

**CITY OF DECORAH
DECORAH, IOWA**

FINANCIAL REPORT

JUNE 30, 2013

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CITY OF DECORAH

OFFICIALS
June 30, 2013

| Name | Title | Term Expires |
|----------------|-------------|--------------|
| Donald Arendt | Mayor | 01-02-14 |
| John Franzen | First Ward | 01-02-14 |
| Julie Fischer | Second Ward | 06-03-13 |
| Jodi Niess | Second Ward | 01-02-14* |
| Paul Wanless | Third Ward | 01-02-14 |
| Carolyn Corbin | Fourth Ward | 01-02-16 |
| Randy Schissel | Fifth Ward | 01-02-14 |
| Gary Rustad | At-Large | 01-02-14 |
| Rachel Vagts | At-Large | 01-02-16 |

*Appointed June 3, 2013 to replace Julie Fischer

Officials

| | | |
|-----------------|-----------------------|-----------|
| Chad Bird | City Manager | Appointed |
| Wanda Hemesath | City Clerk, Treasurer | Appointed |
| Richard Zahasky | City Attorney | Appointed |

INDEPENDENT AUDITOR'S REPORT
ON THE FINANCIAL STATEMENTS

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Decorah, as of and for the year ended June 30, 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 U.S. generally accepted accounting principles; this includes 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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Decorah as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis, budgetary comparison information, and funding progress for the retiree health plan on pages 5 through 5g and pages 40 through 43 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 Decorah's basic financial statements. The combining and individual nonmajor fund financial statements and schedule of revenues by source and expenditures by function are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, schedule of revenues by source and expenditures by function, and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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, the information is fairly stated, in all material respects, in relation to the basic financial statements 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 Decorah as of and for the years ended June 30, 2004 through 2012, (none of which is presented herein), and we expressed unmodified opinions on those financial statements. 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 revenues and expenditures of the governmental funds for the years ended June 30, 2004 through 2012 presented on page 47 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 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 schedule of revenues and expenditures of the governmental funds for the years ended June 30, 2004 through 2012 presented on page 47 is fairly stated in all material respects in relation to the basic 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 December 4, 2013, on our consideration of City of Decorah's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Decorah's internal control over financial reporting and compliance.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
December 4, 2013

CITY OF DECORAH

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the City of Decorah's financial performance provides an overview of the City's financial activities for the fiscal year ending June 30, 2013. Please read this in conjunction with the transmittal letter and the City's financial statements contained within this audit report.

2013 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased \$2,862,500 or approximately 27.8% from FY 2012 to FY 2013. Property taxes for all purposes increased \$123,396. Operating grants decreased \$2,169,271 and capital grants decreased \$667,307 from FY 2012 to FY 2013. The majority of the decrease in these grants is a result of the trail being completed and most of these revenues were earned in FY 2012.
- Program expenditures excluding debt service and capital projects decreased \$172,357.
- The City's total net position is \$45,587,316. Of this amount, the governmental activities claim net position of \$36,841,423.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and other information as follows:

- Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- Government-wide financial statements consist of a statement of net position and a statement of activities. These provide information about the activities of the City as a whole and provide an overall view of the City's finances.
- The fund financial statements reveal how governmental services were financed in the short term as well as what remains for future spending. The fund financial statements report the City's operations in greater detail than the government-wide statements by providing information about the funds.
- Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- The supplementary information provides detailed information about the nonmajor special revenue funds. In addition, the budgetary comparison schedules support the financial statements with a comparison of the City's budget for the year.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

GOVERNMENT-WIDE FINANCIAL STATEMENTS

One of the most important questions that are asked about the City's finances is: *"Is the City, as a whole, better or worse off as a result of this year's activities?"* The statement of net position and the statement of activities report information to assist in answering this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus. This is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The statement of net position presents a picture of all of the City's net position and liabilities with the difference between the two reported as net position. When using this as a comparison to the figure for net position over a period of time, changes in the City's net position may serve as a useful indicator as to whether the City's financial position is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the change occurs regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The statement of net position and statement of activities report three kinds of activities.

1. **Governmental activities:** these include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects.
2. **Business-type activities:** these include the City's utilities which specifically are the water system (production, storage, transmission, distribution, treatment, and billing) and sewer system (collection, transmission, treatment and discharge). These services are primarily characterized by their reliance on user charges as opposed to property or other general tax proceeds.
3. **Component unit:** the only component unit of the City shown in the financial report is that of the Volunteer Fire Department. A component unit is a legally separate entity but one whose financial and accounting practices are closely linked to those of the City.

FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the City's most significant funds and not the City as a whole. Some funds are required by State law while others are required by bond covenants or Council policy. The City's two kinds of funds – governmental and proprietary (business-type) – are different by definition and use somewhat different accounting approaches. These differences are summarized below.

FUND FINANCIAL STATEMENTS (Continued)

Governmental funds: these account for most of the City’s basic services and focus on how money flows into and out of those funds as well as balances at year end that are available for spending. Governmental funds include: 1) the general fund 2) special revenue funds (i.e., tax increment financing funds, employee benefits tax proceeds, and road use taxes) 3) the debt service fund and 4) the capital projects fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting which measures cash and all other financial assets that can be readily converted to cash. The governmental fund financial statements provide a detailed, short-term view of the City’s general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures, and changes in fund balances.

Proprietary (business-type) funds: these account for the City’s enterprise funds which are those for which rate payers or other customers pay for the services rendered. The major difference in the accounting for these funds versus the governmental funds is the level of detail and the additional information, such as the cash flows that are shown with the proprietary funds. The City’s enterprise funds include water and sewer funds only. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purposes for the benefit of the rate payers. The required financial statements for proprietary funds include a statement of net position, a statement of revenues, expenses, and changes in net position and a statement of cash flows.

Condensed Statement of Net Position
(In Thousands)

| | Governmental Activities | | Business-type Activities | | Total | | Percent Change |
|----------------------------------|-------------------------|------------------|--------------------------|-----------------|------------------|------------------|----------------|
| | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | |
| Current and other assets | \$ 8,256 | \$ 7,113 | \$ 1,030 | \$ 1,276 | \$ 9,286 | \$ 8,389 | -9.66% |
| Capital assets | 34,944 | 38,027 | 8,986 | 9,111 | 43,930 | 47,138 | 7.30% |
| Total assets | 43,200 | 45,140 | 10,016 | 10,387 | 53,216 | 55,527 | 4.34% |
| Long-term debt outstanding | 1,277 | 3,196 | 970 | 1,217 | 2,247 | 4,413 | 96.40% |
| Other liabilities | 5,252 | 5,102 | 276 | 424 | 5,528 | 5,526 | -0.04% |
| Total liabilities | 6,529 | 8,298 | 1,246 | 1,641 | 7,775 | 9,939 | 27.83% |
| Net position | | | | | | | |
| Net investment in capital assets | 33,555 | 34,354 | 7,859 | 7,655 | 41,414 | 42,009 | 1.44% |
| Restricted | 1,411 | 1,228 | - | - | 1,411 | 1,228 | -12.97% |
| Unrestricted | 1,705 | 1,260 | 911 | 1,091 | 2,616 | 2,351 | -10.13% |
| Total net position | \$ 36,671 | \$ 36,842 | \$ 8,770 | \$ 8,746 | \$ 45,441 | \$ 45,588 | 0.32% |

FUND FINANCIAL STATEMENTS (Continued)

The following analysis shows the change in net position for the years ending June 30, 2013 and 2012:

| Changes in Net Position of Governmental Activities | | | | | | | |
|--|----------------------------|------------------|-----------------------------|-----------------|------------------|------------------|-------------------|
| (In Thousands) | | | | | | | |
| | Governmental Activities | | Business-type Activities | | Total | | Percent Change |
| | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | |
| Revenues: | | | | | | | |
| Program revenue | | | | | | | |
| Charges for service | \$ 789 | \$ 692 | \$ 1,480 | \$ 1,557 | \$ 2,269 | \$ 2,249 | -0.88% |
| Operating grants | 3,402 | 1,232 | 47 | 37 | 3,449 | 1,269 | -63.21% |
| Capital grants | 1,056 | 388 | | | 1,056 | 388 | -63.26% |
| General revenue | | | | | | | |
| Property taxes | 3,416 | 3,539 | | | 3,416 | 3,539 | 3.60% |
| Tax increment financing collections | 320 | 265 | | | 320 | 265 | -17.19% |
| Other city taxes | 329 | 372 | | | 329 | 372 | 13.07% |
| Local option sales tax | 883 | 889 | | | 883 | 889 | 0.68% |
| Unrestricted investment earnings | 45 | 7 | 1 | 1 | 46 | 8 | -82.61% |
| Gain (loss) on the sale of capital assets | 5 | 3 | | | 5 | 3 | -40.00% |
| Other revenue | 44 | 40 | | | 44 | 40 | -9.09% |
| Total revenues | <u>10,289</u> | <u>7,427</u> | <u>1,528</u> | <u>1,595</u> | <u>11,817</u> | <u>9,022</u> | <u>-23.65%</u> |
| Program expenses: | | | | | | | |
| Public safety | 1,995 | 2,027 | | | 1,995 | 2,027 | 1.60% |
| Public works | 1,911 | 2,179 | | | 1,911 | 2,179 | 14.02% |
| Health & social services | 41 | 81 | | | 41 | 81 | 97.56% |
| Culture & recreation | 1,672 | 1,631 | | | 1,672 | 1,631 | -2.45% |
| Community & economic development | 226 | 194 | | | 226 | 194 | -14.16% |
| General government | 1,024 | 584 | | | 1,024 | 584 | -42.97% |
| Interest on long-term debt | 74 | 78 | | | 74 | 78 | 5.41% |
| Other expenses | | | 1,683 | 1,768 | 1,683 | 1,768 | 5.05% |
| Total expenses | <u>6,943</u> | <u>6,774</u> | <u>1,683</u> | <u>1,768</u> | <u>8,626</u> | <u>8,542</u> | <u>-0.97%</u> |
| Increase (decrease) in net position before transfers | 3,346 | 653 | (155) | (173) | 3,191 | 480 | -84.96% |
| Transfers | | (149) | | 149 | | | |
| Increase (decrease) in net position | 3,346 | 504 | (155) | (24) | 3,191 | 480 | -84.96% |
| Net position beginning of year, restated | 33,325 | 36,338 | 8,925 | 8,770 | 42,250 | 45,108 | 6.76% |
| Net position end of year | <u>\$ 36,671</u> | <u>\$ 36,842</u> | <u>\$ 8,770</u> | <u>\$ 8,746</u> | <u>\$ 45,441</u> | <u>\$ 45,588</u> | <u>0.32%</u> |

INDIVIDUAL MAJOR FUND ANALYSIS

At the end of FY 2012-2013, the City reflected a combined fund balance for its governmental funds of \$2,746,099 (see Exhibit D for details). This compares to \$3,321,708 for the combined fund balance for governmental funds at the end of FY 2011-2012. This is a decrease of \$575,609. The general fund showed a decrease of \$179,009 from the prior year to \$1,474,716.

The employee benefits fund within the special revenue fund of the City is used to account for property taxes levied for the payment of employee benefits. This fund ended fiscal 2013 with a \$518,550 balance compared to the prior year ending fund balance of \$665,399.

INDIVIDUAL MAJOR FUND ANALYSIS (Continued)

The tax increment financing fund within the special revenue funds of the City accounts for revenue from the tax authorized by ordinance in the urban renewal district which is used to pay the principal and interest on indebtedness incurred for urban renewal redevelopment projects. This fund ended fiscal year 2013 with a fund balance of \$226,975 compared to the prior year ending balance of \$268,605. This decrease was due to LMI payments made out of the fund.

The Short Street improvement project fund within the capital projects fund of the City is used to account for construction of streets and street improvements. The fund ended fiscal 2013 with a fund balance of \$297,092 compared to the prior year ending fund balance deficit of \$189,818.

The City's obligations which are met by way of the debt service fund are fully explained under the notes to the financial statements. The City's legal bonding capacity as of June 30, 2013 is \$22,781,179.

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 net asset balance of \$2,522,961. This reflects an increase of \$46,106 from the end of fiscal year 2012 when the net asset balance was \$2,476,855.

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 \$6,222,932. This reflects a decrease of \$70,543 from the end of fiscal year 2012 when the net asset balance was \$6,293,475.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

The City's capital assets include land, buildings, and improvements, equipment, streets, bridges, storm sewer systems, water and wastewater systems, lighting systems, traffic signals, the swimming pool and other infrastructure. The capital assets for governmental activities totaled \$38,026,935 (net of accumulated depreciation). The capital assets for the business-type activities totaled \$9,110,770 (net of accumulated depreciation) as of June 30, 2013. Detailed information regarding specific capital asset categories and depreciation can be found in Note 3 under the notes to the financial statements.

The major capital outlays for this fiscal year within the governmental activities involved street and alley improvements, airport projects, and trail segments 8, 9, 10, and 11. The major capital outlay with the business-type activities was water and sewer improvements related to Short Street.

LONG-TERM DEBT

The State Constitution limits the amount of general obligation debt that cities can issue to five per cent of the assessed value of all taxable property within the City. As of June 30, 2013, the City's total outstanding G.O. debt of \$5,128,750 was well below the debt margin of \$22,781,179. The City does not have a current bond rating and therefore, depending upon the size of the next issue, may wish to consider taking the steps to obtain a rating.

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

ECONOMIC FACTORS BEARING ON THE CITY'S FUTURE

While the overall national economy appears to be on a steady, yet cautious rebound, the local municipal financial picture remains strained due to a slow housing market and commercial expansion. Many difficult budgetary and financial issues that have faced and continue to plague many cities throughout the country starting with the 2008 economic downturn remain as continued issues facing Decorah.

A brief review of pages 5b and 5c above will reveal that, while growth is slow, City revenues are still precariously balanced with special project and bond revenues. In last year's management discussion and analysis, it was reported that there had been an increase in total revenues of 16.78 percent at the end of FY2012. FY2013 overall revenues decreased due to the lack of bond proceeds and special grants received in 2013 compared with 2012; a decrease of approximately 23 percent.

Of this review of the City's revenue position, there is only a modest 3.6 percent increase in property taxes and a slight decrease of .88 percent in charges for service. The bulk of the decrease mentioned above is due to decreases in capital and operating grants that are restricted for special projects, of special note here is the grant funding and donations received for the Trout Run Trail Project and the Short Street Improvement Project.

Of ongoing concern for cities and a very significant economic factor related to property tax revenues centers around the multitude of concerns surrounding the State-wide property tax formulas especially as these matters affect commercial properties. The manner in which this central property tax issue ultimately manifests itself, of course, has no bearing on an analysis of FY2012-13. However, in light of the Property Tax Reform legislation passed in May of 2013 and signed by the Governor in June of 2013 will have a long-term impact on the City's financial condition going forward.

It should be noted that part of the increase in revenues for FY13 includes an almost 1 percent increase in Local Option Sales taxes, from \$883,000 to \$889,000. While growth is slower in FY2013, this amount represents more than \$70,000 in increased revenues over the last four years. It continues to be interesting to identify activities that may impact the revenues in this fund. City officials will continue to monitor any correlation between trail use and other tourism oriented activities and LOST revenues. The revenue for FY13 in this category is the highest reported in many years.

Despite continued financial uncertainty in recent years, the net position of the City at the end of the fiscal year for both the governmental and business-type activities increased over the previous year as shown on page 5c above. The total net position increased from that of the past year by a precarious .32 percent. It should also be pointed out that the business-type activities experienced another decrease in its net position of .27 percent. This represents a three year trend downward in these funds from the 1.7 percent decline from one year ago and a 3.2 percent drop from two years ago. The City Council has recently adopted a policy of reviewing enterprise fund balances and fees for services to increase the cash position of these funds. It is possible to see the trend is moving in the right direction yet acknowledging there is still a ways to go to achieve positive results. These numbers above are indicative of the turn-around in the financial position as a result of the Council's policies.

Again, as discussed in management discussion and analysis during the last several years, City of Decorah elected and appointed officials continue to be among many other city officials from around the state that continue to lobby for an increased adjustment to the Road Use Tax formula. Reference has been made to some adjustments that have been approved by the state legislature affecting registration fees, these changes are incremental and although helpful, continue to fall far short of meeting the full array of identified street construction and maintenance needs. In relative terms, the City experienced a .9 percent increase or \$7,434 in total Road Use Tax dollars on the year. This is down from the 3.6 percent increase realized in FY2012. While there is modest growth, this fund continues to be pressed for consistent funding that keeps pace with the costs of inflation for repairs and fuel for maintenance of City streets and snow removal. Over the past three years this fund is up \$35,778 or 4.5 percent.

ECONOMIC FACTORS BEARING ON THE CITY'S FUTURE (Continued)

Returning to some brief key additional points about property taxes, it should be noted that the increase referred to above was aligned with Decorah's property tax levy rate increase three years ago to \$12.54 per thousand up from the consistently held \$12.42. This 12 cent increase combined with 2.2 percent increase in the assessed valuation (without utilities) for FY2013. In addition to all of that, the final major component of the property tax formula – the rollback – was increased, albeit slightly, for residential properties from that of FY2012; 48.52 percent to 50.75 percent.

Also of note, the tax increment financing collections decreased by 17 percent or \$55,000. This decrease was attributable to the debt restructuring in FY2013. As explained in the financial statements and further detailed in the notes to the financial statements under the section of long-term debt, the tax increment financing revenues are used to meet debt obligations for public improvements to the Decorah Business Park. The tax increment financing proceeds received are derived by way of a certification made to the County some seven months prior to the start of the fiscal year in which these proceeds are needed.

As for the City's long-term debt obligations, the condensed statement of net position (on page 5b) indicates that there was a 96.40 percent increase in the City's long-term obligations. This substantial change in debt position is due to the Short Street Improvement Project. Details with regard to each of the City's debt obligations including the pledged funding sources can be found under the auditor's notes to the financial statements within this financial report. The City's overall debt position remains strong at less than 25% issued debt of the City's overall debt capacity.

Of continuing concern are the water and sewer funds as reflected in both the statement of net position and the cash flow statement. As stated earlier, the City Council has initiated a policy that will allow for a review of year-end fund balances and appropriate response to water and sewer rates accordingly. The last rate increase was approved for the water and sewer utilities in the fourth quarter of FY12. Both funds continue to struggle financially. As noted earlier in this report, while the funds still report a decline in net position, that rate of decline is receding. For the period covered in this report, the two departments combined for a loss of \$173,149. This represents the third year of losses in the two departments. Again, while the deficits are smaller, it shows that much work is yet to be done to balance these funds. The water department posted a net revenue balance of (\$3,363) and the loss in the sewer department was \$169,786. As such, staff will continue to monitor rates and costs moving forward.

Below is a summary of the tax levy rates per \$1,000 of taxable valuation for FY12-13:

| Purpose | Rate |
|----------------------------------|-------------------|
| General levy | \$8.10 |
| Liability and property insurance | 0.51073 |
| Employee benefits | 3.58819 |
| Debt service | 0.07051 |
| Total | <u>\$12.53943</u> |

ECONOMIC FACTORS BEARING ON THE CITY'S FUTURE (Continued)

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

- a. Public Safety Program exceeded the original budget amount by \$83,640 due to on-going levy certification expenses and fire suppression equipment repair.
- b. Health and Social Service Program exceeded the original budget amount by \$59,955 due to TIF LM&I contribution to the Northeast Iowa Regional Housing Agency and Winneshiek Energy District to assist low to moderate income families make needed repairs to their homes. The proceeds for this contribution came from the Low-to-Moderate Income set asides prescribed for specific TIF projects.
- c. Economic and Community Betterment Program exceeded the original budget amount by \$1,172,574 due refinancing of GO bonds.
- d. General government exceeded the original budget amount by \$186,307 due to replacement of City Hall boiler and related expenses.
- e. Debt Service Program exceeded the original budget amount by \$395,694 due to street construction debt.
- f. Capital Projects Program exceeded the original budget amount by \$659,045 due Trout Run Trail and Metronet expenses.
- g. Enterprise Program exceeded the original budget amount of \$901,320 due to water and sewer improvements related to street construction, refinancing bonds and the Hwy 9 water and sewer extension improvement project.

Public Works and Culture and Recreation programs did not exceed the original budgeted amounts. Additional details behind the approved budget amendment are reflected in the amendment documents as well as in the annual financial report.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This management's discussion and analysis letter along with the financial report have been designed to present our current and prospective citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and operating activities. It is our hope that such information will assist in assessing the City's achievements and challenges. If you have any questions or desire any additional information about this report, please contact either Chad Bird, City Manager, or Wanda Hemesath, City Clerk, Treasurer at (563) 382-3651 or visit the City Administrative Office, 400 Claiborne Drive, Decorah.

CITY OF DECORAH
STATEMENT OF NET POSITION
June 30, 2013

| | Governmental Activities | Business-type Activities | Total | Decorah Volunteer Fire Department |
|---|----------------------------|-----------------------------|----------------------|---|
| ASSETS | | | | |
| Cash and pooled investments | \$ 2,367,431 | \$ 865,355 | \$ 3,232,786 | \$ 83,470 |
| Receivables | | | | |
| Accounts and unbilled usage, net | 18,962 | 333,553 | 352,515 | |
| Property tax | | | | |
| Current | 30,020 | | 30,020 | |
| Succeeding year | 3,586,841 | | 3,586,841 | |
| Special assessments | | | | |
| Current | 16,418 | | 16,418 | |
| Deferred | 109,011 | | 109,011 | |
| Accrued interest | 3,346 | | 3,346 | |
| Due from other governments | 455,314 | 38,327 | 493,641 | |
| Inventories | 8,924 | 15,000 | 23,924 | |
| Prepaid expenses | 98,748 | 24,010 | 122,758 | |
| Restricted assets | | | | |
| Investments | 417,761 | | 417,761 | |
| Nondepreciable capital assets | 5,124,182 | 555,878 | 5,680,060 | |
| Capital assets, net of accumulated depreciation | 32,902,753 | 8,554,892 | 41,457,645 | |
| Total assets | \$ 45,139,711 | \$ 10,387,015 | \$ 55,526,726 | \$ 83,470 |
| LIABILITIES AND NET POSITION | | | | |
| Accounts payable | \$ 523,809 | \$ 119,149 | \$ 642,958 | |
| Salaries and benefits payable | 148,303 | 24,875 | 173,178 | |
| Accrued interest payable | 4,966 | 1,733 | 6,699 | |
| Deferred revenue | | | | |
| Succeeding year property tax | 3,586,841 | | 3,586,841 | |
| Other | 109,011 | | 109,011 | |
| Long-term liabilities | | | | |
| Portion due within one year | | | | |
| Bonds payable | 698,500 | 206,500 | 905,000 | |
| Loan payable | | 45,000 | 45,000 | |
| Compensated absences | 30,439 | 26,544 | 56,983 | |
| Portion due after one year | | | | |
| Bonds payable | 2,974,756 | 1,050,244 | 4,025,000 | |
| Loan payable | | 153,750 | 153,750 | |
| Compensated absences | 152,193 | | 152,193 | |
| Net OPEB liability | 69,470 | 13,327 | 82,797 | |
| Total liabilities | 8,298,288 | 1,641,122 | 9,939,410 | \$ None |
| NET POSITION | | | | |
| Net investment in capital assets | 34,353,679 | 7,655,276 | 42,008,955 | |
| Restricted for | | | | |
| Debt service | - | | - | |
| Other special revenue purposes | 658,554 | | 658,554 | |
| Other purposes | | | | 83,470 |
| Unrestricted | 1,829,190 | 1,090,617 | 2,919,807 | |
| Total net position | 36,841,423 | 8,745,893 | 45,587,316 | 83,470 |
| Total liabilities and net position | \$ 45,139,711 | \$ 10,387,015 | \$ 55,526,726 | \$ 83,470 |

See Notes to Financial Statements.

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CITY OF DECORAH
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

| Functions and Programs | Expenses | Program Revenues | | |
|--|---------------------|----------------------|---|---|
| | | Charges for Services | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| Primary Government | | | | |
| Governmental activities | | | | |
| Public safety | \$ 2,027,624 | | \$ 31,104 | |
| Public works | 2,178,690 | \$ 28,960 | 798,228 | \$ 364,808 |
| Health and social services | 81,224 | | | |
| Culture and recreation | 1,631,636 | 600,474 | 194,556 | |
| Community and economic development | 193,981 | | 877 | 23,518 |
| General government | 583,763 | 62,593 | 207,530 | |
| Interest on long-term debt | 77,863 | | | |
| Total governmental activities | <u>6,774,781</u> | <u>692,027</u> | <u>1,232,295</u> | <u>388,326</u> |
| Business-type activities | | | | |
| Water utilities | 710,451 | 706,925 | | |
| Sewer utilities | 1,057,762 | 849,926 | 37,648 | |
| Total business-type activities | <u>1,768,213</u> | <u>1,556,851</u> | <u>37,648</u> | <u>-</u> |
| Total primary government | <u>\$ 8,542,994</u> | <u>\$ 2,248,878</u> | <u>\$ 1,269,943</u> | <u>\$ 388,326</u> |
| Component Unit | | | | |
| Decorah Volunteer Fire Department | <u>\$ 63,085</u> | | | <u>\$ 68,505</u> |
| General Revenues and Transfers | | | | |
| Property and other City taxes levied for | | | | |
| General purposes | | | | |
| Debt service | | | | |
| Tax increment financing collections | | | | |
| Other City taxes | | | | |
| Local option sales tax | | | | |
| Unrestricted investment earnings | | | | |
| Miscellaneous | | | | |
| Gain on sale of capital asset | | | | |
| Transfers | | | | |
| Total general revenues and transfers | | | | |
| Change in net position | | | | |
| Net position, beginning of year restated | | | | |
| Net position, end of year | | | | |

See Notes to Financial Statements.

EXHIBIT B

| Net (Expense) Revenue and Changes in Net Position | | | |
|---|--------------------------|----------------------|-----------------------------------|
| Primary Government | | | Component Unit |
| Governmental Activities | Business-type Activities | Total | Decorah Volunteer Fire Department |
| \$ (1,996,520) | | \$ (1,996,520) | |
| (986,694) | | (986,694) | |
| (81,224) | | (81,224) | |
| (836,606) | | (836,606) | |
| (169,586) | | (169,586) | |
| (313,640) | | (313,640) | |
| (77,863) | | (77,863) | |
| <u>(4,462,133)</u> | | <u>(4,462,133)</u> | |
| | \$ (3,526) | (3,526) | |
| | (170,188) | (170,188) | |
| <u>-</u> | <u>(173,714)</u> | <u>(173,714)</u> | |
| <u>(4,462,133)</u> | <u>(173,714)</u> | <u>(4,635,847)</u> | |
| | | | \$ <u>5,420</u> |
| 3,290,879 | | 3,290,879 | |
| 248,302 | | 248,302 | |
| 264,852 | | 264,852 | |
| 371,726 | | 371,726 | |
| 889,236 | | 889,236 | |
| 6,570 | 565 | 7,135 | 243 |
| 39,305 | | 39,305 | |
| 3,314 | | 3,314 | |
| (148,712) | 148,712 | - | |
| <u>4,965,472</u> | <u>149,277</u> | <u>5,114,749</u> | <u>243</u> |
| 503,339 | (24,437) | 478,902 | 5,663 |
| <u>36,338,084</u> | <u>8,770,330</u> | <u>45,108,414</u> | <u>77,807</u> |
| <u>\$ 36,841,423</u> | <u>\$ 8,745,893</u> | <u>\$ 45,587,316</u> | <u>\$ 83,470</u> |

CITY OF DECORAH
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013

| | Special Revenue | | | Capital Projects | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|----------------------|----------------------------|--|--------------------------------|--------------------------------|
| | General | Employee Benefits | Tax Increment Financing | Short Street Improvement Project | | |
| ASSETS | | | | | | |
| Cash | \$ 997,721 | \$ 121,559 | \$ 256,632 | \$ 389,058 | \$ 280,073 | \$ 2,045,043 |
| Investments | | | | | 322,388 | 322,388 |
| Receivables | | | | | | |
| Property taxes | | | | | | |
| Current | 25,380 | 3,514 | | | 1,126 | 30,020 |
| Succeeding year | 2,453,346 | 1,021,051 | | | 112,444 | 3,586,841 |
| Special assessments | | | | | | |
| Current | 16,418 | | | | | 16,418 |
| Deferred | 109,011 | | | | | 109,011 |
| Interest | | 2,794 | | | 552 | 3,346 |
| Other | 18,962 | | | | | 18,962 |
| Due from other funds | 400,656 | | | | | 400,656 |
| Due from other governments | 419,899 | | | | 35,415 | 455,314 |
| Inventories | | | | | 8,924 | 8,924 |
| Prepaid expenditures | 98,748 | | | | | 98,748 |
| Restricted assets | | | | | | |
| Investments | | 417,761 | | | | 417,761 |
| Total assets | \$ 4,540,141 | \$ 1,566,679 | \$ 256,632 | \$ 389,058 | \$ 760,922 | \$ 7,513,432 |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Accounts payable | \$ 375,388 | | | \$ 91,966 | \$ 24,729 | \$ 492,083 |
| Salaries and benefits payable | 102,734 | \$ 27,078 | | | 18,491 | 148,303 |
| Due to other funds | | | \$ 29,657 | | 370,999 | 400,656 |
| Deferred revenues | 2,562,357 | 1,021,051 | | | 112,444 | 3,695,852 |
| Compensated absences | 24,946 | | | | 5,493 | 30,439 |
| Total liabilities | 3,065,425 | 1,048,129 | 29,657 | 91,966 | 532,156 | 4,767,333 |
| FUND BALANCES | | | | | | |
| Nonspendable | 98,748 | | | | 8,924 | 107,672 |
| Restricted | | | 226,975 | | 172,254 | 399,229 |
| Committed | | | | | 389,296 | 389,296 |
| Assigned | 238,727 | 518,550 | | 297,092 | | 1,054,369 |
| Unassigned | 1,137,241 | | | | (341,708) | 795,533 |
| Total fund balances | 1,474,716 | 518,550 | 226,975 | 297,092 | 228,766 | 2,746,099 |
| Total liabilities and fund balances | \$ 4,540,141 | \$ 1,566,679 | \$ 256,632 | \$ 389,058 | \$ 760,922 | \$ 7,513,432 |

See Notes to Financial Statements.

CITY OF DECORAH
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013

| | |
|--|----------------------|
| Reconciliation of governmental fund balances to net position | |
| Total governmental fund balances | \$ 2,746,099 |
| Amounts reported for governmental activities in the statement of net position are different because: | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds, net of accumulated depreciation of \$ 19,086,221 | 38,026,935 |
| Accrued interest and long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds | |
| Accounts payable | (31,726) |
| Bonds payable | (3,673,256) |
| Compensated absences | (152,193) |
| Net OPEB liability | (69,470) |
| Accrued interest | (4,966) |
| Net position of governmental activities | <u>\$ 36,841,423</u> |

See Notes to Financial Statements.

CITY OF DECORAH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013

| | Special Revenue | | | Capital Projects | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|----------------------|----------------------------|--|--------------------------------|--------------------------------|
| | General | Employee Benefits | Tax Increment Financing | Short Street Improvement Project | | |
| REVENUES | | | | | | |
| Property taxes | \$ 2,439,412 | \$ 851,467 | | | \$ 248,302 | \$ 3,539,181 |
| Tax increment financing collections | | | \$ 264,852 | | | 264,852 |
| Other City tax | 935,873 | 16,842 | | | 308,247 | 1,260,962 |
| Licenses and permits | 28,988 | | | | | 28,988 |
| Use of money and property | 18,981 | (7,639) | | \$ 213 | 2,278 | 13,833 |
| Intergovernmental | 747,814 | | | | 872,280 | 1,620,094 |
| Charges for service | 491,210 | | | | | 491,210 |
| Miscellaneous | 153,047 | 6,603 | | | 44,748 | 204,398 |
| Total revenues | 4,815,325 | 867,273 | 264,852 | 213 | 1,475,855 | 7,423,518 |
| EXPENDITURES | | | | | | |
| Current operating | | | | | | |
| Public safety | 1,423,228 | 519,636 | | | | 1,942,864 |
| Public works | 1,100,680 | 158,567 | | | 1,000,166 | 2,259,413 |
| Health and social services | 27,224 | | 54,000 | | | 81,224 |
| Culture and recreation | 1,318,273 | 246,188 | | | 19,788 | 1,584,249 |
| Community and economic development | 24,172 | | | | 169,809 | 193,981 |
| General government | 565,046 | 89,731 | | | | 654,777 |
| Capital projects | 40,000 | | | 2,593,303 | 711,084 | 3,344,387 |
| Debt service | | | | | | |
| Principal | 460,000 | | 1,412,000 | | 108,415 | 1,980,415 |
| Interest and other charges | 39,025 | | 25,482 | | 12,912 | 77,419 |
| Total expenditures | 4,997,648 | 1,014,122 | 1,491,482 | 2,593,303 | 2,022,174 | 12,118,729 |
| EXCESS REVENUES OVER (UNDER) EXPENDITURES | (182,323) | (146,849) | (1,226,630) | (2,593,090) | (546,319) | (4,695,211) |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Proceeds from capital assets sold | 3,314 | | | | | 3,314 |
| Proceeds from issuance of debt | | | 1,185,000 | 3,080,000 | | 4,265,000 |
| Transfers out | | | | | (148,712) | (148,712) |
| Total other financing sources (uses) | 3,314 | - | 1,185,000 | 3,080,000 | (148,712) | 4,119,602 |
| EXCESS REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES | (179,009) | (146,849) | (41,630) | 486,910 | (695,031) | (575,609) |
| FUND BALANCES, beginning of year restated | 1,653,725 | 665,399 | 268,605 | (189,818) | 923,797 | 3,321,708 |
| FUND BALANCES, end of year | \$ 1,474,716 | \$ 518,550 | \$ 226,975 | \$ 297,092 | \$ 228,766 | \$ 2,746,099 |

See Notes to Financial Statements.

CITY OF DECORAH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013

| | | |
|--|------------------|----------------|
| Reconciliation of the statement of revenues, expenditures, and changes in fund balances of governmental funds to the statement of activities | | |
| Net change in fund balances - total governmental funds | \$ | (575,609) |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlay exceeds depreciation in the period. | | |
| Depreciation | \$ (1,299,269) | |
| Capital outlays | <u>4,647,334</u> | 3,348,065 |
| Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities. | | |
| | | 1,980,415 |
| Proceeds of long-term debt issuance are included in the governmental funds but increase long-term liabilities in the statement of activities. | | |
| | | (4,265,000) |
| Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. | | |
| | | (444) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | | |
| Accounts payable | 25,000 | |
| Compensated absences | (1,046) | |
| Net OPEB liability | <u>(8,042)</u> | 15,912 |
| Change in net position of governmental activities | \$ | <u>503,339</u> |

See Notes to Financial Statements.

CITY OF DECORAH
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2013

| | Water Utilities | Sewer Utilities | Total |
|---|---------------------|---------------------|----------------------|
| ASSETS | | | |
| Cash | \$ 194,008 | \$ 671,347 | \$ 865,355 |
| Receivables | | | |
| Accounts and unbilled usage, net | 143,393 | 190,160 | 333,553 |
| Due from other governments | | 38,327 | 38,327 |
| Inventory | 15,000 | | 15,000 |
| Prepaid expenses | 13,873 | 10,137 | 24,010 |
| | <u>366,274</u> | <u>909,971</u> | <u>1,276,245</u> |
| Total current assets | | | |
| Noncurrent assets | | | |
| Land | | 79,775 | 79,775 |
| Net capital assets | 2,804,354 | 6,226,641 | 9,030,995 |
| | <u>2,804,354</u> | <u>6,306,416</u> | <u>9,110,770</u> |
| Total noncurrent assets | | | |
| | <u>\$ 3,170,628</u> | <u>\$ 7,216,387</u> | <u>\$ 10,387,015</u> |
| LIABILITIES AND NET POSITION | | | |
| Liabilities | | | |
| Accounts payable | \$ 37,081 | \$ 82,068 | \$ 119,149 |
| Salaries and benefits payable | 12,429 | 12,446 | 24,875 |
| Accrued interest payable | 841 | 892 | 1,733 |
| Long-term liabilities | | | |
| Loan payable | 45,000 | | 45,000 |
| Bonds payable | 59,500 | 147,000 | 206,500 |
| Compensated absences | 13,032 | 13,512 | 26,544 |
| | <u>167,883</u> | <u>255,918</u> | <u>423,801</u> |
| Total current liabilities | | | |
| Noncurrent liabilities | | | |
| Long-term liabilities | | | |
| Loan payable | 153,750 | | 153,750 |
| Bonds payable | 319,280 | 730,964 | 1,050,244 |
| Net OPEB liability | 6,754 | 6,573 | 13,327 |
| | <u>479,784</u> | <u>737,537</u> | <u>1,217,321</u> |
| Total long-term liabilities | | | |
| Total liabilities | | | |
| | <u>647,667</u> | <u>993,455</u> | <u>1,641,122</u> |
| Net position | | | |
| Invested in capital assets, net of related debt | 2,226,824 | 5,428,452 | 7,655,276 |
| Unrestricted | 296,137 | 794,480 | 1,090,617 |
| | <u>2,522,961</u> | <u>6,222,932</u> | <u>8,745,893</u> |
| Total net position | | | |
| Total liabilities and net position | | | |
| | <u>\$ 3,170,628</u> | <u>\$ 7,216,387</u> | <u>\$ 10,387,015</u> |

See Notes to Financial Statements.

CITY OF DECORAH
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2013

| | Water Utilities | Sewer Utilities | Total |
|--|---------------------|---------------------|---------------------|
| OPERATING REVENUES | | | |
| Charges for service | | | |
| Sewer rental fees | | \$ 831,908 | \$ 831,908 |
| Sale of water | \$ 658,582 | | 658,582 |
| Miscellaneous | 48,343 | 18,018 | 66,361 |
| Intergovernmental | | | |
| Freeport share | | 37,648 | 37,648 |
| | <u>706,925</u> | <u>887,574</u> | <u>1,594,499</u> |
| Total operating revenues | | | |
| OPERATING EXPENSES | | | |
| Salaries | 242,136 | 226,067 | 468,203 |
| Payroll taxes and fringe benefits | 120,014 | 139,111 | 259,125 |
| Insurance | 17,399 | 15,258 | 32,657 |
| Training | 5,224 | 5,971 | 11,195 |
| Vehicle repair and maintenance | 1,214 | 14,253 | 15,467 |
| Office supplies | 5,781 | 7,005 | 12,786 |
| Sales tax | 35,501 | 14,730 | 50,231 |
| Building maintenance and utilities | 119,448 | 116,154 | 235,602 |
| Emergency expense | 7,799 | 1,753 | 9,552 |
| Vehicle gas and oil | 4,403 | 11,744 | 16,147 |
| Engineering expense | 15,392 | 85,893 | 101,285 |
| Operating supplies and maintenance | 22,949 | 33,779 | 56,728 |
| Chemicals and testing | 19,410 | | 19,410 |
| Hydrants, meters, and other parts | 2,871 | 99,442 | 102,313 |
| Depreciation | 80,116 | 271,338 | 351,454 |
| | <u>699,657</u> | <u>1,042,498</u> | <u>1,742,155</u> |
| Total operating expenses | | | |
| Total operating income (loss) | <u>7,268</u> | <u>(154,924)</u> | <u>(147,656)</u> |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Interest income | 163 | 402 | 565 |
| Interest and other charges | (10,794) | (15,264) | (26,058) |
| | <u>(10,631)</u> | <u>(14,862)</u> | <u>(25,493)</u> |
| Net nonoperating expenses | | | |
| Loss before contributions and transfers | <u>(3,363)</u> | <u>(169,786)</u> | <u>(173,149)</u> |
| CAPITAL CONTRIBUTIONS AND TRANSFERS | | | |
| Transfers in | 49,469 | 99,243 | 148,712 |
| | <u>46,106</u> | <u>(70,543)</u> | <u>(24,437)</u> |
| Change in net position | | | |
| NET POSITION, beginning of year | <u>2,476,855</u> | <u>6,293,475</u> | <u>8,770,330</u> |
| NET POSITION, end of year | <u>\$ 2,522,961</u> | <u>\$ 6,222,932</u> | <u>\$ 8,745,893</u> |

See Notes to Financial Statements.

CITY OF DECORAH
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2013

| | Water Utilities | Sewer Utilities | Total |
|--|--------------------|--------------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash received from rent | | \$ 842,073 | \$ 842,073 |
| Cash received from charges for services | \$ 711,327 | 18,018 | 729,345 |
| Cash payments to employees for services | (371,796) | (388,571) | (760,367) |
| Cash payments to suppliers for services | (242,711) | (297,967) | (540,678) |
| Net cash provided by operating activities | 96,820 | 173,553 | 270,373 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Operating transfers in | 49,469 | 99,243 | 148,712 |
| Net cash provided by noncapital financing activities | 49,469 | 99,243 | 148,712 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Principal payments on notes payable | (8,505) | (4,935) | (13,440) |
| Principal payments on bond | (32,200) | (85,400) | (117,600) |
| Principal payments on loan payable | (45,000) | | (45,000) |
| Principal payments on revolving loan | | (430,000) | (430,000) |
| Proceeds from bonds | 150,000 | 785,000 | 935,000 |
| Interest paid on long-term borrowing | (10,735) | (15,893) | (26,628) |
| Acquisition of capital assets | (162,820) | (313,283) | (476,103) |
| Net cash used in capital and related financing activities | (109,260) | (64,511) | (173,771) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest on investments | 163 | 402 | 565 |
| Net cash provided by investing activities | 163 | 402 | 565 |
| Net increase in cash and cash equivalents | 37,192 | 208,687 | 245,879 |
| CASH and CASH EQUIVALENTS, beginning of year | 156,816 | 462,660 | 619,476 |
| CASH and CASH EQUIVALENTS, end of year | \$ 194,008 | \$ 671,347 | \$ 865,355 |
| Reconciliation of operating income (loss) to net cash provided by operating activities | | | |
| Operating income (loss) | \$ 7,268 | \$ (154,924) | \$ (147,656) |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities | | | |
| Depreciation and depletion | 80,116 | 271,338 | 351,454 |
| Decrease in accounts receivable | 4,402 | 10,165 | 14,567 |
| Increase in prepaid expense | (9,731) | (5,452) | (15,183) |
| Increase in accounts payable | 7,012 | 60,561 | 67,573 |
| Increase (decrease) in salaries and benefits payable | 2,564 | (3,797) | (1,233) |
| Increase (decrease) in accrued compensated absences | 4,737 | (4,980) | (243) |
| Increase in other postemployment benefits | 452 | 642 | 1,094 |
| Net cash provided by operating activities | \$ 96,820 | \$ 173,553 | \$ 270,373 |

See Notes to Financial Statements.

CITY OF DECORAH
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2013

| | <u>Metronet</u> |
|----------------------------|-------------------|
| ASSETS | |
| Receivables | |
| Accounts | \$ 119,972 |
| Due from other governments | <u>239,801</u> |
| Total assets | <u>\$ 359,773</u> |
| LIABILITIES | |
| Accounts payable | \$ 2,004 |
| Due to other funds | 239,801 |
| Due to other governments | <u>117,968</u> |
| Total liabilities | <u>\$ 359,773</u> |

See Notes to Financial Statements.

CITY OF DECORAH

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Significant Accounting Policies

a. Nature of Operations

The City of Decorah is a political subdivision of the State of Iowa located in Winneshiek County. It was first incorporated in 1857 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council-Manager form of government, with the Mayor and Council members elected on a non-partisan basis and the Manager appointed by the Mayor. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. It also provides water, sewer and sanitation utilities.

The financial statements of the City of Decorah have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

b. Significant Accounting Policies

Reporting Entity

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

The City has one component unit which meets the Governmental Accounting Standards Board criteria. The Decorah Volunteer Fire Department was established to and is committed to providing rapid, high quality emergency response in fire suppression needs and fire prevention education using teamwork and leadership of highly trained volunteers dedicated to the well-being of the community. The Decorah Volunteer Fire Department is instrumental in fundraising in an effort to assist with the purchase of fire suppression equipment needed for the safety of department personnel. The activities of the Volunteer Fire Department are reported using the discrete method.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Winneshiek County Area Solid Waste Agency, Upper Explorerland Regional Planning Commission, Northeast Iowa Behavioral Health, Inc., Winneshiek County E-911, Northeast Iowa Task Force, and Metronet. Financial transactions of these organizations are included in the City's financial statements only to the extent of the City's fiduciary relationship with the organization and, as such, are reported in the Agency Fund of the City.

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

b. Significant Accounting Policies (Continued)

Government-wide Financial Statements

The statement of net position (previously referred to as net assets) and the statement of activities report information on all of the non-fiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, or other non-exchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net position presents the City's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position result when constraints placed on net asset 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 two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

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

Fund Financial Statements

Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The City reports the following major governmental funds:

Governmental

General Fund

The general fund is the chief operating fund of the City. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs not paid from other funds.

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

b. Significant Accounting Policies (Continued)

Fund Financial Statements (Continued)

Special Revenue Funds

The special revenue funds are used to account for revenues derived from specific sources which are usually required by law or regulation to be accounted for in separate funds. The major funds in this category and their purpose are as follows:

Employee Benefits

To account for non-proprietary employee related benefits funded by a property tax levy.

Tax Increment Financing

To account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal projects.

Capital Projects Funds

Capital projects funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds.

Short Street Improvement Project

To account for debt proceeds received to make improvements to city streets.

The City reports the following major proprietary funds:

Enterprise Funds

Enterprise funds are used to account for operations and activities that are financed and operated in a matter similar to a private business enterprise and where the costs of providing goods or services to the general public on a continuing basis are expected to be financed or recovered primarily through user charges or where the City has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City utilizes enterprise funds to account for the operation and maintenance of the water and waste water treatment and sanitary sewer systems of the City.

Measurement Focus

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements.

On the government-wide statement of net position and the statement of activities, both governmental and business-type activities are presented using the “economic resources” measurement focus as defined below in item b.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate.

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

b. Significant Accounting Policies (Continued)

Measurement Focus (Continued)

- a. All governmental fund financial statements are accounted for on current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance is considered a measure of "available spendable resources." Governmental fund operating statements present increases, revenues and other financing sources, and decreases, expenditures and other financing uses in fund balances. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

- b. The proprietary funds are accounted for on economic resources measurement focus. This means that all assets and all liabilities, whether current or non-current, associated with their activity are included on their statements of net position. In reporting the financial activity on the government-wide statements, the City applies all applicable GASB pronouncements. As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the City has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide and proprietary funds financial statements are accounted for using the accrual basis of accounting. Revenues are recognized as earned, and expenses are recognized when incurred. Property tax is recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied. This differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

b. Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when they become both measurable and available. Available means collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures are recorded when the liability is incurred, if measurable, except for un-matured interest on general long-term debt, which is recognized when due. Disbursements for the purchase of assets providing future benefits are recorded as expenditures at time of purchase.

Revenues susceptible to accrual under the modified accrual basis of accounting are property tax, intergovernmental revenue (shared revenues, grants and reimbursements from other governments), and charges for service and interest revenue. Revenues from licenses and permits, fines and forfeitures, refunds and reimbursements and other miscellaneous sources are generally recognized when received in cash as they are generally not measurable until actually received.

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

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted 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 revenues.

The City maintains its financial records on the cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the cash basis financial records.

Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents

The City maintains one primary demand deposit account through which the majority of the City's cash resources are processed. The funds, which have issued warrants in excess of their share of the account balance, are considered to have borrowed these amounts from other funds.

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

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

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Fund Equity (Continued)

Cash, Pooled Investments and Cash Equivalents (Continued)

All of the investments, which consist of U.S. Government securities and agencies, bank certificates, and corporate bonds, are stated at fair value, which approximates cost for investments at June 30, 2013. The deposits and investments of the police and firemen retirement which are recorded in the employee benefit fund are held separately from other City funds.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivables, Including Tax Increment Financing

Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking, is certified by the City to the County Board of Supervisors. Current year property tax receivable represents taxes collected by the County but not remitted to the City at June 30, 2013 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 14 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivables have been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2011 assessed property valuations; is for the tax accrual period July 1, 2012 through June 30, 2013 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March 2012.

Customer Accounts and Unbilled Usage

Accounts receivable are recorded in the enterprise funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Due from and Due to Other Funds

During the course of its operations, the City has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2013, balances of interfund amounts receivable or payable have been recorded. Interfund payables and receivables are reported on the fund financial statements.

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

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Fund Equity (Continued)

Due from Other Governments

Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories

Inventories are valued at cost using the first-in/first-out method. Inventories in the enterprise funds consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Restricted Assets

The City previously maintained two pension funds for City employees, the police and fire retirement funds. The majority of the assets of these two funds were transferred by state mandate to the Municipal Police and Fire Retirement System of Iowa (MPFRSI) on January 1, 1992. The remaining funds were transferred to the employee benefits special revenue fund to assist with the payment of future contributions.

Capital Assets

Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government) are reported in the applicable governmental or business-type activities columns in the government-wide statement of net position. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Capital assets in the proprietary fund are capitalized in the fund in which they are utilized. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years:

| Asset Class | Amount |
|----------------------------------|----------|
| Land, buildings and improvements | \$ 5,000 |
| Equipment and vehicles | 5,000 |
| Infrastructure, road networks | 50,000 |
| Intangibles | 50,000 |

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

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Fund Equity (Continued)

Capital Assets (Continued)

Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

| Asset Class | Estimated Useful Lives (In Years) |
|------------------------------|-----------------------------------|
| Buildings and improvements | 20-40 |
| Land improvements | 10-50 |
| Equipment | 5-20 |
| Vehicles | 5-15 |
| Infrastructure, road network | 15-75 |
| Intangibles | 5-20 |

Deferred Revenue

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, grant proceeds that are receivable and not collected within sixty days, delinquent property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the statement of net position consists of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied. Also included in deferred revenue are long-term special assessments which will be recognized as revenue over the amortized period.

Compensated Absences

City employees earn vacation leave at the following rates:

| Years of Service | Vacation Days Earned Per Year |
|------------------|-------------------------------|
| 1 | 5 |
| 2-6 | 10 |
| 7-14 | 15 |
| 15-19 | 20 |
| 20 | 25 |

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

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Fund Equity (Continued)

Compensated Absences (Continued)

Employees may carryover up to 10 days vacation each year at their anniversary date however, the carryover must be used within 6 months. Employees who retire may use one half of their accumulated sick leave to pay for continuing health insurance coverage under City Code. Consequently, no liability for accumulated sick leave at June 30, 2013 has been determined or presented. In accordance with GASB Statement 16, the City has accrued the liability for accrued vacation leave in the accompanying financial statements. All full time City employees accumulate vacation, holiday and personal hours for subsequent use or for payment upon termination, retirement or death. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds and government-wide statements report the liability as it is incurred.

The City's approximate maximum liability for accrued compensated absences at June 30, 2013 is as follows:

| | |
|--------------|----------------|
| Governmental | \$ 182,632 |
| Enterprise | 26,544 |
| Total | \$ 209,176 |

These liabilities have been computed based on rates of pay as of June 30, 2013.

Long-term Liabilities

In the government-wide and proprietary fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental or business-type activities column in the statement of net position and the proprietary fund statement of net position.

Fund Equity

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

Nonspendable

Amounts which cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted

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

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

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Fund Equity (Continued)

Fund Equity (Continued)

Committed

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

Assigned

Amounts the City Council intend to use for specific purposes.

Unassigned

All amounts not included in other spendable classifications.

Budgets and Budgetary Accounting

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

Revenues

Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable but has not been collected.

Federal and state grants, primarily capital grants, are recorded as revenue when the expenditures for the purpose of the grant have been incurred. Substantially all other shared revenues are recorded during the period when received from the collecting authority, the State of Iowa.

Management Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Cash and Pooled Investments

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

NOTES TO FINANCIAL STATEMENTS

2. **Cash and Pooled Investments (Continued)**

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

Investments are stated at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

At June 30, 2013 the City had the following investments:

| Type | Fair Value | Quoted Prices in Active Market for Identical Assets (Level 1) |
|--|------------|--|
| Federal Home Loan Mortgage Corporation | \$ 7 | \$ 7 |
| Federal Home Loan Banks | 194,529 | 194,529 |
| United States Treasury Notes | 121,981 | 121,981 |
| Franklin US Government Securities Fund Class C | 6,318 | 6,318 |
| HSBC Bank USA | 92,045 | 92,045 |
| Bank of the West insured cash | 2,881 | 2,881 |
| | \$ 417,761 | \$ 417,761 |

Interest Rate Risk

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

Credit Risk

The City's Federal Home Loan Banks and United States Treasury Notes investment at June 30, 2013 is rated AAA by Standard & Poor's Investor service.

At June 30, 2013, the City's Federal Home Loan Mortgage Corporation, Franklin US Government Securities Fund Class C, HSBC Bank USA, Bank of the West insured cash, and certificates of deposit are unrated.

NOTES TO FINANCIAL STATEMENTS

3. Capital Assets

Capital assets activity for the year ended June 30, 2013 was as follows:

| | Balance June 30, 2012 | Additions | Deletions | Balance June 30, 2013 |
|--|--------------------------|---------------------|---------------------|--------------------------|
| GOVERNMENTAL ACTIVITIES | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 1,059,199 | \$ 8,460 | | \$ 1,067,659 |
| Infrastructure in progress | 4,183,327 | 3,220,725 | \$ 3,347,529 | 4,056,523 |
| Total capital assets not being depreciated | 5,242,526 | 3,229,185 | 3,347,529 | 5,124,182 |
| Capital assets being depreciated | | | | |
| Buildings and improvements | 5,964,755 | 697,762 | 25,707 | 6,636,810 |
| Improvements other than buildings | 2,072,762 | | | 2,072,762 |
| Equipment | 3,319,018 | 19,685 | 60,462 | 3,278,241 |
| Vehicles | 1,681,299 | 176,439 | 47,776 | 1,809,962 |
| Infrastructure | 34,296,808 | 3,894,391 | | 38,191,199 |
| Total capital assets being depreciated | 47,334,642 | 4,788,277 | 133,945 | 51,988,974 |
| Less accumulated depreciation | | | | |
| Buildings and improvements | 2,578,724 | 166,609 | 8,473 | 2,736,860 |
| Improvements other than buildings | 1,319,525 | 33,880 | | 1,353,405 |
| Equipment | 2,841,708 | 135,885 | 60,462 | 2,917,131 |
| Vehicles | 1,456,963 | 90,830 | 42,411 | 1,505,382 |
| Infrastructure | 9,701,378 | 872,065 | | 10,573,443 |
| Total accumulated depreciation | 17,898,298 | 1,299,269 | 111,346 | 19,086,221 |
| Total capital assets being depreciated, net | 29,436,344 | 3,489,008 | 22,599 | 32,902,753 |
| Governmental activities capital assets, net | \$ 34,678,870 | \$ 6,718,193 | \$ 3,370,128 | \$ 38,026,935 |

NOTES TO FINANCIAL STATEMENTS

3. Capital Assets (Continued)

| | Balance June 30, 2012 | Additions | Deletions | Balance June 30, 2013 |
|---|--------------------------|-------------------|----------------|--------------------------|
| BUSINESS-TYPE ACTIVITIES | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 79,775 | | | \$ 79,775 |
| Infrastructure in progress | None | \$ 476,103 | \$ None | 476,103 |
| Total capital assets not being depreciated | 79,775 | 476,103 | None | 555,878 |
| Capital assets being depreciated | | | | |
| Buildings and improvements | 3,574,038 | | | 3,574,038 |
| Improvements other than buildings | 2,890,960 | | | 2,890,960 |
| Equipment | 4,910,421 | | 6,460 | 4,903,961 |
| Vehicles | 173,732 | | | 173,732 |
| Infrastructure, water and sewer network | 5,381,211 | | | 5,381,211 |
| Total capital assets being depreciated | 16,930,362 | None | 6,460 | 16,923,902 |
| Less accumulated depreciation | | | | |
| Buildings and improvements | 1,563,553 | 85,882 | | 1,649,435 |
| Improvements other than buildings | 1,648,168 | 77,569 | | 1,725,737 |
| Equipment | 2,359,364 | 105,739 | 6,460 | 2,458,643 |
| Vehicles | 163,843 | 4,160 | | 168,003 |
| Infrastructure, water and sewer network | 2,289,088 | 78,104 | | 2,367,192 |
| Total accumulated depreciation | 8,024,016 | 351,454 | 6,460 | 8,369,010 |
| Total capital assets being depreciated, net | 8,906,346 | (351,454) | None | 8,554,892 |
| Business-type activities capital assets, net | \$ 8,986,121 | \$ 124,649 | \$ None | \$ 9,110,770 |

NOTES TO FINANCIAL STATEMENTS

3. Capital Assets (Continued)

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

| | | | |
|----------------------------|----|-----------|---------|
| Governmental activities | | | |
| Public safety | \$ | 104,779 | |
| Public works | | 1,027,560 | |
| Culture and recreation | | 130,786 | |
| General government | | 36,144 | |
| | | | |
| Total depreciation expense | \$ | 1,299,269 | |
| Business-type activities | | | |
| Water | \$ | 80,116 | |
| Sewer | | | |
| Sanitary sewer | \$ | 69,547 | |
| Sewer utility | | 24,087 | |
| Wastewater | | 177,704 | 271,338 |
| | | | |
| Total depreciation expense | \$ | 351,454 | |

4. Retirement System

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

IPERS' plan members are required to contribute 5.78% of their annual salary and the City is required to contribute 8.67% of annual covered salary. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$172,177, \$155,154, and \$134,084, respectively, equal to the required contributions for each year.

The City contributes to the Municipal Fire and Retirement System of Iowa (MPFRSI), which is a cost sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The plan provides retirement, disability and death benefits, which are established by state statute to plan members and beneficiaries. MPFRSI issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to MPFRSI, 7155 Lake Drive, Suite 201, West Des Moines, Iowa, 50322.

MPFRSI's plan members are required to contribute 9.40% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, is 26.12% of earnable compensation. Contribution rates are established by state statute. The City's contributions to MPFRSI for the years ended June 30, 2013, 2012 and 2011 were \$188,290, \$174,162, and \$133,473, respectively, which met the required minimum contributions for each year.

NOTES TO FINANCIAL STATEMENTS

5. Leases

The City has agreed to lease space to the Winneshiek County Sheriff's office for a one year period starting July 1, 2013. The lease requires a \$165,754 payment for the year to the City. The City also has other nominal leases with various parties and terms.

At June 30, 2013 future minimum lease receipts were as follows:

| Year ending June 30, | | |
|----------------------|----|---------|
| 2014 | \$ | 183,955 |
| 2015 | | 18,201 |
| 2016 | | 9,161 |
| 2017 | | 120 |
| 2018 | | 120 |
| Later years | | 360 |
| | \$ | 211,917 |

The City is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the City's financial statements.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2013:

| Year ending June 30, | | |
|---------------------------------|----|--------|
| 2014 | \$ | 7,331 |
| 2015 | | 1,464 |
| 2016 | | 1,464 |
| 2017 | | 1,464 |
| 2018 | | 1,464 |
| Later years | | 1,464 |
| Total minimum payments required | \$ | 14,651 |

6. Long-term Debt

Bonded Debt

General Obligation Bonds/Notes

As of June 30, 2013 one general obligation corporate purpose and refunding note originally totaling \$5,200,000 is outstanding. As of June 30, 2013, \$4,440,000 is outstanding. The general obligation corporate purpose note bears interest at 1.59% and matures in semi-annual installments with the final payment of \$455,000 in the year ending June 30, 2019.

As of June 30, 2013 one general obligation corporate purpose note originally totaling \$750,000 is outstanding. As of June 30, 2013, \$490,000 is outstanding. The general obligation corporate purpose note bears interest ranging from 3.75% to 4.15% and matures in semi-annual installments with the final payment of \$90,000 in the year ending June 30, 2019.

NOTES TO FINANCIAL STATEMENTS

6. Long-term Debt (Continued)

Notes Payable

The City has the following notes payable at June 30, 2013:

Hawkeye Tri-County Electric Cooperative

Rural Economic Development Loan

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

\$ 198,750

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 |
|--|--------------------------|---------------------|-----------------------|--------------------------|-----------------------------------|
| General Obligation | | | | | |
| Corporate Purpose Notes | | | | | |
| 2006 Bond | \$ 1,175,000 | | \$ (1,175,000) | \$ None | \$ None |
| 2008 Bond | 560,000 | | (70,000) | 490,000 | 75,000 |
| 2012 Bond | | \$ 5,200,000 | (760,000) | 4,440,000 | 830,000 |
| General Obligation Sewer Improvement Bond | | | | | |
| | 430,000 | | (430,000) | None | None |
| Total bonded debt | \$ 2,165,000 | \$ 5,200,000 | \$ (2,435,000) | \$ 4,930,000 | \$ 905,000 |
| Notes Payable | | | | | |
| Rural Economic Development Loan | | | | | |
| | \$ 243,750 | | \$ (45,000) | \$ 198,750 | \$ 45,000 |
| 2002 Street Project | 106,455 | \$ None | (106,455) | None | None |
| | \$ 350,205 | \$ None | \$ (151,455) | \$ 198,750 | \$ 45,000 |

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

| Year Ending June 30, | Bonded Indebtedness | | | |
|-------------------------|---------------------|-------------------|-------------------|----------------|
| | General Obligation | | Notes Payable | |
| | Principal | Interest | Principal | Interest |
| 2014 | \$ 905,000 | \$ 90,308 | \$ 45,000 | \$ None |
| 2015 | 910,000 | 74,187 | 45,000 | |
| 2016 | 930,000 | 57,985 | 45,000 | |
| 2017 | 945,000 | 41,269 | 45,000 | |
| 2018 | 695,000 | 24,154 | 18,750 | |
| 2019 | 545,000 | 10,969 | | |
| | \$ 4,930,000 | \$ 298,872 | \$ 198,750 | \$ None |

NOTES TO FINANCIAL STATEMENTS

6. Long-term Debt (Continued)

The 2008 general obligation bond payable is partially payable by the water and sewer funds and the remaining balance has been recorded in the road use fund. This debt is backed by the full faith and credit of the City. At June 30, 2013, the outstanding bond payable for the water fund, sewer fund and road use fund are:

| | | |
|--------------------|----|---------|
| Governmental funds | \$ | 105,256 |
| Water fund | | 228,780 |
| Sewer fund | | 155,964 |
| | \$ | 490,000 |

The 2012 general obligation bond payable is partially payable by the water and sewer funds and the remaining balance has been recorded in the tax increment financing, debt service, and general fund. The bank notes are partially funded by the assessment of various Decorah residents and businesses located in the defined assessed areas. This debt is backed by the full faith and credit of the City. At June 30, 2013 the outstanding note payable for the governmental funds, water fund and sewer fund are:

| | | |
|--------------------|----|-----------|
| Governmental funds | \$ | 3,568,000 |
| Water fund | | 150,000 |
| Sewer fund | | 722,000 |
| | \$ | 4,440,000 |

At June 30, 2013 the debt issued by the City did not exceed its legal debt margin compiled as follows:

| | | |
|---|----|----------------|
| Total assessed valuation | | \$ 455,623,589 |
| Debt limit – 5% of total assessed valuation | \$ | 22,781,179 |
| Debt applicable to debt limit | | |
| Bank notes and bonded debt outstanding | | 5,128,750 |
| Legal debt margin | \$ | 17,652,429 |

The City currently has Low-to-Moderate (LMI) set aside of \$174,622.

7. Long-term Liabilities

Accrued Compensated Absences

Following is a summary of the City's activity for accrued compensated absences for the year ended June 30, 2013, and the total liability of the City as of that date as reported on the government-wide statement of net position:

| | Balance | | Balance | | Amounts |
|--------------------------|---------------|-----------|-------------|---------------|----------------------------|
| | June 30, 2012 | Increases | Decreases | June 30, 2013 | Payable Within One Year |
| Governmental activities | \$ 181,376 | \$ 31,485 | \$ (30,229) | \$ 182,632 | \$ 30,439 |
| Business-type activities | \$ 26,787 | \$ 26,544 | \$ (26,787) | \$ 26,544 | \$ 26,544 |

The majority of compensated absences expenditures are paid for out of the general fund.

NOTES TO FINANCIAL STATEMENTS

8. Interfund Transfers

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

| | Transfer In | Transfer Out |
|----------------------|-------------|--------------|
| Debt service fund | | \$ 148,712 |
| Water utilities fund | \$ 49,469 | |
| Sewer utilities fund | 99,243 | |
| | \$ 148,712 | \$ 148,712 |

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

9. Due From and Due to Other Funds

As of June 30, 2013 interfund receivables and payables that resulted from various interfund transactions were as follows:

| Receivable Fund | Payable Fund | Amount |
|-----------------|---------------------------|------------|
| General | Special revenue | |
| | Tax incremental financing | \$ 29,657 |
| General | Capital projects | |
| | Local trail development | 370,999 |
| | | \$ 400,656 |

Repayments will be made from future revenues.

10. Other Postemployment Benefits (OPEB)

Plan Description

The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 59 active and 5 retired members in the plan. Participants must be age 55 or older at retirement.

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

Funding Policy

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

NOTES TO FINANCIAL STATEMENTS

10. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

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

The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2013, the amount actually contributed to the plan and changes in the City's net OPEB obligation:

| | | |
|--|----|----------|
| Annual required contribution | \$ | 71,843 |
| Interest on net OPEB obligation | | 3,307 |
| Adjustment to annual required contribution | | (3,159) |
| | | |
| Annual OPEB cost | | 71,991 |
| Contributions made | | (43,706) |
| | | |
| Increase in net OPEB obligation | | 28,285 |
| Net OPEB obligation beginning of year | | 54,512 |
| | | |
| Net OPEB obligation end of year | \$ | 82,797 |

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2012. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2013.

For the year ended June 30, 2013, the City contributed \$43,706 to the medical plan. Plan members eligible for benefits contributed \$57,848 or 57% of the premium costs.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2013 are summarized as follows:

| Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---------------|---------------------|---|------------------------|
| June 30, 2010 | \$ 47,091 | 46.0% | \$ 25,426 |
| June 30, 2011 | 47,136 | 68.1% | 40,459 |
| June 30, 2012 | 59,613 | 59.5% | 73,661 |
| June 30, 2013 | 71,991 | 60.8% | 82,797 |

Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$718,466, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$718,466. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2,504,337 and the ratio of the UAAL to covered payroll was 28.7%. As of June 30, 2013, there were no trust fund assets.

10. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

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

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

As of July 1, 2012 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4% discount rate based on the City's funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching 5% ultimate trend rate.

Mortality rates are from RP-2000 Combined Mortality fully generational using Scale AA.

11. Net Position and Fund Balances

The government wide statement of net position reports \$1,228,290 of restricted net position at June 30, 2013.

The amounts restricted are as follows:

| | | |
|---|----|-----------|
| Restricted net position | | |
| Special revenue fund | | |
| Employee benefits | \$ | 518,550 |
| Self-supported municipal improvement district | | 21,250 |
| Tax increment financing | | 226,975 |
| Police forfeitures | | 2,209 |
| Memorial | | 1,411 |
| Park commission special gifts | | 198,313 |
| Library board special gifts | | 190,245 |
| Debt service fund | | 69,337 |
| | \$ | 1,228,290 |

NOTES TO FINANCIAL STATEMENTS

11. Net Position and Fund Balances (Continued)

The governmental fund balances as of June 30, 2013 are as follows:

| | |
|---|--------------|
| Nonspendable | |
| General fund | |
| Prepaid insurance | \$ 98,748 |
| Special revenue fund | |
| State road use tax | |
| Inventory | 8,924 |
| | \$ 107,672 |
| Restricted | |
| Special revenue fund | |
| Tax increment financing | \$ 226,975 |
| State road use tax | 78,047 |
| Self-supported municipal improvement district | 21,250 |
| Police forfeitures | 2,209 |
| Memorial | 1,411 |
| Debt service fund | 69,337 |
| | \$ 399,229 |
| Committed | |
| Special revenue funds | |
| Park commission special gifts | \$ 198,313 |
| Library board special gifts | 190,245 |
| Capital projects funds | |
| Capital projects interest | 738 |
| | \$ 389,296 |
| Assigned | |
| General fund | |
| Visioning committee | \$ 1,275 |
| City Hall equipment | 20,100 |
| Skate park | 104 |
| Airport equipment | 1,501 |
| Swimming pool equipment | 114,737 |
| Recreation equipment | 4,955 |
| New shelter | 5,611 |
| Library technology | 1,469 |
| Softball/tennis improvement | 127 |
| Park equipment | 20,788 |
| Police equipment | 21,427 |
| Park land acquisition | 20,734 |
| Sidewalk | 4,825 |
| Fire department equipment | 21,074 |
| Special revenue fund | |
| Employee benefits | 518,550 |
| Capital projects fund | |
| Short Street improvement project | 297,092 |
| | \$ 1,054,369 |

12. Fund Balance Deficits

The local trail development capital project fund has a deficit balance as of June 30, 2013 of \$341,708. This deficit will be eliminated with the City's portion of the hotel/motel tax.

13. Conduit Debt

The City has, during recent years, participated in several issues of private college revenue bonds, issued for the purposes of constructing college buildings within the City deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Neither the City, the State, nor any political subdivision thereof, is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2013 approximately \$3,197,306 of private college revenue bonds was outstanding.

14. Restatement

Beginning net position were restated in the governmental funds due to the correction of reporting the Metronet along with its capital assets as an agency fund rather than a capital project fund of the City.

15. Related Party Transactions

The City had business transactions between the City and City officials, Randy Schissel, member of City Council; Brett Willie, member of the airport commission; and Paul Wanless, member of City Council, totaling \$20,066 during the year ended June 30, 2013.

- The transaction with Randy Schissel consisted of retail purchases with total payments to Storey Kenworthy of \$8,920. Mr. Schissel is an account executive at Storey Kenworthy.
- The transaction with Brett Willie consisted of retail purchases with total payments to Sherwin Williams of \$7,140. Mr. Willie is the manager of Sherwin Williams.
- The transaction with Paul Wanless consisted of retail purchases with total payments to the Sports Shop of \$4,006. Mr. Wanless is an owner of the Sports Shop.

16. Risk Management

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

The City is partially self-insured for health care insurance of employees. The City purchases insurance with a \$2,000 deductible and self-insures to provide employees with deductibles of \$250 per person and \$500 per family per year. The City's maximum annual cost per employee of this coverage is \$3,250 per employee and \$6,500 per family. The City has incurred costs totaling \$83,211 for the 2013 fiscal year. At June 30, 2013, the maximum potential additional City liability because of this plan was \$277,539.

NOTES TO FINANCIAL STATEMENTS

17. Contingent Liabilities

The City participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of June 30, 2013 significant amounts of grant expenditures have not been audited by granting authorities but the City believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the City.

18. Joint Venture

The City is a participant in the Winneshiek County Area Solid Waste Agency. The City has agreed to guarantee revenue to the agency from city residents. The guarantee equals base year usage by city residents as a percentage of all base year usage sufficient to fund \$2,000,000 of bonded indebtedness amortized over 12 years. The guarantee was in effect until 2003. The City appoints a member to the agency board and is guaranteed access to the landfill so long as it is a member. The agency board sets tonnage fee rates which are charged to contracted haulers who are responsible for garbage collection and billing and collecting from local residents. Audited financial statements of Winneshiek County Area Solid Waste Agency are available from the Agency at 2000 140th Avenue, Decorah, Iowa.

The City participates in the Metronet, a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa. Financial transactions of this organization are included in the City's financial statements as the agency fund because of the City's fiduciary relationship with the organization. The following financial data is for the year ended June 30, 2013:

| | | | |
|--|----|---------|------------|
| Additions | | | |
| Contributions from government units | | | |
| Winneshiek County | \$ | 81,466 | |
| Decorah Community School District | | 64,967 | |
| Upper Explorerland | | 77,063 | |
| Winneshiek Medical Center | | 72,861 | |
| Luther College | | 39,967 | |
| City of Decorah | | 304,768 | \$ 641,092 |
| Public Telecommunications Facilities Planning and Construction Grant | | | 386,695 |
| Miscellaneous | | | 3,616 |
| Total additions | | | 1,031,403 |
| Deductions | | | |
| Engineering | | 45,084 | |
| Equipment | | 208,036 | |
| Advertising | | 680 | |
| Dues | | 25 | |
| Education | | 194 | |
| Fiber Optic line | | 508,360 | 762,379 |
| Net | | | 269,024 |
| Balance, beginning of year | | | 90,749 |
| Balance, end of year | | | \$ 359,773 |

19. New Governmental Accounting Standards Board (GASB) Standards

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

GASB Statement 65, *Items Previously Classified as Assets and Liabilities*, issued March 2012, will be effective for the fiscal year ending June 30, 2014. This statement reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflow of resources, and recognizes as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

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.

20. Commitments

The City has entered into construction contracts totaling \$112,636 for the Claiborne Street improvement project.

21. Subsequent Events

Management has evaluated subsequent events through December 4, 2013, the date on which the financial statements were available to be issued.

Required Supplementary Information

CITY OF DECORAH
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS)
ALL GOVERNMENTAL AND PROPRIETARY FUND TYPES
Year Ended June 30, 2013

| | Governmental Fund Type Actual | Proprietary Fund Type Actual | Total Actual |
|--|-------------------------------------|------------------------------------|---------------------|
| RECEIPTS | | | |
| Property taxes | \$ 3,471,338 | | \$ 3,471,338 |
| Tax increment financing collections | 264,852 | | 264,852 |
| Other City taxes | 1,259,588 | | 1,259,588 |
| Licenses and permits | 28,370 | | 28,370 |
| Use of money and property | 14,715 | \$ 565 | 15,280 |
| Intergovernmental revenues | 2,974,653 | 47,508 | 3,022,161 |
| Charges for services | 490,365 | 1,546,482 | 2,036,847 |
| Special assessments | 49,874 | | 49,874 |
| Miscellaneous | 566,027 | 14,399 | 580,426 |
| Total receipts | 9,119,782 | 1,608,954 | 10,728,736 |
| DISBURSEMENTS | | | |
| Public safety | 1,972,639 | | 1,972,639 |
| Public works | 2,378,744 | | 2,378,744 |
| Health and social services | 81,224 | | 81,224 |
| Culture and recreation | 1,632,182 | | 1,632,182 |
| Community and economic development | 1,634,523 | | 1,634,523 |
| General government | 823,234 | | 823,234 |
| Debt service | 748,560 | | 748,560 |
| Capital projects | 4,392,097 | | 4,392,097 |
| Total governmental activities disbursements | 13,663,203 | - | 13,663,203 |
| Business-type enterprises | | 2,298,837 | 2,298,837 |
| Total disbursements | 13,663,203 | 2,298,837 | 15,962,040 |
| EXCESS RECEIPTS OVER (UNDER) DISBURSEMENTS | (4,543,421) | (689,883) | (5,233,304) |
| OTHER FINANCING SOURCES (USES) | | | |
| Proceeds from long-term debt | 4,264,238 | 935,762 | 5,200,000 |
| Proceeds from fixed assets sold | 3,314 | | 3,314 |
| Operating transfers in | | 40,000 | 40,000 |
| Operating transfers out | | (40,000) | (40,000) |
| OTHER FINANCING SOURCES (USES), NET | 4,267,552 | 935,762 | 5,203,314 |
| EXCESS RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES | (275,869) | 245,879 | (29,990) |
| FUND BALANCE/RETAINED EARNINGS, June 30, 2012 | 3,061,061 | 619,476 | 3,680,537 |
| FUND BALANCE/RETAINED EARNINGS, June 30, 2013 | \$ 2,785,192 | \$ 865,355 | \$ 3,650,547 |

See Notes to Required Supplementary Information.

| Budget Amounts | | Variance - Favorable (Unfavorable) |
|----------------|--------------|--|
| Original | Final | |
| \$ 3,475,065 | \$ 3,475,065 | \$ (3,727) |
| 264,850 | 264,850 | 2 |
| 1,170,730 | 1,170,730 | 88,858 |
| 24,275 | 24,275 | 4,095 |
| 60,430 | 60,430 | (45,150) |
| 1,927,146 | 2,979,042 | 43,119 |
| 2,039,735 | 2,055,480 | (18,633) |
| | 49,874 | - |
| 353,417 | 554,307 | 26,119 |
| 9,315,648 | 10,634,053 | 94,683 |
| 1,889,024 | 2,009,040 | 36,401 |
| 2,572,557 | 2,748,984 | 370,240 |
| 21,269 | 93,398 | 12,174 |
| 1,679,632 | 1,728,693 | 96,511 |
| 461,950 | 1,661,111 | 26,588 |
| 636,974 | 823,303 | 69 |
| 352,866 | 837,790 | 89,230 |
| 3,733,052 | 4,898,052 | 505,955 |
| 11,347,324 | 14,800,371 | 1,137,168 |
| 1,437,517 | 2,501,968 | 203,131 |
| 12,784,841 | 17,302,339 | 1,340,299 |
| (3,469,193) | (6,668,286) | 1,434,982 |
| 3,200,000 | 5,268,300 | (68,300) |
| | | 3,314 |
| 215,000 | 215,000 | (175,000) |
| (215,000) | (215,000) | 175,000 |
| 3,200,000 | 5,268,300 | (64,986) |
| (269,193) | (1,399,986) | \$ 1,369,996 |
| 3,680,537 | 3,680,537 | |
| \$ 3,411,344 | \$ 2,280,551 | |

CITY OF DECORAH
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 BUDGET TO GAAP RECONCILIATION
 Year Ended June 30, 2013

| | Governmental Funds | | |
|------------------------------|--------------------------------|------------------------|------------------------------|
| | Cash Basis | Accrual Adjustments | Modified Accrual Basis |
| Revenues | \$ 9,119,782 | \$ (1,696,264) | \$ 7,423,518 |
| Expenditures | 13,663,203 | (1,544,474) | 12,118,729 |
| Net | (4,543,421) | (151,790) | (4,695,211) |
| Other financing sources, net | 4,267,552 | (147,950) | 4,119,602 |
| Beginning fund balance | 3,061,061 | 260,647 | 3,321,708 |
| Ending fund balance | <u>\$ 2,785,192</u> | <u>\$ (39,093)</u> | <u>\$ 2,746,099</u> |
| | Proprietary Fund Enterprise | | |
| | Cash Basis | Accrual Adjustments | Accrual Basis |
| Revenues | \$ 1,608,954 | \$ (13,890) | \$ 1,595,064 |
| Expenditures | 2,298,837 | (530,624) | 1,768,213 |
| Net | (689,883) | 516,734 | (173,149) |
| Other financing sources, net | 935,762 | (787,050) | 148,712 |
| Beginning fund balance | 619,476 | 8,150,854 | 8,770,330 |
| Ending fund balance | <u>\$ 865,355</u> | <u>\$ 7,880,538</u> | <u>\$ 8,745,893</u> |

See Notes to Required Supplementary Information.

CITY OF DECORAH

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2013

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon 9 major classes of disbursements known as functions, not by fund or fund type. These 9 functions are:

1. Public safety
2. Public works
3. Health and social services
4. Culture and recreation
5. Community and economic development
6. General government
7. Debt service
8. Capital projects
9. Business-type activities

Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds and enterprise funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by funds. During the year, one budget amendment increased budgeted expenditures by \$4,517,498. This budget amendment is reflected in the final budgeted amounts.

See Independent Auditor's Report.

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

| Year Ended June 30, | Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---------------------------|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 2010 | July 1, 2009 | - | \$ 464 | \$ 464 | 0.0% | \$ 2,469 | 18.8% |
| 2011 | July 1, 2010 | - | \$ 590 | \$ 590 | 0.0% | \$ 2,543 | 23.2% |
| 2012 | July 1, 2010 | - | \$ 590 | \$ 590 | 0.0% | \$ 2,575 | 22.9% |
| 2013 | July 1, 2012 | - | \$ 718 | \$ 718 | 0.0% | \$ 2,504 | 28.7% |

See Note 10 in the accompanying notes to financial statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Other Supplementary Information

CITY OF DECORAH
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2013

| | Special Revenue Funds | | | | |
|--|-----------------------|--|------------------|-----------------------|-----------------|
| | State Road Use Tax | Self-supported Municipal Improvement District | Emergency | Police Forfeitures | Memorial |
| ASSETS | | | | | |
| Cash | \$ 119,120 | \$ 21,119 | | \$ 2,209 | \$ 1,516 |
| Investments | | | | | |
| Due from other governments | | | | | |
| Receivables | | | | | |
| Taxes | | | | | |
| Current | | 131 | | | |
| Succeeding year | | 15,000 | \$ 76,831 | | |
| Interest | | | | | |
| Inventories | 8,924 | | | | |
| Total assets | \$ 128,044 | \$ 36,250 | \$ 76,831 | \$ 2,209 | \$ 1,516 |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities | | | | | |
| Accounts payable | \$ 17,089 | | | | \$ 105 |
| Salaries and benefits payable | 18,491 | | | | |
| Due to other funds | | | | | |
| Deferred revenues | | \$ 15,000 | \$ 76,831 | | |
| Compensated absences | 5,493 | | | | |
| Total liabilities | 41,073 | 15,000 | 76,831 | \$ - | 105 |
| Fund balances | | | | | |
| Nonspendable | 8,924 | | | | |
| Restricted | 78,047 | 21,250 | | 2,209 | 1,411 |
| Committed | | | | | |
| Unassigned | | | | | |
| Total fund balances | 86,971 | 21,250 | - | 2,209 | 1,411 |
| Total liabilities and fund balances | \$ 128,044 | \$ 36,250 | \$ 76,831 | \$ 2,209 | \$ 1,516 |

See Independent Auditor's Report.

SCHEDULE 1

| Special Revenue Funds | | | Debt Service Fund | Capital Projects Funds | | | Total Nonmajor Governmental Funds |
|-------------------------------|-----------------------------|-------------------|-------------------|---------------------------|-------------------------|------------------|-----------------------------------|
| Park Commission Special Gifts | Library Board Special Gifts | Total | | Capital Projects Interest | Local Trail Development | Total | |
| \$ 23,097 | \$ 43,932 | \$ 210,993 | \$ 68,342 | \$ 738 | | \$ 738 | \$ 280,073 |
| 176,388 | 146,000 | 322,388 | | | | | 322,388 |
| | | | | | \$ 35,415 | 35,415 | 35,415 |
| | | 131 | 995 | | | | 1,126 |
| | | 91,831 | 20,613 | | | | 112,444 |
| 239 | 313 | 552 | | | | | 552 |
| | | 8,924 | | | | | 8,924 |
| <u>\$ 199,724</u> | <u>\$ 190,245</u> | <u>\$ 634,819</u> | <u>\$ 89,950</u> | <u>\$ 738</u> | <u>\$ 35,415</u> | <u>\$ 36,153</u> | <u>\$ 760,922</u> |
| \$ 1,411 | | \$ 18,605 | | | \$ 6,124 | \$ 6,124 | \$ 24,729 |
| | | 18,491 | | | | | 18,491 |
| | | - | | | 370,999 | 370,999 | 370,999 |
| | | 91,831 | \$ 20,613 | | | | 112,444 |
| | | 5,493 | | | | | 5,493 |
| <u>1,411</u> | <u>\$ -</u> | <u>134,420</u> | <u>20,613</u> | <u>\$ -</u> | <u>377,123</u> | <u>377,123</u> | <u>532,156</u> |
| | | 8,924 | | | | | 8,924 |
| | | 102,917 | 69,337 | | | | 172,254 |
| 198,313 | 190,245 | 388,558 | | 738 | | 738 | 389,296 |
| | | - | | | (341,708) | (341,708) | (341,708) |
| <u>198,313</u> | <u>190,245</u> | <u>500,399</u> | <u>69,337</u> | <u>738</u> | <u>(341,708)</u> | <u>(340,970)</u> | <u>228,766</u> |
| <u>\$ 199,724</u> | <u>\$ 190,245</u> | <u>\$ 634,819</u> | <u>\$ 89,950</u> | <u>\$ 738</u> | <u>\$ 35,415</u> | <u>\$ 36,153</u> | <u>\$ 760,922</u> |

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CITY OF DECORAH
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 Year Ended June 30, 2013

| | Special Revenue Funds | | | |
|--|-----------------------|--|--------------------|-----------------------|
| | State Road Use Tax | Self-supported Municipal Improvement District | Hotel/Motel Tax | Police Forfeitures |
| REVENUES | | | | |
| Property taxes | | | | |
| Other City tax | | \$ 14,999 | \$ 147,119 | |
| Use of money and property | \$ 76 | | | |
| Intergovernmental | 778,289 | | | |
| Miscellaneous | 19,939 | | | |
| Total revenues | 798,304 | 14,999 | 147,119 | \$ - |
| EXPENDITURES | | | | |
| Current | | | | |
| Public works | 1,000,166 | | | |
| Culture and recreation | | | | |
| Community and economic development | 13,768 | 7,006 | 147,119 | |
| Capital projects | 23,175 | | | |
| Debt service | | | | |
| Principal | 15,400 | | | |
| Interest and other charges | 5,104 | | | |
| Total expenditures | 1,057,613 | 7,006 | 147,119 | - |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (259,309) | 7,993 | - | - |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in/(out) | | | | |
| Total other financing sources (uses) | - | - | - | - |
| EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | (259,309) | 7,993 | - | - |
| FUND BALANCES, beginning of year | 346,280 | 13,257 | | 2,209 |
| FUND BALANCES, end of year | \$ 86,971 | \$ 21,250 | \$ - | \$ 2,209 |

See Independent Auditor's Report.

CITY OF DECORAH
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUNDS
 For the Year Ended June 30, 2013

| | Metronet |
|--|------------|
| ASSETS AND LIABILITIES | |
| BALANCE, beginning of year | \$ 90,749 |
| ADDITIONS | |
| Public Telecommunications Facilities Planning and Construction Grant | 386,695 |
| Miscellaneous | 644,708 |
| Total additions | 1,031,403 |
| DEDUCTIONS | |
| Agency remittances | |
| Engineering | 45,083 |
| Fiber Optic Line | 510,775 |
| Miscellaneous | 206,521 |
| Total deductions | 762,379 |
| BALANCE, end of year | \$ 359,773 |

See Independent Auditor's Report.

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

| | Modified Accrual Basis | | | | | | | | | |
|------------------------------------|------------------------|----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
| Revenues | | | | | | | | | | |
| Property tax | \$ 3,539,181 | \$ 3,415,785 | \$ 3,374,547 | \$ 2,983,326 | \$ 3,055,199 | \$ 2,766,021 | \$ 2,792,106 | \$ 2,658,525 | \$ 2,595,871 | \$ 2,381,158 |
| Tax increment financing revenue | 264,852 | 320,138 | 311,411 | 586,153 | 351,092 | 412,913 | 121,451 | 211,559 | 236,228 | 230,703 |
| Other City tax | 1,260,962 | 1,212,521 | 1,190,353 | 1,128,426 | 1,176,038 | 1,091,758 | 1,161,593 | 958,282 | 1,043,493 | 967,761 |
| Licenses and permits | 28,988 | 29,669 | 29,852 | 27,511 | 27,876 | 29,527 | 31,567 | 21,690 | 27,983 | 23,165 |
| Use of money and property | 13,833 | 52,022 | 51,485 | 69,068 | 90,233 | 154,927 | 200,056 | 157,361 | 170,653 | 111,644 |
| Intergovernmental | 1,620,094 | 3,952,427 | 2,720,047 | 1,702,044 | 2,127,342 | 1,918,414 | 1,837,272 | 1,692,123 | 1,708,217 | 1,306,006 |
| Charges for service | 491,210 | 538,520 | 496,138 | 437,368 | 445,392 | 410,662 | 393,374 | 415,992 | 405,666 | 396,387 |
| Miscellaneous | 204,398 | 763,160 | 644,349 | 725,574 | 998,901 | 602,745 | 608,238 | 196,906 | 296,929 | 310,379 |
| Total | \$ 7,423,518 | \$ 10,284,242 | \$ 8,818,182 | \$ 7,659,470 | \$ 8,272,073 | \$ 7,386,967 | \$ 7,145,657 | \$ 6,312,438 | \$ 6,485,040 | \$ 5,727,203 |
| Expenditures | | | | | | | | | | |
| Operating | | | | | | | | | | |
| Public safety | \$ 1,942,864 | \$ 1,873,558 | \$ 1,834,165 | \$ 2,002,994 | \$ 1,966,056 | \$ 1,627,775 | \$ 1,706,035 | \$ 1,501,249 | \$ 1,385,420 | \$ 1,375,223 |
| Public works | 2,259,413 | 2,243,801 | 1,788,587 | 1,108,378 | 1,345,113 | 1,176,561 | 1,320,506 | 788,113 | 883,506 | 1,018,018 |
| Health and social services | 81,224 | 41,414 | 30,284 | 21,209 | 21,129 | 17,129 | 17,129 | 27,579 | 10,450 | 11,000 |
| Culture and recreation | 1,584,249 | 1,774,404 | 1,692,389 | 1,481,633 | 1,511,608 | 1,477,976 | 1,456,849 | 1,281,232 | 1,221,974 | 1,371,093 |
| Community and economic development | 193,981 | 318,886 | 264,179 | 1,436,641 | 1,223,052 | 1,582,343 | 1,066,783 | 977,114 | 809,164 | 504,369 |
| General government | 654,777 | 1,064,782 | 823,867 | 462,811 | 417,998 | 400,494 | 423,004 | 363,985 | 302,879 | 328,983 |
| Debt service | 2,057,834 | 483,369 | 482,125 | 483,205 | 467,575 | 454,742 | 502,553 | 828,262 | 653,552 | 1,035,212 |
| Capital projects | 3,344,387 | 2,847,613 | 1,824,392 | 481,161 | 1,043,181 | 2,034,181 | 1,250,087 | 1,522,421 | 504,879 | 1,402,525 |
| Total | \$ 12,118,729 | \$ 10,647,827 | \$ 8,739,988 | \$ 7,478,032 | \$ 7,995,712 | \$ 8,771,201 | \$ 7,742,946 | \$ 7,289,955 | \$ 5,771,824 | \$ 7,046,423 |

See Independent Auditor's Report.

CITY OF DECORAH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013

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

- (a) Unmodified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Significant deficiencies in internal control over the major programs were disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 20.106-Airport Improvement Program
 - CFDA Number 11.550-Public Telecommunications Facilities Planning and Construction
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) City of Decorah did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

13-1 Segregation of 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 and Corrective Action Planned

Management is cognizant of this limitation.

Conclusion

Response acknowledged.

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

CITY OF DECORAH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 20.106, Airport Improvement Program

Federal Award Year: 2013

U.S. Department of Transportation

Passed through the Iowa Department of Transportation

CFDA Number 11.550, Public Telecommunications Facilities Planning and Construction

Federal Award Year: 2013

U.S. Department of Commerce

Passed through the Iowa Department of Transportation

See 13-1 above.

Part IV: Other Findings Related to Required Statutory Reporting:

See management letter dated December 4, 2013

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

| Comment Reference | Comment Title | Status | Explanation |
|-------------------|------------------------------|---------------|--|
| 12-1 | Financial report preparation | Corrected | Management has the necessary training and experience to accept responsibility for the year-end financial statements. |
| 12-2 | Segregation of duties | Not corrected | The City has limited staff and segregates duties to the best of their abilities. |

CITY OF DECORAH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2013

| Grant Title | CFDA Number | Grant Number | Amount of Grant | Program Expenditures |
|---|----------------|--|------------------------------|-----------------------------|
| Corporation for National and Community Service | | | | |
| Direct | | | | |
| Retired and Senior Volunteer Program | 94.002 | 11SRNIA006 | \$ 65,356 | \$ 37,347 |
| U.S. Department of Energy | | | | |
| Indirect | | | | |
| Passed through Iowa Office of Energy Independence Energy Efficiency and Conservation Block Grant | 81.128 | EECBG #10-3404/3352/3366 | 881,363 | 12,902 |
| U.S. Department of Transportation | | | | |
| Indirect | | | | |
| Passed-through Iowa Department of Transportation Airport Improvement Program | 20.106 | 3-19-0025-07 3-19-0025-08 3-19-0025-09 | 157,700 336,960 67,410 | 19,035 307,729 35,727 |
| | | | | <u>362,491</u> |
| Indirect | | | | |
| U.S. Highway Administration Passed-through Iowa Department of Transportation Highway Planning and Construction Cluster Recreational Trails Program | 20.219 | STP-ES-1867(606)--81-96 | 96,849 | 23,226 |
| Total Department of Transportation | | | | <u>385,717</u> |
| U.S. Department of Commerce | | | | |
| Indirect | | | | |
| Passed-through Iowa Communications Network Public Telecommunications Facilities Planning and Construction | 11.550 | NT10BIX5570069-1 | 519,869 | 386,695 |
| U.S. Department of Justice | | | | |
| Indirect | | | | |
| Passed-through Governor's Office of Drug Control Policy Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | 10JAG-42102 | 12,000 | 11,000 |
| Total expenditures of federal awards | | | | <u>\$ 833,661</u> |

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of the City of Decorah under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the City of Decorah, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Decorah.

Note 2. Summary of Significant Accounting Policies

(1) Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers are presented where available.

Note 2. Loans Outstanding

The City of Decorah has outstanding notes payable to the Iowa Finance Authority totaling \$367,000 as of June 30, 2013. The proceeds from this note was advanced under the Capitalization Grants for Clean Water State Revolving Funds.

See Independent Auditor's Report.

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

To the Honorable Mayor and Members of the City Council
City of Decorah
Decorah, 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Decorah as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of Decorah's basic financial statements, and have issued our report thereon dated December 4, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Decorah'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 Decorah's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Decorah'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 in the accompanying schedule of findings and questioned costs as item 13-1 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Decorah'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 Decorah's Response to Finding

City of Decorah's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Decorah'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
December 4, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited City of Decorah's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Decorah's major federal programs for the year ended June 30, 2013. City of Decorah's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Decorah's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Decorah's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Decorah's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Decorah complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 13-1 that we consider to be a significant deficiency.

City of Decorah's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Decorah's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
December 4, 2013

MANAGEMENT LETTER

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

In planning and performing our audit of the basic financial statements of the City of Decorah for the year ended June 30, 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 8 below are compliance comments required by the Iowa Auditor of State. A separate report dated December 4, 2013, contains our report on the City's internal control over financial reporting. This letter does not affect our report dated December 4, 2013 on the basic financial statements of City of Decorah. Comment 4 is an unresolved comment from the prior year. We did not audit the City's responses and, accordingly, we express no opinion on them.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 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 Expenditures**
We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
3. **Travel Expense**
No expenditures of City money for travel expenses of spouses of City officials and/or employees were noted.

4. **Business Transactions**

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

| <u>Name, Title and Business Connection</u> | <u>Transaction Description</u> | <u>Amount</u> |
|--|--------------------------------|---------------|
| Randy Schissel, City Council Account Executive, Storey Kenworthy | Retail purchases | \$ 8,920 |
| Brett Willie, Airport Commission Member, Manager Sherwin Williams | Retail purchases | \$ 7,140 |
| Paul Wanless, City Council Member, Owner Sports Shop | Retail purchases | \$ 4,006 |

The transactions listed above in excess of \$1,500 may be in violation of Iowa Code Section 362.5 since cumulative purchases exceeded \$1,500 during the fiscal year.

Recommendation

We recommend the City seek advice from their attorney to determine if there has been a violation of the Code of Iowa in regards to the transactions with the above stated Board members, and if so, what action is needed. The City should consider a policy to monitor these transactions to maintain Code Compliance.

Response

Randy Schissel, City Council, is an Account Executive with Storey Kenworthy, however, he is not the account representative for all City Departments. We monitor purchases with vendors, but try to buy locally when possible.

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

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

Conclusion

Response accepted.

5. **Bond Coverage**

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

6. **Council Minutes**

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

7. Deposits and Investments

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

8. Revenue Notes

The City has established the sinking and reserve accounts required by the sewer revenue note resolution.

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. However, the following reporting exceptions were noted:

The City understated the amount reported as TIF debt outstanding on the Levy Authority Summary by \$54,000. The debt outstanding did not include Low to Moderate Income expenditures. The City also understated the amount reported as TIF debt outstanding on the Levy Authority Summary by \$1,851. The debt outstanding did not include bond fees that were paid out of the TIF fund.

Recommendation

The City should ensure the TIF debt outstanding reported includes all TIF debt issued during the fiscal year and the total balance of all annual appropriation obligations.

Response

The Urban Renewal Report was a new requirement in 2013 for FY12. Requirements for the initial report did not include different pieces of financial information associated with the TIF accounts. Given that, there was much confusion with the financial reporting requirements the first year. Beginning with the FY13 report complete financial information is included as required in the report due 12/1/13 and balances with City accounts.

Conclusion

Response accepted.

10. Tax Increment Financing

In August 2012, the City refunded its 2006 general obligation TIF bond but did not decertify this debt on TIF Form 3 by December 1, 2012. Also, the City did not certify the new 2012 general obligation bond on TIF Form 1 by December 1, 2012.

Recommendation

We recommend the City take steps to determine the amount of TIF debt to be decertified and certified to the County Auditor in a timely manner.

Response

This has been completed. It should be noted the appropriate payment amount was certified to the County Auditor within the required time frame.

Conclusion

Response accepted.

11. Payment of General Obligation Bonds

Principal and interest on the City's general obligation bonds were paid from the special revenue, tax increment financing fund. Per IA Code 384.4, in part, "Monies pledged or available to service general obligation bonds, and received from sources other than property tax must be deposited in the debt service fund."

Recommendation

The City should transfer from the special revenue, tax increment financing fund to the debt service fund for future funding contributions. Payments on the bonds should then be made from the debt service fund as required.

Response

TIF debt has historically been paid from the TIF Special Revenue Account without comment from the auditing firm. While staff recognizes this state requirement it seems an unnecessary accounting step that provides no additional clarity in reporting requirements. Again, the audit firm raised no concerns with this practice in the past. TIF debt is accurately paid and accounted for in the Annual Report Debt Page and the State Debt Report. That information notwithstanding, effective with the June 2014 payment, this requirement will be complied with.

Conclusion

Response accepted.

12. Fund Balance

The local trail development capital project fund balance had a negative fund balance at year end.

Recommendation

While we recognize that contributions for this project have not matched expenditures, we suggest the Council develop a plan to alleviate this deficit.

Response

Decorah City Council formally approved at the December 2, 2013 meeting, a recommendation from staff to alleviate this deficit by paying \$80,000 in FY15, FY16 and FY17 from monies received from the Hotel/Motel tax revenue.

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 Decorah and federal awarding agencies and pass-through entities whom the City may report. The report is not intended to be, and should not be, used by anyone other than these specified parties.

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

If you have any questions concerning these or other matters, we would be happy to discuss them with you at your convenience.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
December 4, 2013