
(472,880)	(730,634)	(317,913)	(136,360)		(667,397)
	730,634	270,330	297,228		1,820,181
			(244,622)		(1,820,347)
-	730,634	270,330	52,606		(166)
(472,880)		(47,583)	(83,754)		(667,563)
780,145		65,225	497,157		3,020,789
\$ 307,265	\$ -	\$ 17,642	\$ 413,403		\$ 2,353,226

CITY OF WAUKON  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2012

	Special Revenue			
	General	Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax
Cash Basis Fund Balances				
Restricted for				
Urban renewal purposes			\$ 653,942	
Debt service				
Streets		\$ 114,243		
Streets and related infrastructure				\$ 450,681
Other purposes	\$ 38,559			
Committed for special purposes	48,564			
Assigned for special purposes	149,819			
Unassigned	159,108			
Total cash basis fund balances	\$ 396,050	\$ 114,243	\$ 653,942	\$ 450,681

See Notes to Financial Statements.

EXHIBIT B  
(Continued)

Capital Projects					
2011 Capital Improvement	Street Improvement Projects	Debt Service	Other Nonmajor Governmental Funds		Total
				\$	653,942
		\$ 17,642			17,642
					114,243
					450,681
			\$ 401,650		440,209
					48,564
\$ 307,265			13,863		470,947
			(2,110)		156,998
<u>\$ 307,265</u>	<u>\$ -</u>	<u>\$ 17,642</u>	<u>\$ 413,403</u>	<u>\$</u>	<u>2,353,226</u>

CITY OF WAUKON  
RECONCILIATION OF THE STATEMENT OF CASH  
RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
TO THE STATEMENT OF ACTIVITIES AND NET ASSETS  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2012

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Total governmental funds cash balances	\$ 2,353,226
Amounts reported for governmental activities in the statement of activities and net assets are different because:	
Not applicable	<u>-</u>
Cash basis net assets of governmental activities	<u>\$ 2,353,226</u>
Net change in cash balances	\$ (667,563)
Amounts reported for governmental activities in the statement of activities and net assets are different because:	
Not applicable	<u>-</u>
Change in cash balance of governmental activities	<u>\$ (667,563)</u>

See Notes to Financial Statements.

CITY OF WAUKON  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH FUND BALANCES  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2012

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts			
Charges for service	\$ 413,563	\$ 365,066	\$ 778,629
Miscellaneous	2,459	1,740	4,199
Total operating receipts	416,022	366,806	782,828
Operating disbursements			
Business-type activities	380,677	289,012	669,689
Total operating disbursements	380,677	289,012	669,689
Excess of operating receipts over operating disbursements	35,345	77,794	113,139
Nonoperating receipts (disbursements)			
Interest on investments	2,906	1,750	4,656
Insurance proceeds	20,640		20,640
Capital projects	(12,763)	(12,763)	(25,526)
Total nonoperating receipts (disbursements)	10,783	(11,013)	(230)
Excess of receipts over (under) disbursements	46,128	66,781	112,909
Transfers			
Operating transfers in	205,111	145,958	351,069
Operating transfers out	(205,111)	(145,792)	(350,903)
Total transfers, net	-	166	166
Net change in cash balances	46,128	66,947	113,075
Cash balances beginning of year	972,783	550,145	1,522,928
Cash balances end of year	\$ 1,018,911	\$ 617,092	\$ 1,636,003
Cash Basis Fund Balances			
Restricted for debt service	\$ -	\$ -	\$ -
Unrestricted	1,018,911	617,092	1,636,003
Total cash basis fund balances	\$ 1,018,911	\$ 617,092	\$ 1,636,003

See Notes to Financial Statements.

CITY OF WAUKON  
 RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
 AND CHANGES IN CASH BALANCES  
 TO THE STATEMENT OF ACTIVITIES AND NET ASSETS  
 PROPRIETARY FUNDS  
 For the Year Ended June 30, 2012

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Total enterprise funds cash balances	\$ 1,636,003
Amounts reported for business-type activities in the statement of activities and net assets are different because:	
Not applicable	-
Cash basis net assets of business-type activities	\$ 1,636,003
Net change in cash balances	\$ 113,075
Amounts reported for business-type activities in the statement of activities and net assets are different because:	
Not applicable	-
Change in cash balance of business-type activities	\$ 113,075

See Notes to Financial Statements.

CITY OF WAUKON

NOTES TO FINANCIAL STATEMENTS

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1. Nature of Operations and Significant Accounting Policies

a. Nature of Operations

The City of Waukon is a political subdivision of the State of Iowa located in Allamakee County. It was first incorporated in 1883 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

b. Significant Accounting Policies

*Reporting Entity*

For financial reporting purposes, except as noted below, City of Waukon has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City; or the organization is fiscally dependent on the primary government.

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

*Excluded Component Units*

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

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

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

b. Significant Accounting Policies (Continued)

*Jointly Governed Organizations*

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Allamakee County Economic Development and Tourism Commission, Allamakee County Assessor's Conference Board, Upper Explorerland Regional Housing Authority, Allamakee County Joint E911 Service Board, and Waukon Area Fire Protection District (28E).

*Government-wide Financial Statements*

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

The statement of activities and net assets presents the City's nonfiduciary net assets. Net assets are reported in three categories:

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

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

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

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

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

b. Significant Accounting Policies (Continued)

*Fund Financial Statements*

Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds and major 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 general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

*Special Revenue*

*Road Use Tax Fund*

This fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

*Urban Renewal Tax Increment Fund*

This fund is used to account for tax increment financing collections, the repayment of tax increment financing indebtedness, and other costs associated with urban renewal projects.

*Local Option Sales Tax Fund*

This fund is used to account for the City's share of local option sales tax collected and disbursed by the State of Iowa.

*Debt Service*

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

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

b. Significant Accounting Policies (Continued)

*Fund Financial Statements (Continued)*

*Capital Projects*

Capital projects 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.

The City reports the following major proprietary funds:

*Water Fund*

The water fund accounts for the operation and maintenance of the City's water system.

*Sewer Fund*

The sewer fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

*Measurement Focus and Basis of Accounting*

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

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

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

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

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

b. Significant Accounting Policies (Continued)

*Governmental Cash Basis Fund Balances*

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

*Nonspendable*

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

*Restricted*

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

*Assigned*

Amounts the Council intends to use for specific purposes.

*Unassigned*

All amounts not included in other spendable classifications.

*Budgets and Budgetary Accounting*

The budgetary comparison and related disclosures are reported as other information.

2. Deposits and Investments

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

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

NOTES TO FINANCIAL STATEMENTS

3. **Bonds and Notes Payable**

A summary of the changes in debt, by type, for the year ended June 30, 2012 is as follows:

	Balance June 30, 2011	Borrowed	Paid	Balance June 30, 2012	Amounts Due Within One Year
<b>General Obligation</b>					
Hospital	\$ 10,000			\$ 10,000	\$ 10,000
Aquatic Center	75,000		\$ (75,000)	None	
Medical Clinic	560,934		(29,131)	531,803	30,515
Medical Clinic	560,950		(29,132)	531,818	30,515
Urban renewal	2,970,000		(150,000)	2,820,000	155,000
Corporate purpose	210,000		(40,000)	170,000	40,000
Corporate purpose	1,890,000			1,890,000	115,000
<b>Total bonded debt</b>	<b>\$ 6,276,884</b>	<b>\$ None</b>	<b>\$ (323,263)</b>	<b>\$ 5,953,621</b>	<b>\$ 381,030</b>

a. **General Obligation Bonds Payable at June 30, 2012**

\$10,000 1976 General Obligation Bearer Bonds remains outstanding at June 30, 2012.

Efforts by the City to ascertain the identity of the bondholder have not been successful. \$ 10,000

\$710,000 General Obligation Bond, due in monthly installments of \$4,550 from July 2013 through May 2025 plus interest at 4.65%

531,803

\$710,000 General Obligation Bond, due in monthly installments of \$4,550 from July 2013 through May 2025 plus interest at 4.65%

531,818

\$3,500,000 General Obligation Bond Urban Renewal Corporate Purpose Bond, due semi-annually in varying installments from December 2012 through June 2026, plus interest at 3.7 - 5.0%

2,820,000

\$400,000 General Obligation Corporate Purpose Bond Series 2007, due semi-annually in varying installments from December 2012 through June 2016 plus interest at 4.2 - 4.5%

170,000

\$1,890,000 General Obligation Corporate Purpose Bonds Series 2011, due semi-annually in varying installments December 2012 through June 2031, plus interest at 3.7 - 5.0%

1,890,000

\$ 5,953,621

NOTES TO FINANCIAL STATEMENTS

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3. Bonds and Notes Payable (Continued)

b. Debt Payment Schedule

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

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2013	\$ 381,030	\$ 216,728
2014	383,930	204,306
2015	396,966	191,389
2016	410,148	177,513
2017	378,480	164,052
2018 - 2022	2,113,198	614,544
2023 - 2027	1,594,869	220,372
2028 - 2031	295,000	30,812
	<u>\$ 5,953,621</u>	<u>\$ 1,819,716</u>

The Code of Iowa requires principal and interest on general obligation bonds be paid from the debt service fund.

One general obligation bearer bond issued in 1976 in the amount of \$10,000 remains outstanding as of June 30, 2012. Efforts by the City to ascertain the identity of the bondholder have not been successful.

4. Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$82,842, \$75,572, and \$68,377, respectively, equal to the required contributions for each year.

5. Self Funding

The City has established a partially self funded group medical plan. The plan allows the City lower monthly premiums for coverage in exchange for the potential of claims actually filed. If all the covered individuals submitted the maximum claim to be paid by the City, the total would be estimated at \$40,761.

6. Other Postemployment Benefits (OPEB)

*Plan Description*

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

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

*Funding Policy*

The contribution requirements for the medical/prescription drug plan are established and may be amended by the City. Retirees pay 100% of the premium for their coverage. The most recent active member monthly premiums are \$418.60/single, \$908.97 employee/spouse, \$837.26 employee/children, and \$1,300.24/family. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed \$156,294 and plan members eligible for benefits contributed \$21,678 to the plan.

7. Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2012, primarily relating to the general fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 66,258
Sick leave	<u>129,416</u>
	<u>\$ 195,674</u>

Sick leave is forfeited if not used by the employee before termination. Upon retirement an employee is eligible for payment of 50% of the unused sick leave. This liability has been computed based on rates of pay in effect at June 30, 2012.

8. Risk Management

The City of Waukon 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.

NOTES TO FINANCIAL STATEMENTS

9. Economic Development

The City, to encourage economic development, provides rebates to businesses and developers. The rebates are paid only from incremental property taxes; therefore, do not constitute a general obligation of the City. Terms of the rebates vary according to the agreement. The City, as of June 30, 2012, had a total of \$630,456 to pay in rebates through the year 2017.

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

10. Leases

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

The City leases real estate to a medical clinic. The lease started in 2005 and is for 20 years. The City receives monthly payments of \$9,100. The lease payments are then used to pay the underlying debt on the property which has a balance outstanding of \$1,063,621 as of June 30, 2012.

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

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

Minimum lease payments are as follows:

Year ending June 30,	As Lessor	As Lessee
2013	\$ 118,527	\$ 1,935
2014	118,527	
2015	118,527	
2016	118,527	
2017	118,527	
2018-2022	592,635	
2023-2027	483,435	
2028-2032	46,635	
2033-2037	46,635	
2038-2039	18,654	
	1,780,629	1,935
Less sublease	(48,600)	None
	\$ 1,732,029	\$ 1,935

The City's non-cancelable lease expense for 2012 was \$1,935.

NOTES TO FINANCIAL STATEMENTS

11. Contingencies

The City participates in state and federal assisted grant programs. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at June 30, 2012.

12. Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

	Transfers to	Transfers from	
<b>General</b>		<b>General</b>	
General	\$ 52,761	General	\$ 21,792
Library	7,008	Library	25,915
Ambulance trust	5,500		<u>\$ 47,707</u>
Gundersen maintenance	1,000		
Hotel/motel park improvement	2,575	<b>Special Revenue</b>	
Capital equipment	10,000	Urban renewal tax increment	\$ 797,384
	<u>\$ 78,844</u>	Local option sales tax	730,634
		Employee benefits	33,854
<b>Debt Service</b>		Wellness Center Operations	3,000
General obligation bond	<u>\$ 270,330</u>		<u>\$ 1,564,872</u>
		<b>Capital Projects</b>	
<b>Special Revenue</b>		IDOT	\$ 71,168
Urban renewal tax increment	\$ 443,145	C-mart	3,000
Wellness Center trust	3,000	Lomen	57,987
	<u>\$ 446,145</u>	Wellness parking lot	75,473
		Airport	140
<b>Capital Projects</b>			<u>\$ 207,768</u>
Street improvement projects	\$ 730,634	<b>Water</b>	
Park capital improvement	2,551	Water	<u>\$ 205,111</u>
IDOT	75,918		
C-mart	3,000	<b>Sewer</b>	
Lomen	68,203	Sewer	<u>\$ 145,792</u>
WW Homestead Dairy	50,000		
Wellness maintenance fund	5,015		
Wellness parking lot	75,473		
Airport	140		
Administration	3,096		
Kitchen Krafts	10,832		
	<u>\$ 1,024,862</u>		
<b>Water</b>			
Water	<u>\$ 205,111</u>		
<b>Sewer</b>			
Sewer	<u>\$ 145,958</u>		

12. Transfers (Continued)

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

13. Deficit Fund Balance

The City has two deficit fund balances at June 30, 2012. These are the special revenue CDBG housing fund of \$111 and capital projects park capital improvement fund of \$2,110.

14. Related Party Transactions

The City had business transactions between the City and City officials or employees totaling \$814 during the year ended June 30, 2012.

15. New Governmental Accounting Standard Board (GASB) Standards

The Governmental Accounting Standards Board (GASB) has issued four statements not yet implemented by the City. The statements which might impact the City are as follows:

Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*; issued November 2010, will be effective for the fiscal year ending June 30, 2013. The objective of this statement is to improve financial reporting for a governmental financial reporting entity.

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; issued December 2010, will be effective for the fiscal year ending June 30, 2013. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance.

GASB Statement 66, *Technical Corrections – 2012*, an amendment of GASB Statements 10 and 62, issued March 2012, effective for the fiscal year ending June 30, 2014. The objective of this statement is to improve accounting and financial reporting for governmental entities by resolving conflicting guidance in GASB Statements 54 and 62, on risk financing activities and operating leases.

GASB Statement 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, issued June 2012, will be effective for the fiscal year ended June 30, 2015. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions which are provided by other entities.

The City's management has not yet determined the effect these statements will have on the City's financial statements.

16. Subsequent Events and Commitments

The City has committed \$7,300 to a regional revolving loan fund. Cities and counties in the area and the federal government have committed a total of \$500,000. The funds will be used for economic development. After approval of an application the various governmental units will then submit their committed funds. As of June 30, 2012, no funds have been requested of the City.

The City has outstanding construction contracts of \$43,415 at June 30, 2012. The costs will be paid from various revenue sources available to the City.

Management has evaluated subsequent events through March 7, 2013, the date on which the financial statements were available to be issued.

CITY OF WAUKON  
 BUDGETARY COMPARISON SCHEDULE  
 OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES  
 BUDGET AND ACTUAL (CASH BASIS)  
 ALL GOVERNMENTAL AND PROPRIETARY FUNDS  
 OTHER INFORMATION  
 Year Ended June 30, 2012

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Funds	Funds		Original	Final	Total
	Actual	Actual				Variance
<b>Receipts</b>						
Property tax	\$ 1,064,881		\$ 1,064,881	\$ 1,058,138	\$ 1,058,138	\$ 6,743
Tax increment financing	807,299		807,299	805,000	805,000	2,299
Other City tax	303,863		303,863	423,577	423,577	(119,714)
Licenses and permits	44,474		44,474	11,060	11,060	33,414
Use of money and property	176,057	\$ 4,656	180,713	167,025	167,025	13,688
Intergovernmental	456,591		456,591	444,264	444,264	12,327
Charges for service	564,429	778,629	1,343,058	1,356,501	1,356,501	(13,443)
Special assessments	116,406		116,406			116,406
Miscellaneous	138,143	4,199	142,342	213,743	215,344	(73,002)
<b>Total receipts</b>	<b>3,672,143</b>	<b>787,484</b>	<b>4,459,627</b>	<b>4,479,308</b>	<b>4,480,909</b>	<b>(21,282)</b>
<b>Disbursements</b>						
Public safety	523,096		523,096	528,576	563,192	40,096
Public works	568,883		568,883	619,160	619,160	50,277
Health and social services			-	1,000	1,000	1,000
Culture and recreation	829,007		829,007	863,350	863,350	34,343
Community and economic development	154,750		154,750	113,311	188,311	33,561
General government	293,484		293,484	317,565	317,565	24,081
Debt service	555,208		555,208	507,493	555,209	1
Capital projects	1,415,112	25,526	1,440,638	1,501,024	1,621,024	180,386
Business-type activities		669,689	669,689	851,296	956,296	286,607
<b>Total disbursements</b>	<b>4,339,540</b>	<b>695,215</b>	<b>5,034,755</b>	<b>5,302,775</b>	<b>5,685,107</b>	<b>650,352</b>
Excess of receipts over (under) disbursements	(667,397)	92,269	(575,128)	(823,467)	(1,204,198)	629,070
Other financing sources, net	(166)	20,806	20,640	-	-	20,640
Excess of receipts and other financing sources over (under) disbursements and other financing uses	(667,563)	113,075	(554,488)	(823,467)	(1,204,198)	649,710
Balances beginning of year	3,020,789	1,522,928	4,543,717	3,642,834	3,642,834	900,883
Balances end of year	\$ 2,353,226	\$ 1,636,003	\$ 3,989,229	\$ 2,819,367	\$ 2,438,636	\$ 1,550,593

See Notes to Other Information.

CITY OF WAUKON

NOTES TO OTHER INFORMATION–BUDGETARY REPORTING

June 30, 2012

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The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the general fund and each major special revenue fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except internal service funds. The City had no internal services funds for the year ended June 30, 2012. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business-type activities. Function disbursements required to be budgeted include disbursements from the general fund, special revenue funds, debt service fund, capital projects funds, and proprietary funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$382,332. The budget amendment is reflected in the final budgeted amounts.

At year ended June 30, 2012, disbursements did not exceed the amounts budgeted in the general government and business-type activities functions.

INDEPENDENT AUDITOR'S REPORT  
ON THE SUPPLEMENTARY INFORMATION

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

We have audited the financial statements of the City of Waukon as of and for the year ended June 30, 2012, and our report thereon dated March 7, 2013, which expressed a qualified opinion on the financial statements, which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles, appears on pages 2 through 3. We issued a qualified opinion due to the exclusion of the City's component units from the financial statements. 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 nonmajor fund financial statements, schedule of indebtedness, bond and note maturities, and schedule of receipts by source and disbursements by function are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates 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 our 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 supplementary information is fairly stated in all material respects in relation to the financial statements prepared on the cash basis as explained in the third paragraph of our report on page 2 as a whole.

The financial statements of the City of Waukon for the years ended June 30, 2004 through 2011, (none of which is presented herein), were audited by Hagen and Kallevang, PC, who was acquired by Hacker, Nelson, & Co., P.C. as of November 1, 2012 and whose report dated March 5, 2012, expressed a qualified opinion on the primary government financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Those audits were conducted for purposes of forming an opinion on the financial statements as a whole. The schedule of receipts by source and disbursements by function appearing on page 28 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2004 through 2011 financial statements. The information has been subjected to the auditing procedures applied in the audits of those 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. Their report as of the same date, on the information set forth in the supplementary information for each of the eight years in the period ended June 30, 2011, appearing on page 28 states that, in their opinion was fairly stated in all material respects in relation to the financial statements from which it has been derived.

Decorah, Iowa  
March 7, 2013

*Hacker, Nelson & Co., P.C.*

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CITY OF WAUKON  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2012

	Special Revenue				
	Employee Benefits	Library Memorial	Park Memorial	Special Law Enforcement	CDBG Housing
<b>Receipts</b>					
Property tax	\$ 142,633				
Other City tax	2,774				
Use of money and property		\$ 2,433	\$ 177		
Intergovernmental		4,842			
Charges for services					
Miscellaneous		2,213	24,939	\$ 1,601	
<b>Total receipts</b>	<b>145,407</b>	<b>9,488</b>	<b>25,116</b>	<b>1,601</b>	<b>\$ -</b>
<b>Disbursements</b>					
<b>Operating</b>					
Public safety	81,418			520	
Culture and recreation	14,044	7,709	28,846		
Community and economic development	2,862				111
General government	15,957				
Capital projects		16,790			
<b>Total disbursements</b>	<b>114,281</b>	<b>24,499</b>	<b>28,846</b>	<b>520</b>	<b>111</b>
<b>Excess of receipts over (under) disbursements</b>	<b>31,126</b>	<b>(15,011)</b>	<b>(3,730)</b>	<b>1,081</b>	<b>(111)</b>
<b>Other financing sources (uses)</b>					
<b>Operating transfers in</b>					
Operating transfers out	(33,854)				
<b>Total other financing sources (uses)</b>	<b>(33,854)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in cash balances</b>	<b>(2,728)</b>	<b>(15,011)</b>	<b>(3,730)</b>	<b>1,081</b>	<b>(111)</b>
<b>Cash balances beginning of year</b>	<b>67,159</b>	<b>250,267</b>	<b>22,718</b>		
<b>Cash balances end of year</b>	<b>\$ 64,431</b>	<b>\$ 235,256</b>	<b>\$ 18,988</b>	<b>\$ 1,081</b>	<b>\$ (111)</b>
<b>Cash Basis Fund Balances</b>					
<b>Restricted For</b>					
Other purposes	\$ 64,431	\$ 235,256	\$ 18,988	\$ 1,081	\$ (111)
Assigned for special purposes					
Unassigned					
<b>Total cash basis fund balances</b>	<b>\$ 64,431</b>	<b>\$ 235,256</b>	<b>\$ 18,988</b>	<b>\$ 1,081</b>	<b>\$ (111)</b>

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 1

Special Revenue			
Wellness Center		Capital	Total
Operations	Trust	Projects	
			\$ 142,633
			2,774
\$ 7,037	\$ 254	\$ 48	9,949
19,959		6,992	31,793
239,058			239,058
8,771	30,755		68,279
274,825	31,009	7,040	494,486
			81,938
262,531	47,781		360,911
		50,000	52,973
		3,096	19,053
		99,181	115,971
262,531	47,781	152,277	630,846
12,294	(16,772)	(145,237)	(136,360)
	3,000	294,228	297,228
(3,000)		(207,768)	(244,622)
(3,000)	3,000	86,460	52,606
9,294	(13,772)	(58,777)	(83,754)
37,242	37,382	82,389	497,157
\$ 46,536	\$ 23,610	\$ 23,612	\$ 413,403
\$ 46,536	\$ 23,610	\$ 11,859	\$ 401,650
		13,863	13,863
		(2,110)	(2,110)
\$ 46,536	\$ 23,610	\$ 23,612	\$ 413,403

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CITY OF WAUKON  
SCHEDULE OF INDEBTEDNESS  
For the Year Ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year
<b>General Obligation Bonds</b>				
Hospital	September 1, 1976	5.00 - 6.25%	\$ 800,000	\$ 10,000
Aquatic Center Bond	December 1, 1996	4.60 - 5.50	800,000	75,000
Medical Clinic	May 20, 2005	4.65	710,000	560,934
Medical Clinic	May 20, 2005	4.65	710,000	560,950
G.O. Urban Renewal Corporate Purpose	October 11, 2006	3.70 - 5.00	3,500,000	2,970,000
Corporate Purpose	June 1, 2007	4.15 - 4.50	400,000	210,000
Corporate Purpose	June 21, 2011	.65 - 4.15	1,890,000	1,890,000
				<u>\$ 6,276,884</u>

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 2

Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
		\$ 10,000	
	\$ 75,000	-	\$ 3,900
	29,131	531,803	25,468
	29,132	531,818	25,469
	150,000	2,820,000	120,330
	40,000	170,000	9,063
		1,890,000	47,715
\$ -	\$ 323,263	\$ 5,953,621	\$ 231,945

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CITY OF WAUKON  
 BOND AND NOTE MATURITIES  
 For the Year Ended June 30, 2012

GENERAL OBLIGATION BONDS

Year Ending June 30,	Hospital		Medical Clinic		Medical Clinic		G.O. Urban Renewal Corporate Purpose	
	Issued September 1, 1976		Issued May 20, 2005		Issued May 20, 2005		Issued October 11, 2006	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2013		\$ 10,000	4.65%	\$ 30,515	4.65%	\$ 30,515	4.50%	\$ 155,000
2014			4.65	31,965	4.65	31,965	4.50	160,000
2015			4.65	33,483	4.65	33,483	4.50	165,000
2016			4.65	35,074	4.65	35,074	3.70	175,000
2017			4.65	36,740	4.65	36,740	3.75	180,000
2018			4.65	38,485	4.65	38,485	3.80	185,000
2019			4.65	40,314	4.65	40,314	3.83	195,000
2020			4.65	42,229	4.65	42,229	3.85	205,000
2021			4.65	44,235	4.65	44,235	3.90	210,000
2022			4.65	46,336	4.65	46,336	3.95	220,000
2023			4.65	48,537	4.65	48,537	4.00	230,000
2024			4.65	50,843	4.65	50,843	4.05	240,000
2025			4.65	53,047	4.65	53,062	4.10	245,000
2026							4.125	255,000
2027								
2028								
2029								
2030								
2031								
		<u>\$ 10,000</u>		<u>\$ 531,803</u>		<u>\$ 531,818</u>		<u>\$ 2,820,000</u>

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 3

<u>Corporate Purpose</u>		<u>Corporate Purpose</u>		<u>Total</u>
<u>Issued June 1, 2007</u>		<u>Issued June 21, 2011</u>		
<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	
4.50%	\$ 40,000	0.65%	\$ 115,000	\$ 381,030
4.15	40,000	0.85	120,000	383,930
4.20	45,000	1.15	120,000	396,966
4.25	45,000	1.45	120,000	410,148
		1.80	125,000	378,480
		2.10	130,000	391,970
		2.30	130,000	405,628
		2.50	135,000	424,458
		2.70	140,000	438,470
		2.90	140,000	452,672
		3.30	60,000	387,074
		3.30	60,000	401,686
		3.65	65,000	416,109
		3.65	65,000	320,000
		4.00	70,000	70,000
		4.00	70,000	70,000
		4.15	75,000	75,000
		4.15	75,000	75,000
		4.15	75,000	75,000
	<u>\$ 170,000</u>		<u>\$ 1,890,000</u>	<u>\$ 5,953,621</u>

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CITY OF WAUKON  
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -  
ALL GOVERNMENTAL FUNDS  
Years Ended June 30,

	2012	2011	2010	2009	2008
<b>Receipts</b>					
Property tax	\$ 1,064,881	\$ 1,075,049	\$ 884,842	\$ 974,518	\$ 923,499
Tax increment financing	807,299	640,990	650,698	636,692	487,998
Other City tax	303,863	481,393	415,147	382,991	370,726
Licenses and permits	44,474	16,907	12,884	10,979	13,463
Use of money and property	176,057	182,127	184,044	218,447	255,387
Intergovernmental	456,591	552,566	443,644	426,795	1,216,107
Charges for service	564,429	509,723	277,885	508,645	467,718
Special assessments	116,406		2,384	4,036	3,727
Miscellaneous	138,143	129,550	86,204	147,094	307,617
<b>Total</b>	<b>\$ 3,672,143</b>	<b>\$ 3,588,305</b>	<b>\$ 2,957,732</b>	<b>\$ 3,310,197</b>	<b>\$ 4,046,242</b>
<b>Disbursements</b>					
<b>Operating</b>					
Public safety	\$ 523,096	\$ 501,648	\$ 574,431	\$ 478,171	\$ 436,920
Public works	568,883	561,219	580,668	593,093	558,547
Health and social services					119
Culture and recreation	829,007	784,295	457,265	737,415	628,303
Community and economic development	154,750	108,846	98,913	103,857	54,665
General government	293,484	267,993	267,738	232,376	231,418
Debt service	555,208	1,474,317	506,910	620,567	668,463
Capital projects	1,415,112	610,093	615,665	454,702	3,459,224
<b>Total</b>	<b>\$ 4,339,540</b>	<b>\$ 4,308,411</b>	<b>\$ 3,101,590</b>	<b>\$ 3,220,181</b>	<b>\$ 6,037,659</b>

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 4

2007	2006	2005	2004
\$ 931,811	\$ 853,693	\$ 785,895	\$ 812,094
452,561	448,923	653,627	589,101
350,641	286,452	331,177	301,291
11,301	14,683	8,126	19,143
312,123	82,703	41,479	29,745
1,451,962	394,135	399,854	472,624
285,540	289,470	294,924	291,507
3,463	5,464	5,830	15,192
130,383	295,087	210,022	124,786
<u>\$ 3,929,785</u>	<u>\$ 2,670,610</u>	<u>\$ 2,730,934</u>	<u>\$ 2,655,483</u>

\$ 434,797	\$ 438,537	\$ 363,429	\$ 526,815
778,560	550,421	544,427	465,949
	9,000	9,000	9,000
420,223	422,983	365,944	384,617
49,349	44,269	44,704	60,595
241,774	246,945	221,971	220,089
452,906	377,036	275,081	737,950
3,206,539	1,607,830	1,470,751	709,056
<u>\$ 5,584,148</u>	<u>\$ 3,697,021</u>	<u>\$ 3,295,307</u>	<u>\$ 3,114,071</u>

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 Waukon  
Waukon, Iowa

We have audited the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Waukon as of and for the year ended June 30, 2012, which collectively comprise City of Waukon's basic financial statements and have issued our report thereon dated March 7, 2013. Our report expressed a qualified opinion on the government financial statements which were prepared in conformity with another comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of City of Waukon is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Waukon's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Waukon's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of City of Waukon's internal control over financial reporting.

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

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

1. Financial Report Preparation

Reporting financial data reliably in accordance with generally accepted accounting principles requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Obtaining additional accounting 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 cash basis financial statements.

Recommendation

The City office personnel should continue to obtain training in governmental accounting and reporting when possible.

Response

The City personnel will obtain additional knowledge of cash basis accounting for governments in any way possible that is economically feasible, in order to improve the ability to prepare and take responsibility for reliable cash basis financial statements.

Conclusion

Response accepted.

2. Overlapping Duties

The City's offices are not large enough to permit an adequate segregation of duties for effective internal controls. The concentration of closely related duties and responsibilities such as the recording and processing of cash receipts, preparing grant expenditure reports, preparing financial information for posting and analyzing financial information by a small staff makes it impossible to establish an adequate system of automatic internal checks on the accuracy and reliability of the accounting records.

Recommendation

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

Response

The City staff will make changes whenever possible and economically feasible.

Conclusion

Response accepted.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Waukon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 Waukon in a separate letter dated March 7, 2013.

The City of Waukon's responses to the findings identified in our audit are described above. We did not audit City of Waukon'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  
March 7, 2013

## MANAGEMENT LETTER

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

In planning and performing our audit of the basic financial statements of the City Waukon for the year ended June 30, 2012, 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 7 below are compliance comments required by the Iowa Auditor of State. A separate report dated March 7, 2013, contains our report on significant deficiencies in the City's internal control. This letter does not affect our report dated March 7, 2013 on the basic financial statements of City of Waukon. All prior year comments have been resolved. 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, 2012 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, 2012 did not exceed the amounts budgeted.
2. Questionable Disbursements  
We noted no disbursements that may not meet the requirements of public purposes 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 official and/or employees were noted.

4. Business Transactions

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

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Diane Sweeney, City Clerk Husband owns Sweeney Oil	Fuel and oil	\$ <u>814</u>

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

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 Council minutes but were not.

7. Deposits and Investments

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

8. Financial Condition

The City has two funds with deficit balances at June 30, 2012 totaling \$2,221.

Recommendation

The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response

The City receives state reimbursement grant proceeds for these expenditures.

Conclusion

Response accepted.

9. Disbursements

During our audit, we noted three credit card statements for the Wellness Center that did not have all invoices attached. In two instances, a packing slip rather than an invoice was attached. There was also one credit statement that had finance charges because a payment was made late.

Recommendation

We recommend all disbursements have supporting documentation that state the amount owed. We also recommend that all payments should be made timely in order to avoid finance charges.

9. Disbursements (Continued)

Response

The City has discussed this with the Wellness Center Director and the City will continue to work with her on requirements that all disbursements have supporting documentation stating amount due and that all claims are filed timely to avoid penalties.

Conclusion

Response accepted.

10. Utility Collections

During our audit, it was noted that there are no set collection procedures in place to collect past due utility bills.

Recommendation

We recommend the City implement procedures to collect past due utility accounts.

Response

The City is working on establishing policies and procedures for collection of past due utility bills.

Conclusion

Response accepted.

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

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

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  
March 7, 2013