

**CITY OF WAUKON**

**FINANCIAL REPORT**

**JUNE 30, 2013**

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CITY OF WAUKON

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OFFICIALS

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

INDEPENDENT AUDITOR'S REPORT  
ON THE FINANCIAL STATEMENTS

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinions

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

The financial statements referred to above 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, 2013, and the changes in its cash basis financial position for the year then ended in accordance 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, 2013 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, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

## Other Matters

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis and budgetary comparison information on pages 5 through 5d and pages 23 through 24 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.

### *Other Information*

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. 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.

The combining nonmajor fund financial statements, schedule of indebtedness, bond and note maturities, and schedule of receipts by source and disbursements by function are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, such information are fairly stated in all material respects in relation to the basic financial statements prepared on the cash basis as explained in the second paragraph of our report on page 2 as a whole.

We also have previously audited, in accordance with U.S. generally accepted auditing standards, the basic financial statements of the City of Waukon as of and for the year ended June 30, 2012, (none of which is presented herein), and we expressed a modified 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 opinions on the financial statements that collectively comprise the City's basic 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 2012 basic financial statements. The information has been subjected to the auditing procedures applied in the audits of those basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information set forth in the required supplementary information for the period ended June 30, 2012, is fairly stated in all material respects in relation to the basic financial statements from which it has been derived.

The financial statements of 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 modified 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. 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2014, on our consideration of 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* in considering City of Waukon's internal control over financial reporting and compliance.

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

Decorah, Iowa  
January 27, 2014

## 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, 2013. Please read this in conjunction with the transmittal letter and the City's financial statements contained within this audit report.

#### 2013 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased \$211,634 or approximately 5.76% from FY 2012 to FY 2013. Of which, bond proceeds accounted for \$141,500 of this increase. Property taxes for all purposes increased \$94,811.
- Program disbursements excluding debt service and capital projects increased \$150,238 or 6.34%.
- The City's total cash basis net position is \$4,278,839. Of this amount, the governmental activities claim cash basis net position of \$2,402,999.
- Net position in the business-type activity, which represents the City's sewer and water operations, increased \$239,837. An increase in operating receipts of approximately \$100,000 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 position-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 position-cash basis reports information which helps answer this question.

The statement of activities and net position-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 position-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 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 position for the years ending June 30, 2013 and 2012:

	Changes in Cash Basis Net Assets of Governmental Activities						
	(In Thousands)						
	Governmental Activities		Business-type Activities		Total		Percent Change
	2012	2013	2012	2013	2012	2013	
<b>Receipts:</b>							
Program revenue							
Charges for service	\$ 852	\$ 856	\$ 783	\$ 884	\$ 1,635	\$ 1,740	6.42%
Operating grants	459	481			459	481	4.79%
Capital grants	157	209			157	209	33.12%
General revenue							
Property taxes	1,088	1,183			1,088	1,183	8.73%
Tax increment financing collections	807	669			807	669	-17.10%
Local option sales tax	281	322			281	322	14.59%
Unrestricted investment earnings	28	19	5	3	33	22	-33.33%
Bond proceeds		142				142	
Other revenue		3	20		20	3	-85.00%
Total receipts	3,672	3,884	808	887	4,480	4,771	6.50%
<b>Program disbursements:</b>							
Public safety	523	609			523	609	16.44%
Public works	569	586			569	586	2.99%
Culture and recreation	829	732			829	732	-11.70%
Community and economic development	155	295			155	295	90.32%
General government	294	297			294	297	1.02%
Debt service	555	588			555	588	5.95%
Capital projects	1,415	727			1,415	727	-48.62%
Other expenses			695	647	695	647	-6.91%
Total disbursements	4,340	3,834	695	647	5,035	4,481	-11.00%
(Decrease) increase in cash basis net assets	(668)	50	113	240	(555)	290	-152.25%
Cash basis net assets beginning of year	3,021	2,353	1,523	1,636	4,544	3,989	-12.21%
Cash basis net assets end of year	\$ 2,353	\$ 2,403	\$ 1,636	\$ 1,876	\$ 3,989	\$ 4,279	7.27%

**Individual Major Fund Analysis**

As the City completed the year, its governmental funds reported a combined cash balance of \$2,402,999, a \$49,773 increase from the 2012 fiscal year end balance of \$2,353,226. This increase is mostly due to capital projects expenses decreasing approximately \$500,000 while public safety expenses increased approximately \$86,000 and a slight increase in property tax and local option sales tax revenue of approximately \$90,000 and \$42,000, respectively.

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

### Individual Major Fund Analysis (Continued)

The general fund cash balance decreased \$38,388 from the prior year of \$396,050. This was due to an increase in public safety, community and economic development, and general government disbursements. The cash balance at year end was \$357,662.

The road use tax fund cash balance at June 30, 2013 was \$108,839. The balance was down \$5,404 from the prior year balance of \$114,243. Receipts were comparable to those of prior years but disbursements increased \$33,134.

The urban renewal tax increment fund cash balance decreased \$183,887 from the prior year of \$653,942 to \$470,055. The decrease in cash balance was a result of receipts decreasing approximately \$138,000 while disbursements increased approximately \$76,000. 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 \$727,644. The City continues to use proceeds from this fund for street improvements each year.

The debt service fund cash balance at June 30, 2013 was \$18,004. The balance was up \$362 from the prior year balance of \$17,642. Receipts were comparable to those of prior years but disbursements increased \$32,549.

### Proprietary Fund Highlights

The water fund, which accounts for the operation and maintenance of the City's water system, ended fiscal year 2013 with a cash basis net asset balance of \$1,114,897. This reflects an increase of \$95,986 from the end of fiscal year 2012 when the net asset balance was \$1,018,911. The water fund had a net operating profit of \$93,978 for fiscal year 2013.

The sewer fund, which accounts for the operation and maintenance of the sewer system and the wastewater treatment facility, ended fiscal year 2013 with a net asset balance of \$760,943. This reflects an increase of \$143,851 from the end of fiscal year 2012 when the net asset balance was \$617,092. The sewer fund had a net operating profit of \$142,350 for fiscal year 2013.

### BUDGETARY HIGHLIGHTS

The City council annually adopts a budget as required by Iowa law. Proper public notice and a required public hearing are held before final approval of the budget. The budget document presents functional disbursements by function and the legal level of control is at the expense level by the different functions. The City of Waukon did not amend its budget during fiscal year 2013.

## DEBT ADMINISTRATION

At June 30, 2013, the City had \$5,724,090 in bonds and other long-term debt, compared to \$5,953,621 last year, as shown below:

Outstanding Debt at Year-End (in thousands) Year ended June 30,					
	2013	2012	2011	2010	2009
General obligation bonds	\$ 5,724	\$ 5,954	\$ 6,277	\$ 4,698	\$ 4,991
Real estate contract payable				65	
Total	\$ 5,724	\$ 5,954	\$ 6,277	\$ 4,763	\$ 4,991

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 \$9,174,429.

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

The City of Waukon continues to work on the 2013 street improvement project and Robey Memorial Library expansion project with anticipation completion date in 2014. The City is financing one-half the costs of the acquisition of a fire truck (\$186,000) through a general obligation fire equipment note, closing date March 14, 2014.

The City of Waukon has budgeted in FYE15 \$750,000 for one-half the costs of the building of a new fire station.

### 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 POSITION - CASH BASIS  
For the Year Ended June 30, 2013

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>				
Governmental activities				
Public safety	\$ 608,947	\$ 20,822	\$ 21,619	\$ 281
Public works	586,457	250,836	373,200	
Culture and recreation	732,490	392,941	86,689	11,624
Community and economic development	294,715			70,421
General government	296,849	82,059		
Debt service	587,757	109,200		
Capital projects	726,789			126,427
Total governmental activities	<u>3,834,004</u>	<u>855,858</u>	<u>481,508</u>	<u>208,753</u>
Business-type activities				
Water	362,485	456,463		
Sewer	284,881	427,231		
Total business-type activities	<u>647,366</u>	<u>883,694</u>	-	-
Total	<u>\$ 4,481,370</u>	<u>\$ 1,739,552</u>	<u>\$ 481,508</u>	<u>\$ 208,753</u>
<b>Component Unit</b>				
Robey Memorial Library Foundation	<u>\$ 104,449</u>		<u>\$ 416,757</u>	
<b>General Receipts and Transfers</b>				
Property and other City tax levied for				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
General obligation bond proceeds				
Sale of capital assets				
Total general receipts and transfers				
<b>Change in cash basis net position</b>				
Cash basis net position beginning of year				
Cash basis net position end of year				
<b>Cash Basis Net Position</b>				
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 net position				

See Notes to Financial Statements.

EXHIBIT A

Net (Disbursements) Receipts and Changes in Cash Basis Net Position			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Robey Memorial Library Foundation
\$ (566,225)		\$ (566,225)	
37,579		37,579	
(241,236)		(241,236)	
(224,294)		(224,294)	
(214,790)		(214,790)	
(478,557)		(478,557)	
(600,362)		(600,362)	
(2,287,885)	\$ -	(2,287,885)	
	93,978	93,978	
	142,350	142,350	
	-	236,328	
(2,287,885)	236,328	(2,051,557)	
			\$ 312,308
1,050,218		1,050,218	
132,512		132,512	
669,196		669,196	
322,417		322,417	
18,895	3,509	22,404	2,089
141,500		141,500	
2,920		2,920	
2,337,658	3,509	2,341,167	2,089
49,773	239,837	289,610	314,397
2,353,226	1,636,003	3,989,229	146,262
\$ 2,402,999	\$ 1,875,840	\$ 4,278,839	\$ 460,659
\$ 470,055		\$ 470,055	
18,004		18,004	
108,839		108,839	
727,644		727,644	
471,151		471,151	\$ 460,659
52,766		52,766	
409,524		409,524	
145,016	\$ 1,875,840	2,020,856	
\$ 2,402,999	\$ 1,875,840	\$ 4,278,839	\$ 460,659

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CITY OF WAUKON  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2013

	Special Revenue			
	General	Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax
<b>Receipts</b>				
Property tax	\$ 857,078			
Tax increment financing			\$ 669,196	
Other City tax	40,914			\$ 322,417
Licenses and permits	41,718			
Use of money and property	53,814			
Intergovernmental	85,069	\$ 373,200		
Charges for service	327,501			
Special assessments				
Miscellaneous	61,440			
<b>Total receipts</b>	<b>1,467,534</b>	<b>373,200</b>	<b>669,196</b>	<b>322,417</b>
<b>Disbursements</b>				
Operating				
Public safety	523,255			
Public works	207,853	378,604		
Culture and recreation	409,391			
Community and economic development	88,802		103,168	
General government	263,573			
Debt service				
Capital projects	10,743			
<b>Total disbursements</b>	<b>1,503,617</b>	<b>378,604</b>	<b>103,168</b>	<b>-</b>
<b>Excess of receipts over (under) disbursements</b>	<b>(36,083)</b>	<b>(5,404)</b>	<b>566,028</b>	<b>322,417</b>
<b>Other financing sources (uses)</b>				
General obligation bond proceeds				
Sale of capital assets				
Operating transfers in	5,261		110,972	
Operating transfers out	(7,566)		(860,887)	(45,454)
<b>Total other financing sources (uses)</b>	<b>(2,305)</b>	<b>-</b>	<b>(749,915)</b>	<b>(45,454)</b>
<b>Net change in cash balances</b>	<b>(38,388)</b>	<b>(5,404)</b>	<b>(183,887)</b>	<b>276,963</b>
<b>Cash balances beginning of year</b>	<b>396,050</b>	<b>114,243</b>	<b>653,942</b>	<b>450,681</b>
<b>Cash balances end of year</b>	<b>\$ 357,662</b>	<b>\$ 108,839</b>	<b>\$ 470,055</b>	<b>\$ 727,644</b>

See Notes to Financial Statements.

EXHIBIT B

	Debt Service	Other Nonmajor Governmental Funds	Total
\$	130,252	\$ 149,036	\$ 1,136,366
			669,196
	2,260	3,190	368,781
			41,718
	109,200	5,903	168,917
		99,287	557,556
		256,461	583,962
		41,156	41,156
		110,265	171,705
	<u>241,712</u>	<u>665,298</u>	<u>3,739,357</u>
		85,692	608,947
			586,457
		323,099	732,490
		102,745	294,715
		33,276	296,849
	587,757		587,757
		716,046	726,789
	<u>587,757</u>	<u>1,260,858</u>	<u>3,834,004</u>
	<u>(346,045)</u>	<u>(595,560)</u>	<u>(94,647)</u>
		141,500	141,500
		2,920	2,920
	346,407	588,814	1,051,454
		(137,547)	(1,051,454)
	<u>346,407</u>	<u>595,687</u>	<u>144,420</u>
	362	127	49,773
	<u>17,642</u>	<u>720,668</u>	<u>2,353,226</u>
\$	<u>18,004</u>	\$ <u>720,795</u>	\$ <u>2,402,999</u>

CITY OF WAUKON  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2013

	Special Revenue			
	General	Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax
Cash Basis Balances				
Restricted for				
Urban renewal purposes			\$ 470,055	
Debt service				
Streets		\$ 108,839		
Streets and related infrastructure				\$ 727,644
Other purposes	\$ 55,472			
Committed for special purposes	52,766			
Assigned for special purposes	70,628			
Unassigned	178,796			
	<hr/>			
Total cash basis balances	\$ 357,662	\$ 108,839	\$ 470,055	\$ 727,644

EXHIBIT B  
(Continued)

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<u>Debt</u>	<u>Other Nonmajor</u>		
<u>Service</u>	<u>Governmental</u>		<u>Total</u>
	<u>Funds</u>		
		\$	470,055
\$ 18,004			18,004
			108,839
			727,644
	\$ 415,679		471,151
			52,766
	338,896		409,524
	(33,780)		145,016
			<hr/>
\$ 18,004	\$ 720,795	\$	2,402,999

CITY OF WAUKON  
 RECONCILIATION OF THE STATEMENT OF CASH  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES  
 TO THE STATEMENT OF ACTIVITIES AND NET POSITION  
 GOVERNMENTAL FUNDS  
 For the Year Ended June 30, 2013

---

Total governmental funds cash balances	\$ 2,402,999
Amounts reported for governmental activities in the statement of activities and net position are different because:	
Not applicable	-
Cash basis net position of governmental activities	\$ 2,402,999
Net change in cash balances	\$ 49,773
Amounts reported for governmental activities in the statement of activities and net position are different because:	
Not applicable	-
Change in cash balance of governmental activities	\$ 49,773

CITY OF WAUKON  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2013

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts			
Charges for service	\$ 437,620	\$ 425,751	\$ 863,371
Miscellaneous	18,843	1,480	20,323
Total operating receipts	<u>456,463</u>	<u>427,231</u>	<u>883,694</u>
Operating disbursements			
Business-type activities	<u>362,485</u>	<u>284,881</u>	<u>647,366</u>
Total operating disbursements	<u>362,485</u>	<u>284,881</u>	<u>647,366</u>
Excess of operating receipts over operating disbursements	<u>93,978</u>	<u>142,350</u>	<u>236,328</u>
Nonoperating receipts (disbursements)			
Interest on investments	<u>2,008</u>	<u>1,501</u>	<u>3,509</u>
Total nonoperating receipts	<u>2,008</u>	<u>1,501</u>	<u>3,509</u>
Excess of receipts over disbursements	<u>95,986</u>	<u>143,851</u>	<u>239,837</u>
Net change in cash balances	95,986	143,851	239,837
Cash balances beginning of year	<u>1,018,911</u>	<u>617,092</u>	<u>1,636,003</u>
Cash balances end of year	<u>\$ 1,114,897</u>	<u>\$ 760,943</u>	<u>\$ 1,875,840</u>
Cash Basis Balances			
Unrestricted	<u>\$ 1,114,897</u>	<u>\$ 760,943</u>	<u>\$ 1,875,840</u>
Total cash basis balances	<u>\$ 1,114,897</u>	<u>\$ 760,943</u>	<u>\$ 1,875,840</u>

See Notes to Financial Statements.

CITY OF WAUKON  
 RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
 AND CHANGES IN CASH BALANCES  
 TO THE STATEMENT OF ACTIVITIES AND NET POSITION  
 PROPRIETARY FUNDS  
 For the Year Ended June 30, 2013

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Total enterprise funds cash balances	\$ 1,875,840
Amounts reported for business-type activities in the statement of activities and net position are different because:	
Not applicable	-
Cash basis net position of business-type activities	\$ 1,875,840
Net change in cash balances	\$ 239,837
Amounts reported for business-type activities in the statement of activities and net position are different because:	
Not applicable	-
Change in cash balance of business-type activities	\$ 239,837

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.

The City has four component units which meets the Governmental Accounting Standards Board criteria. The Robey Memorial Library Foundation is a non-profit corporation but has the potential to provide specific benefits to, or impose specific burdens on the City.

These financial statements present the City of Waukon (the primary government) and exclude all component units except the Robey Memorial Library Foundation. 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 and Waukon Trees Forever 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 position (previously referred to as 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 position presents the City's nonfiduciary net position. Net position is reported in three categories:

- *Nonexpendable restricted net position* is 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 position.
- *Expendable restricted net position* result when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net position* consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The statement of activities and net position 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.

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.

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

b. Significant Accounting Policies (Continued)

*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 is both restricted and unrestricted cash basis net position 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.

*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 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 changes the specified use by taking the same action it employed to commit those amounts.
- *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.

NOTES TO FINANCIAL STATEMENTS

2. Deposits and Investments

The City's deposits in banks at June 30, 2013 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.

3. Bonds and Notes Payable

A summary of the changes in debt, by type, for the year ended June 30, 2013 is as follows:

	Balance June 30, 2012	Borrowed	Paid	Balance June 30, 2013	Amounts Due Within One Year
<b>General Obligation</b>					
Hospital	\$ 10,000			\$ 10,000	\$ 10,000
Medical Clinic	531,803		\$ (30,515)	501,288	31,965
Medical Clinic	531,818		(30,516)	501,302	31,965
Urban renewal	2,820,000		(155,000)	2,665,000	160,000
Corporate purpose	170,000		(40,000)	130,000	40,000
Corporate purpose	1,890,000		(115,000)	1,775,000	120,000
Urban renewal		\$ 141,500		141,500	141,500
<b>Total bonded debt</b>	<b>\$ 5,953,621</b>	<b>\$ 141,500</b>	<b>\$ (371,031)</b>	<b>\$ 5,724,090</b>	<b>\$ 535,430</b>

NOTES TO FINANCIAL STATEMENTS

3. **Bonds and Notes Payable (Continued)**

a. **General Obligation Bonds Payable at June 30, 2013**

\$10,000 1976 General Obligation Bearer Bonds remains outstanding at June 30, 2013. 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 2014 through May 2025 plus interest at 4.65%		501,288
\$710,000 General Obligation Bond, due in monthly installments of \$4,550 from July 2014 through May 2025 plus interest at 4.65%		501,302
\$3,500,000 General Obligation Bond Urban Renewal Corporate Purpose Bond, due semi-annually in varying installments from December 2013 through June 2026, plus interest at 3.7 - 5.0%		2,665,000
\$400,000 General Obligation Corporate Purpose Bond Series 2007, due semi-annually in varying installments from December 2013 through June 2016 plus interest at 4.2 – 4.5%		130,000
\$1,890,000 General Obligation Corporate Purpose Bonds Series 2011, due semi-annually in varying installments December 2013 through June 2031, plus interest at 3.7 – 5.0%		1,775,000
\$500,000 General Obligation Urban Renewal Corporate Purpose Loan, due June 1, 2014, plus interest at 2.45%		141,500
		141,500
	\$	5,724,090

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
2014	\$ 535,430	\$ 207,773
2015	396,966	191,389
2016	410,148	177,513
2017	378,480	164,052
2018	391,970	151,563
2019 - 2023	2,108,302	538,232
2024 - 2028	1,277,794	157,258
2029 - 2031	225,000	18,675
	\$ 5,724,090	\$ 1,606,455

3. Bonds and Notes Payable (Continued)

b. Debt Payment Schedule (Continued)

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, 2013. Efforts by the City to ascertain the identity of the bondholder have not been successful as of year end.

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 5.78%, 5.38%, and 4.50% of their annual covered salary and the City is required to contribute 8.67%, 8.07%, and 6.95% of covered salary for the years ended June 30, 2013, 2012, and 2011, respectively. 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, 2013, 2012, and 2011 were \$88,030, \$82,842, and \$75,572, 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 21 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 \$461.22/single, \$996.26 employee/spouse, \$917.94 employee/children, and \$1,431.05/family. The same monthly premiums apply to retirees. For the year ended June 30, 2013, the City contributed \$137,109 and plan members eligible for benefits contributed \$21,128 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, 2013, primarily relating to the general fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 70,687
Sick leave	<u>127,393</u>
	<u>\$ 198,080</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, 2013.

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.

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, 2013, had a total of \$527,288 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 \$1,002,590 as of June 30, 2013.

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.

NOTES TO FINANCIAL STATEMENTS

10. Leases (Continued)

The City in July 2012 entered into a 15 year agreement to allow a company the right to maintain an antenna on the City's water tower and other equipment on the City's property with options to renew for successive one year periods. The rent will start at \$360 per month and may be adjusted at each renewal.

The City leases real estate to a communication company for the installation and maintenance of utility wires, poles, cables, conduits, and pipes over, under, or along one or more rights of way from the real estate. The lease started in October 2012 and is for 5 years with an automatic extension of four additional five year terms unless lessee terminates. The City receives annual payments of \$8,400 to be paid in monthly installments.

The City entered into a lease agreement in July 2013 for the use of a copier. The lease is for five years with monthly payments of \$99.

Minimum lease payments are as follows:

Year ending June 30,	As Lessor	As Lessee
2014	\$ 131,247	\$ 1,188
2015	131,247	1,188
2016	131,247	1,188
2017	131,247	1,188
2018	131,247	1,188
2019-2023	614,235	
2024-2028	392,595	
2029-2033	46,635	
2034-2038	46,635	
2039	9,327	
	1,765,662	5,940
Less sublease	(46,800)	None
	\$ 1,718,862	\$ 5,940

The City's non-cancelable lease expense for 2013 was \$1,935.

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 are 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, 2013.

The City is involved in various legal actions in which claims of varying amounts are being asserted against the City. The City follows the practice of providing for these claims when a loss is paid. In the opinion of the City management, these actions will not result in a significant impact on the City's financial position.

NOTES TO FINANCIAL STATEMENTS

12. Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

Transfers to		Transfers from	
General		General	
Library	\$ 5,261	General	\$ 5,782
		Economic development special	1,784
Debt Service			\$ 7,566
General obligation bond	\$ 346,407		
Special Revenue		Special Revenue	
Urban renewal tax increment	\$ 110,972	Urban renewal tax increment	\$ 860,887
Library memorial	756	Local option sales tax	45,454
CDBG Housing	1,784	Park memorial	21,314
Wellness Center operations	5,000	Employee benefits	5,261
	\$ 118,512		\$ 932,916
Capital Projects		Capital Projects	
Street improvement project	\$ 45,454	IDOT	\$ 2,870
Park capital improvement	26	Lomen	54,119
IDOT	101,394	Kitchen Krafts	53,563
Lomen	74,289	Airport	420
Park tennis court	21,314		\$ 110,972
Wellness maintenance fund	18,120		
Library expansion	250,000		
Airport	420		
Administration	16,694		
Kitchen Krafts	53,563		
	\$ 581,274		

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 one deficit fund balance at June 30, 2013. This is the special revenue CDBG housing fund of \$33,780.

14. Related Party Transactions

The City had business transactions between the City and City officials or employees totaling \$567 during the year ended June 30, 2013.

15. New Governmental Accounting Standard Board (GASB) Standards

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

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, 2013, no funds have been requested of the City.

The City has outstanding construction contracts of \$1,810,198 at June 30, 2013. The costs will be paid from various revenue sources available to the City.

Management has evaluated subsequent events through January 27, 2014, the date on which the financial statements were available to be issued.

**Other Information**

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, 2013

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts Original and Final	Final to Total Variance
<b>Receipts</b>					
Property tax	\$ 1,136,366		\$ 1,136,366	\$ 1,134,934	\$ 1,432
Tax increment financing	669,196		669,196	680,000	(10,804)
Other City tax	368,781		368,781	425,867	(57,086)
Licenses and permits	41,718		41,718	10,860	30,858
Use of money and property	168,917	\$ 3,509	172,426	152,675	19,751
Intergovernmental	557,556		557,556	2,314,112	(1,756,556)
Charges for service	583,962	863,371	1,447,333	1,332,501	114,832
Special assessments	41,156		41,156	24,000	17,156
Miscellaneous	171,705	20,323	192,028	209,770	(17,742)
<b>Total receipts</b>	<b>3,739,357</b>	<b>887,203</b>	<b>4,626,560</b>	<b>6,284,719</b>	<b>(1,658,159)</b>
<b>Disbursements</b>					
Public safety	608,947		608,947	632,826	23,879
Public works	586,457		586,457	631,499	45,042
Health and social services				3,000	3,000
Culture and recreation	732,490		732,490	861,499	129,009
Community and economic development	294,715		294,715	537,175	242,460
General government	296,849		296,849	334,363	37,514
Debt service	587,757		587,757	587,759	2
Capital projects	726,789		726,789	3,243,694	2,516,905
Business-type activities		647,366	647,366	1,094,215	446,849
<b>Total disbursements</b>	<b>3,834,004</b>	<b>647,366</b>	<b>4,481,370</b>	<b>7,926,030</b>	<b>3,444,660</b>
Excess of receipts over (under) disbursements	(94,647)	239,837	145,190	(1,641,311)	1,786,501
Other financing sources, net	144,420		144,420	331,327	(186,907)
Excess of receipts and other financing sources over (under) disbursements and other financing uses	49,773	239,837	289,610	(1,309,984)	1,599,594
Balances beginning of year	2,353,226	1,636,003	3,989,229	3,728,383	260,846
Balances end of year	\$ 2,402,999	\$ 1,875,840	\$ 4,278,839	\$ 2,418,399	\$ 1,860,440

See Notes to Other Information.

CITY OF WAUKON

NOTES TO OTHER INFORMATION–BUDGETARY REPORTING

June 30, 2013

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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 service funds for the year ended June 30, 2013. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type activities, and non-program. 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. The City did not amend their budget during the year.

At year ended June 30, 2013, disbursements did not exceed the amounts budgeted in the general government and business-type activities functions.

See Independent Auditor's Report.

**Supplementary Information**

CITY OF WAUKON  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2013

	Special Revenue				
	Employee Benefits	Library Memorial	Park Memorial	Special Law Enforcement	CDBG Housing
<b>Receipts</b>					
Property tax	\$ 149,036				
Other City tax	3,190				
Use of money and property		\$ 1,464	\$ 111		
Intergovernmental			500		\$ 64,421
Charges for services					
Special assessments					
Miscellaneous		61,600	26,460		
<b>Total receipts</b>	<b>152,226</b>	<b>63,064</b>	<b>27,071</b>	<b>\$ -</b>	<b>\$ 64,421</b>
<b>Disbursements</b>					
<b>Operating</b>					
Public safety	85,692				
Culture and recreation	38,226	2,969	5,588		
Community and economic development	2,871				99,874
General government	16,582				
Capital projects		62,652			
<b>Total disbursements</b>	<b>143,371</b>	<b>65,621</b>	<b>5,588</b>	<b>-</b>	<b>99,874</b>
<b>Excess of receipts over (under) disbursements</b>	<b>8,855</b>	<b>(2,557)</b>	<b>21,483</b>	<b>-</b>	<b>(35,453)</b>
<b>Other financing sources (uses)</b>					
General obligation bond proceeds					
Sale of capital assets					
Operating transfers in		756			1,784
Operating transfers out	(5,261)		(21,314)		
<b>Total other financing sources (uses)</b>	<b>(5,261)</b>	<b>756</b>	<b>(21,314)</b>	<b>-</b>	<b>1,784</b>
<b>Net change in cash balances</b>	<b>3,594</b>	<b>(1,801)</b>	<b>169</b>	<b>-</b>	<b>(33,669)</b>
<b>Cash balances beginning of year</b>	<b>64,431</b>	<b>235,256</b>	<b>18,988</b>	<b>1,081</b>	<b>(111)</b>
<b>Cash balances end of year</b>	<b>\$ 68,025</b>	<b>\$ 233,455</b>	<b>\$ 19,157</b>	<b>\$ 1,081</b>	<b>\$ (33,780)</b>
<b>Cash Basis Balances</b>					
<b>Restricted For</b>					
Other purposes	\$ 68,025	\$ 233,455	\$ 19,157	\$ 1,081	
Assigned for special purposes					
Unassigned					\$ (33,780)
<b>Total cash basis balances</b>	<b>\$ 68,025</b>	<b>\$ 233,455</b>	<b>\$ 19,157</b>	<b>\$ 1,081</b>	<b>\$ (33,780)</b>

See Independent Auditor's Report.

SCHEDULE 1

Special Revenue				
Wellness Center		Capital Projects	Total	
Operations	Trust			
				\$ 149,036
				3,190
\$ 2,487	\$ 129	\$ 1,712		5,903
15,808		18,558		99,287
256,461				256,461
		41,156		41,156
8,852	9,920	3,433		110,265
283,608	10,049	64,859		665,298
				85,692
266,210	10,106			323,099
				102,745
		16,694		33,276
		653,394		716,046
266,210	10,106	670,088		1,260,858
17,398	(57)	(605,229)		(595,560)
		141,500		141,500
		2,920		2,920
5,000		581,274		588,814
		(110,972)		(137,547)
5,000	-	614,722		595,687
22,398	(57)	9,493		127
46,536	23,610	330,877		720,668
\$ 68,934	\$ 23,553	\$ 340,370	\$	720,795
\$ 68,934	\$ 23,553	\$ 1,474	\$	415,679
		338,896		338,896
				(33,780)
\$ 68,934	\$ 23,553	\$ 340,370	\$	720,795

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CITY OF WAUKON  
 SCHEDULE OF INDEBTEDNESS  
 For the Year Ended June 30, 2013

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
Medical Clinic	May 20, 2005	4.65	710,000	531,803
Medical Clinic	May 20, 2005	4.65	710,000	531,818
G.O. Urban Renewal Corporate Purpose	October 11, 2006	3.70 - 4.50	3,500,000	2,820,000
Corporate Purpose	June 1, 2007	4.15 - 4.25	400,000	170,000
Corporate Purpose	June 21, 2011	.85 - 4.15	1,890,000	1,890,000
G.O. Urban Renewal Corporate Purpose	June 10, 2013	2.45	141,500	
				\$ 5,953,621

See Independent Auditor's Report.

SCHEDULE 2

Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
		\$ 10,000	
	\$ 30,515	501,288	\$ 24,085
	30,516	501,302	24,084
	155,000	2,665,000	113,580
	40,000	130,000	7,262
	115,000	1,775,000	47,715
\$ 141,500		141,500	
\$ 141,500	\$ 371,031	\$ 5,724,090	\$ 216,726

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CITY OF WAUKON  
 BOND AND NOTE MATURITIES  
 For the Year Ended June 30, 2013

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
2014		\$ 10,000	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	53,061	4.10	245,000
2026							4.125	255,000
2027								
2028								
2029								
2030								
2031								
		<u>\$ 10,000</u>		<u>\$ 501,288</u>		<u>\$ 501,302</u>		<u>\$ 2,665,000</u>

See Independent Auditor's Report.



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

	2013	2012	2011	2010	2009
<b>Receipts</b>					
Property tax	\$ 1,136,366	\$ 1,064,881	\$ 1,075,049	\$ 884,842	\$ 974,518
Tax increment financing	669,196	807,299	640,990	650,698	636,692
Other City tax	368,781	303,863	481,393	415,147	382,991
Licenses and permits	41,718	44,474	16,907	12,884	10,979
Use of money and property	168,917	176,057	182,127	184,044	218,447
Intergovernmental	557,556	456,591	552,566	443,644	426,795
Charges for service	583,962	564,429	509,723	277,885	508,645
Special assessments	41,156	116,406		2,384	4,036
Miscellaneous	171,705	138,143	129,550	86,204	147,094
<b>Total</b>	<b>\$ 3,739,357</b>	<b>\$ 3,672,143</b>	<b>\$ 3,588,305</b>	<b>\$ 2,957,732</b>	<b>\$ 3,310,197</b>
<b>Disbursements</b>					
<b>Operating</b>					
Public safety	\$ 608,947	\$ 523,096	\$ 501,648	\$ 574,431	\$ 478,171
Public works	586,457	568,883	561,219	580,668	593,093
Health and social services					
Culture and recreation	732,490	829,007	784,295	457,265	737,415
Community and economic development	294,715	154,750	108,846	98,913	103,857
General government	296,849	293,484	267,993	267,738	232,376
Debt service	587,757	555,208	1,474,317	506,910	620,567
Capital projects	726,789	1,415,112	610,093	615,665	454,702
<b>Total</b>	<b>\$ 3,834,004</b>	<b>\$ 4,339,540</b>	<b>\$ 4,308,411</b>	<b>\$ 3,101,590</b>	<b>\$ 3,220,181</b>

See Independent Auditor's Report.

SCHEDULE 4

	2008	2007	2006	2005	2004
\$	923,499	\$ 931,811	\$ 853,693	\$ 785,895	\$ 812,094
	487,998	452,561	448,923	653,627	589,101
	370,726	350,641	286,452	331,177	301,291
	13,463	11,301	14,683	8,126	19,143
	255,387	312,123	82,703	41,479	29,745
	1,216,107	1,451,962	394,135	399,854	472,624
	467,718	285,540	289,470	294,924	291,507
	3,727	3,463	5,464	5,830	15,192
	307,617	130,383	295,087	210,022	124,786
\$	4,046,242	\$ 3,929,785	\$ 2,670,610	\$ 2,730,934	\$ 2,655,483

\$	436,920	\$ 434,797	\$ 438,537	\$ 363,429	\$ 526,815
	558,547	778,560	550,421	544,427	465,949
	119		9,000	9,000	9,000
	628,303	420,223	422,983	365,944	384,617
	54,665	49,349	44,269	44,704	60,595
	231,418	241,774	246,945	221,971	220,089
	668,463	452,906	377,036	275,081	737,950
	3,459,224	3,206,539	1,607,830	1,470,751	709,056
\$	6,037,659	\$ 5,584,148	\$ 3,697,021	\$ 3,295,307	\$ 3,114,071

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, in accordance with the 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, the 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, 2013, and the related notes to the financial statements, which collectively comprise City of Waukon's basic financial statements and have issued our report thereon dated January 27, 2014. The financial statements were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Waukon's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly we do not express an opinion on the effectiveness of City of Waukon's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control described below that we consider to be a significant deficiency.

### 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. Management has not separated incompatible activities of personnel, thereby creating risks related to the safeguarding of cash and the accuracy of the financial statements.

### 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 City of Waukon's financial statements are free from 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*.

### City of Waukon's Response to Finding

City of Waukon's response to the finding identified in our audit is described above. City of Waukon's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Decorah, Iowa  
January 27, 2014

## 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, 2013, 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 January 27, 2014, contains our report on the City's internal control over financial reporting. This letter does not affect our report dated January 27, 2014 on the basic financial statements of City of Waukon. Comments 8 and 12 are unresolved comments from the prior year. All other prior year comments have been resolved. These comments are not intended to and do not constitute legal opinions. 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, 2013 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, 2013 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	\$ 567

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 one fund with a deficit balance at June 30, 2013 totaling \$33,780.

**Recommendation**

The City should investigate alternatives to eliminate this deficit in order to return the fund to a sound financial position.

**Response**

The City is transferring money from the general fund into this fund to eliminate the deficit until the state reimbursement grant proceeds are received.

**Conclusion**

Response accepted.

9. **Urban Renewal Annual Report**

The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1.

10. Disbursements

During our audit, we noted one invoice that did not total correctly and was overpaid.

Recommendation

We recommend the City check invoices for accuracy before paying.

Response

The City will continue to check invoices for accuracy before paying.

Conclusion

Response accepted.

11. Disbursement Reporting

During our audit, it was noted that one contractor at the Wellness Center earned more than \$600 but was not issued a 1099.

Recommendation

We recommend the City issues 1099's to all contract laborers who earn over \$600.

Response

The City has discussed this with the Wellness Center Director and she will inform the City of all contractors she employs so that a 1099 can be issued.

Conclusion

Response accepted.

12. 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.