

CITY OF WAUKON

FINANCIAL REPORT

JUNE 30, 2014

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CITY OF WAUKON

OFFICIALS

Title	Name	Term Expires
Mayor	Loren Beneke	December 31, 2015
Mayor Pro Tem	Trent Mitchell	December 31, 2015
Council Member	Dave Sanderson	December 31, 2015
Council Member	Steve Wiedner	December 31, 2017
Council Member	Darrold Brink	December 31, 2017
Council Member	Donald Steffens	December 31, 2017
Clerk/Treasurer	Diane Sweeney	December 31, 2014
Attorney	James Garrett	December 31, 2014
Assistant Attorney	Jeff Swartz	December 31, 2014

INDEPENDENT AUDITOR'S REPORT
ON THE FINANCIAL STATEMENTS

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

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the discretely presented component unit of City of Waukon, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion on Aggregate Discretely Presented Component Units

The financial statements referred to above do not include the financial data for all of the City's legally separate component units identified in Note 1. U.S. generally accepted accounting principles require financial data for those component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. The amount of financial activity that should be reported in the governmental activities is not known.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities of the City of Waukon as of June 30, 2014, and the respective changes in cash basis financial position for the year then ended in accordance with the cash basis of accounting described in Note 1.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the business-type activities, each major fund, the aggregate remaining fund information, and the discretely presented component unit of City of Waukon, as of and for the year ended June 30, 2014, and the respective changes in cash basis financial position for the year then ended in accordance with the cash basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements are prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Waukon's basic financial statements. The combining and individual nonmajor fund financial statements, schedule of indebtedness, bond and note maturities, and schedule of receipts by source and disbursements by function for 2014 are presented for purposes of additional analysis and are not a required part of the basic 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 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 City of Waukon, as of and for the years ended June 30, 2012 through 2013, (none of which is presented herein). We expressed modified opinions on the primary government financial statements which were prepared on the basis of cash receipts and disbursements, due to the omission of the financial transactions of component units which should be included. The schedule of receipts by source and disbursements by function for the years ended June 30, 2012 through 2013 presented on page 30 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2012 through 2013 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 receipts by source and disbursements by function for the years ended June 30, 2012 through 2013, presented on page 30, is fairly stated in all material respects in relation to the basic financial statements from which it has been derived.

The financial statements of City of Waukon for the years ended June 30, 2005 through 2011 (none of which are presented herein), were audited by other auditors whose report dated March 5, 2012, expressed modified opinions on the primary government financial statements which were prepared on the basis of cash receipts and disbursements, due to the omission of the financial transactions of component units which should be included. Their report, as of the same date, on the supplemental information for 2005 through 2011 presented on page 30 stated in their opinion, such information was fairly stated in all material respects in relation to the financial statements for 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 February 18, 2015, on our consideration of City of Waukon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Waukon's internal control over financial reporting and compliance.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
February 18, 2015

CITY OF WAUKON

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the City of Waukon's financial performance provides an overview of the City's financial activities for the fiscal year ending June 30, 2014. Please read this in conjunction with the transmittal letter and the City's financial statements contained within this audit report.

2014 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased \$1,015,321 or approximately 26.14% from FY 2013 to FY 2014. Of which, bond proceeds accounted for \$141,500 and CAT proceeds accounted for \$650,650 of this increase. Property taxes for all purposes increased \$84,891.
- Program disbursements excluding debt service and capital projects increased \$439,034 or 17.43%.
- The City's total cash basis net position is \$3,448,041. Of this amount, the governmental activities claim cash basis net position of \$1,481,234.
- The City's governmental cash basis net position decreased approximately \$922,000 due to capital projects expenses relating to the library expansion project.
- Net position in the business-type activity, which represents the City's sewer and water operations, increased \$90,967. Operating receipts increased \$49,593 while operating disbursements increased \$152,472.

USING THIS ANNUAL REPORT

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

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

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions that are asked about the City's finances is: *"Is the City, as a whole, better or worse off as a result of this year's activities?"* The statement of activities and net position-cash basis reports information, which helps answer this question.

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

The statement of activities and net position-cash basis report two kinds of activities and one component unit:

1. **Governmental activities:** these include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects.
2. **Business-type activities:** these include the City's utilities, which specifically are the water system (production, storage, transmission, distribution, treatment, and billing), and sewer system (collection, transmission, treatment and discharge). These services are primarily characterized by their reliance on user charges as opposed to property or other general tax proceeds.
3. **Component unit:** the only component unit of the City shown in the financial report is that of the Robey Memorial Library Foundation. A component unit is a legally separate entity but one whose financial and accounting practices are closely linked to those of the City. The Waukon Economic Development Corporation and Waukon Trees Forever are component units of the City, which are not included in the City's reporting entity because the financial transactions were not available.

Fund Financial Statements

The City has two kinds of funds:

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES (Continued)

Fund Financial Statements (Continued)

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

The following analysis shows the changes in net position for the years ending June 30, 2014 and 2013:

	Changes in Cash Basis Net Assets of Governmental Activities (In Thousands)						
	Governmental Activities		Business-type Activities		Total		Percent Change
	2014	2013	2014	2013	2014	2013	
Receipts:							
Program revenue							
Charges for service	\$ 879	\$ 856	\$ 933	\$ 884	\$ 1,812	\$ 1,740	4.14%
Operating grants	559	481			559	481	16.22%
Capital grants	804	209			804	209	284.69%
General revenue							
Property taxes	1,267	1,183			1,267	1,183	7.10%
Tax increment financing collections	678	669			678	669	1.35%
Local option sales tax	351	322			351	322	9.01%
Unrestricted investment earnings	22	19	4	3	26	22	18.18%
Bond proceeds	330	142			330	142	132.39%
Other revenue	18	3			18	3	500.00%
Total receipts	4,908	3,884	937	887	5,845	4,771	22.51%
Program disbursements:							
Public safety	795	609			795	609	30.54%
Public works	716	586			716	586	22.18%
Culture and recreation	817	732			817	732	11.61%
Community and economic development	329	295			329	295	11.53%
General government	301	297			301	297	1.35%
Debt service	818	588			818	588	39.12%
Capital projects	2,054	727			2,054	727	182.53%
Other expenses			846	647	846	647	30.76%
Total disbursements	5,830	3,834	846	647	6,676	4,481	48.98%
 (Decrease) increase in cash basis net position	 (922)	 50	 91	 240	 (831)	 290	 -386.55%
Cash basis net position beginning of year	2,403	2,353	1,876	1,636	4,279	3,989	7.27%
Cash basis net position end of year	\$ 1,481	\$ 2,403	\$ 1,967	\$ 1,876	\$ 3,448	\$ 4,279	-19.42%

REPORTING THE CITY'S FINANCIAL ACTIVITIES (Continued)

Individual Major Fund Analysis

As the City completed the year, its governmental funds reported a combined cash balance of \$1,481,234, a \$921,765 decrease from the 2013 fiscal year end balance of \$2,402,999. This decrease is mostly due to capital projects expenses increasing approximately \$1,327,000 due to the library expansion project. These costs were offset partially with a CAT grant of \$650,650.

The general fund cash balance increased \$60,351 from the prior year of \$357,662. This was due to a decrease in public safety, community and economic development, and general capital projects disbursements. The cash balance at year end was \$418,013.

The road use tax fund cash balance at June 30, 2014 was \$51,311. The balance was down \$57,528 from the prior year balance of \$108,839. Receipts were comparable to those of prior years but disbursements increased \$53,394.

The urban renewal tax increment fund cash balance decreased \$337,598 from the prior year of \$470,055 to \$132,457. The decrease in cash balance was a result of an increase in transfers out of approximately \$360,000. The fund is used for urban renewal tax increment capital projects and debt payments.

The local option sales tax fund was established upon approval of a referendum imposing a 1% local option sales tax and service tax for reconstruction/repair/replacement of existing streets and curbs, storm sewers, sanitary sewers, water mains, and other structures that relate to streets. At the end of the fiscal year, the cash balance was \$374,821. The City continues to use proceeds from this fund for street improvements each year.

The library expansion capital project was completed during fiscal year 2014. Receipts for the year totaled \$650,650 while disbursements totaled \$1,071,765 with the remaining cash balance transferred out at the end of the year to close out the project.

The debt service fund cash balance at June 30, 2014 was \$17,443. The balance was down \$561 from the prior year balance of \$18,004. Receipts, including transfers in, were up approximately \$229,000 while disbursements increased \$230,000.

Proprietary Fund Highlights

The water fund, which accounts for the operation and maintenance of the City's water system, ended fiscal year 2014 with a cash basis net position balance of \$1,094,728. This reflects a decrease of \$20,169 from the end of fiscal year 2013 when the net position balance was \$1,114,897. The water fund had a net operating profit of \$11,699 for fiscal year 2014.

The sewer fund, which accounts for the operation and maintenance of the sewer system and the wastewater treatment facility, ended fiscal year 2014 with a net position balance of \$872,079. This reflects an increase of \$111,136 from the end of fiscal year 2013 when the net position balance was \$760,943. The sewer fund had a net operating profit of \$121,750 for fiscal year 2014.

BUDGETARY HIGHLIGHTS

The City Council annually adopts a budget as required by Iowa law. Proper public notice and a required public hearing are held before final approval of the budget. The budget document presents functional disbursements by function and the legal level of control is at the expense level by the different functions. Over the course of the year, the City amended its budget once. The amendment increased budgeted disbursement by \$1,293,105 and budgeted receipts by \$936,000.

DEBT ADMINISTRATION

At June 30, 2014, the City had \$5,444,460 in bonds and other long-term debt, compared to \$5,724,090 last year, as shown below:

Outstanding Debt at Year-End (in thousands) Year ended June 30,						
		2014	2013	2012	2011	2010
General obligation bonds	\$	5,444	\$ 5,724	\$ 5,954	\$ 6,277	\$ 4,698
Real estate contract payable						65
Total		\$ 5,444	\$ 5,724	\$ 5,954	\$ 6,277	\$ 4,763

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is significantly below its constitutional debt limit of \$9,290,247.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Waukon financed \$750,000 in the fall of 2014 for one-half total costs of the building of a new fire station with loan proceeds from Allamakee-Clayton Electric Cooperative, Inc. and the local bank. Payment of this debt by the City is budgeted and payments are being made starting in FYE 2015. The City of Waukon is working on the second phase of the West Side Development Project, original bid of \$259,933.68 with the construction completion date of July 1, 2015.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This management's discussion and analysis letter along with the financial report have been designed to present our current and prospective citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and operating activities. It is our hope that such information will assist in assessing the City's achievements and challenges. If you have any questions or desire any additional information about this report, please contact Diane Sweeney, City Clerk, at (563) 568-3492 or visit the City Hall Offices at 101 Allamakee Street in Waukon.

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CITY OF WAUKON
STATEMENT OF ACTIVITIES AND NET POSITION - CASH BASIS
For the Year Ended June 30, 2014

Functions and Programs	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
Primary Government				
Governmental activities				
Public safety	\$ 795,296	\$ 8,317	\$ 106,310	\$ 1,414
Public works	716,357	258,412	389,130	
Culture and recreation	816,537	409,303	63,918	18,799
Community and economic development	329,293			129,335
General government	301,009	84,221		
Debt service	817,835	118,300		
Capital projects	2,053,595			654,131
Total governmental activities	<u>5,829,922</u>	<u>878,553</u>	<u>559,358</u>	<u>803,679</u>
Business-type activities				
Water utilities	451,038	443,867		
Sewer utilities	386,540	489,420		
Total business-type activities	<u>837,578</u>	<u>933,287</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 6,667,500</u>	<u>\$ 1,811,840</u>	<u>\$ 559,358</u>	<u>\$ 803,679</u>
Component Unit				
Robey Memorial Library Foundation	<u>\$ 583,666</u>			<u>\$ 122,236</u>
General Receipts and Transfers				
Property and other City taxes levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
General obligation bond proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position, beginning of year				
Cash basis net position, end of year				
Cash Basis Net Position				
Restricted for:				
Urban renewal purposes				
Debt service				
Streets				
Streets and related infrastructure				
Other purposes				
Committed for special purposes				
Assigned for special purposes				
Unassigned				
Total cash basis net position				

See Notes to Financial Statements.

EXHIBIT A

Net (Disbursements) Receipts and Changes in Cash Basis Net Position			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Robey Memorial Library Foundation
\$ (679,255)		\$ (679,255)	
(68,815)		(68,815)	
(324,517)		(324,517)	
(199,958)		(199,958)	
(216,788)		(216,788)	
(699,535)		(699,535)	
(1,399,464)		(1,399,464)	
<u>(3,588,332)</u>	\$ -	<u>(3,588,332)</u>	
	(7,171)	(7,171)	
	<u>102,880</u>	<u>102,880</u>	
	-	95,709	
	<u>95,709</u>	<u>95,709</u>	
<u>(3,588,332)</u>	<u>95,709</u>	<u>(3,492,623)</u>	
			\$ (461,430)
1,132,387		1,132,387	
135,234		135,234	
678,406		678,406	
351,357		351,357	
21,706	4,317	26,023	1,568
329,543		329,543	132,000
8,875		8,875	
9,059	(9,059)	-	
<u>2,666,567</u>	<u>(4,742)</u>	<u>2,661,825</u>	<u>133,568</u>
(921,765)	90,967	(830,798)	(327,862)
2,402,999	1,875,840	4,278,839	460,659
<u>\$ 1,481,234</u>	<u>\$ 1,966,807</u>	<u>\$ 3,448,041</u>	<u>\$ 132,797</u>
\$ 132,457		\$ 132,457	
17,443		17,443	
51,311		51,311	
374,821		374,821	
613,368		613,368	\$ 132,797
25,037		25,037	
121,502		121,502	
145,295	\$ 1,966,807	2,112,102	
<u>\$ 1,481,234</u>	<u>\$ 1,966,807</u>	<u>\$ 3,448,041</u>	<u>\$ 132,797</u>

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CITY OF WAUKON
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	General	Special Revenue		
		Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax
Receipts				
Property tax	\$ 877,194			
Tax increment financing			\$ 678,406	
Other City taxes	39,782			\$ 351,357
Licenses and permits	42,996			
Use of money and property	53,651			
Intergovernmental	72,529	\$ 389,130		
Charges for services	341,237			
Special assessments	1,000			31,882
Miscellaneous	53,765	500		
Total receipts	1,482,154	389,630	678,406	383,239
Disbursements				
Operating				
Public safety	459,236			
Public works	207,254	431,998		
Culture and recreation	449,765			
Community and economic development	84,293		117,373	
General government	274,209			
Debt service				
Capital projects				736,062
Total disbursements	1,474,757	431,998	117,373	736,062
Excess (deficiency) of receipts over (under) disbursements	7,397	(42,368)	561,033	(352,823)
Other Financing Sources (Uses)				
General obligation bond proceeds				
Operating transfers in	84,986		323,228	
Operating transfers out	(32,032)	(15,160)	(1,221,859)	
Total other financing sources (uses)	52,954	(15,160)	(898,631)	-
Net change in cash balances	60,351	(57,528)	(337,598)	(352,823)
Cash balances, beginning of year	357,662	108,839	470,055	727,644
Cash balances, end of year	\$ 418,013	\$ 51,311	\$ 132,457	\$ 374,821
Cash Basis Balances				
Restricted for:				
Urban renewal purposes			\$ 132,457	
Debt service				
Streets		\$ 51,311		
Streets and related infrastructure				\$ 374,821
Other purposes	\$ 158,179			
Committed for special purposes	22,537			
Assigned for special purposes	92,002			
Unassigned	145,295			
Total cash basis balances	\$ 418,013	\$ 51,311	\$ 132,457	\$ 374,821

See Notes to Financial Statements.

EXHIBIT B

Capital Projects Library Expansion	Debt Service	Other Nonmajor Governmental Funds	Total
	\$ 132,894	\$ 178,616	\$ 1,188,704
			678,406
	2,340	3,913	397,392
			42,996
	118,300	9,777	181,728
\$ 82,233		243,325	787,217
		255,147	596,384
			32,882
568,417		41,164	663,846
<u>650,650</u>	<u>253,534</u>	<u>731,942</u>	<u>4,569,555</u>
		336,060	795,296
		77,105	716,357
		366,772	816,537
		127,627	329,293
		26,800	301,009
	817,835		817,835
1,071,765		245,768	2,053,595
<u>1,071,765</u>	<u>817,835</u>	<u>1,180,132</u>	<u>5,829,922</u>
(421,115)	(564,301)	(448,190)	(1,260,367)
		329,543	329,543
635,067	563,740	230,067	1,837,088
(250,000)		(308,978)	(1,828,029)
<u>385,067</u>	<u>563,740</u>	<u>250,632</u>	<u>338,602</u>
(36,048)	(561)	(197,558)	(921,765)
36,048	18,004	684,747	2,402,999
<u>\$ -</u>	<u>\$ 17,443</u>	<u>\$ 487,189</u>	<u>\$ 1,481,234</u>
			\$ 132,457
	\$ 17,443		17,443
			51,311
			374,821
		\$ 455,189	613,368
		2,500	25,037
		29,500	121,502
			145,295
<u>\$ -</u>	<u>\$ 17,443</u>	<u>\$ 487,189</u>	<u>\$ 1,481,234</u>

CITY OF WAUKON
 RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
 AND CHANGES IN CASH BALANCES
 TO THE STATEMENT OF ACTIVITIES AND NET POSITION
 GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2014

Total governmental funds cash balances	\$ 1,481,234
Amounts reported for governmental activities in the statement of activities and net position are different because:	
Not applicable	-
Cash basis net position of governmental activities	\$ 1,481,234
Net change in cash balances	\$ (921,765)
Amounts reported for governmental activities in the statement of activities and net position are different because:	
Not applicable	-
Change in cash balance of governmental activities	\$ (921,765)

CITY OF WAUKON
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
For the Year Ended June 30, 2014

	Enterprise Funds		
	Water	Sewer	Total
Operating Receipts			
Charges for services	\$ 426,936	\$ 481,349	\$ 908,285
Miscellaneous	16,931	8,071	25,002
Total operating receipts	443,867	489,420	933,287
Operating Disbursements			
Business-type activities	432,168	367,670	799,838
Total operating disbursements	432,168	367,670	799,838
Excess of operating receipts over operating disbursements	11,699	121,750	133,449
Nonoperating Receipts (Disbursements)			
Interest on investments	2,002	2,315	4,317
Capital projects	(18,870)	(18,870)	(37,740)
Total nonoperating receipts	(16,868)	(16,555)	(33,423)
(Deficiency) excess of receipts (under) over disbursements	(5,169)	105,195	100,026
Transfers			
Operating transfers in	100,000	178,865	278,865
Operating transfers out	(115,000)	(172,924)	(287,924)
Total transfers, net	(15,000)	5,941	(9,059)
Net change in cash balances	(20,169)	111,136	90,967
Cash balances, beginning of year	1,114,897	760,943	1,875,840
Cash balances, end of year	\$ 1,094,728	\$ 872,079	\$ 1,966,807
Cash Basis Balances			
Unrestricted	\$ 1,094,728	\$ 872,079	\$ 1,966,807
Total cash basis balances	\$ 1,094,728	\$ 872,079	\$ 1,966,807

See Notes to Financial Statements.

CITY OF WAUKON
 RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
 AND CHANGES IN CASH BALANCES
 TO THE STATEMENT OF ACTIVITIES AND NET POSITION
 PROPRIETARY FUNDS
 For the Year Ended June 30, 2014

Total enterprise funds cash balances	\$ 1,966,807
Amounts reported for business-type activities in the statement of activities and net position are different because:	
Not applicable	-
Cash basis net position of business-type activities	\$ 1,966,807
Net change in cash balances	\$ 90,967
Amounts reported for business-type activities in the statement of activities and net position are different because:	
Not applicable	-
Change in cash balance of business-type activities	\$ 90,967

CITY OF WAUKON

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Significant Accounting Policies

a. Nature of Operations

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

b. Significant Accounting Policies

Reporting Entity

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

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

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

Excluded Component Units

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

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

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

b. Significant Accounting Policies (Continued)

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Allamakee County Economic Development and Tourism Commission, Allamakee County Assessor's Conference Board, Upper Explorerland Regional Housing Authority, Allamakee County Joint E-911 Service Board, and Waukon Area Fire Protection District (28E).

Government-wide Financial Statements

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

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

- *Nonexpendable restricted net position* is subject to externally imposed stipulations, which require them to be maintained permanently by the City. The City currently does not have any nonexpendable restricted net position.
- *Expendable restricted net position* result when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net position* consists of cash balances that do not meet the definition of the preceding categories. Unrestricted net position often has constraints on cash balances imposed by management, which can be removed or modified.

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

NOTES TO FINANCIAL STATEMENTS

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

b. Significant Accounting Policies (Continued)

Fund Financial Statements

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

The City reports the following major governmental funds:

Governmental

General Fund

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

Special Revenue

- *Road Use Tax Fund* - this fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.
- *Urban Renewal Tax Increment Fund* - this fund is used to account for tax increment financing collections, the repayment of tax increment financing indebtedness, and other costs associated with urban renewal projects.
- *Local Option Sales Tax Fund* - this fund is used to account for the City's share of local option sales tax collected and disbursed by the State of Iowa.

Debt Service

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

Capital Projects

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

- *Library Expansion* - to account for grant proceeds and donations in order to expand the Robey Memorial Library.

The City reports the following major proprietary funds:

- *Water Fund* - the water fund accounts for the operation and maintenance of the City's water system.
- *Sewer Fund* - the sewer fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

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

b. Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting

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

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

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

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

Governmental Cash Basis Fund Balances

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

- *Nonspendable* – amounts, which cannot be spent because they are legally or contractually required to be maintained intact.
- *Restricted* - amounts restricted to specific purposes when constraints placed on the use of resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.
- *Committed* – amounts, which can be used only for specific purposes pursuant to constraints formally imposed by the City Council through ordinance or resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same action it employed to commit those amounts.
- *Assigned* - amounts the Council intends to use for specific purposes.
- *Unassigned* - all amounts not included in other spendable classifications.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as other information. During the year ended June 30, 2014, disbursements exceeded the amount budgeted in the public safety function prior to the budget amendment.

NOTES TO FINANCIAL STATEMENTS

2. Deposits and Investments

The City's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

Interest Rate Risk

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

3. Bonds and Notes Payable

A summary of the changes in debt, by type, for the year ended June 30, 2014 is as follows:

	Balance June 30, 2013	Borrowed	Paid	Balance June 30, 2014	Amounts Due Within One Year
General Obligation					
Hospital	\$ 10,000		\$ (10,000)	\$ None	
Medical Clinic	501,288		(32,065)	469,223	\$ 33,483
Medical Clinic	501,302		(32,065)	469,237	33,483
Urban renewal	2,665,000		(160,000)	2,505,000	165,000
Corporate purpose	130,000		(40,000)	90,000	45,000
Corporate purpose	1,775,000		(120,000)	1,655,000	120,000
Urban renewal	141,500	\$ 73,544	(215,044)	None	
Fire equipment		186,000		186,000	14,895
Fire station		70,000		70,000	7,000
Total bonded debt	\$ 5,724,090	\$ 329,544	\$ (609,174)	\$ 5,444,460	\$ 418,861

NOTES TO FINANCIAL STATEMENTS

3. Bonds and Notes Payable (Continued)

a. General Obligation Bonds Payable at June 30, 2014

\$710,000 General Obligation Bond, due in monthly installments of \$4,550 from July 2015 through May 2025 plus interest at 4.65%	\$ 469,223
\$710,000 General Obligation Bond, due in monthly installments of \$4,550 from July 2015 through May 2025 plus interest at 4.65%	469,237
\$3,500,000 General Obligation Bond Urban Renewal Corporate Purpose Bond, due semi-annually in varying installments from December 2014 through June 2026, plus interest at 3.7 - 4.125%	2,505,000
\$400,000 General Obligation Corporate Purpose Bond Series 2007, due semi-annually in varying installments from December 2014 through June 2016 plus interest at 4.2 - 4.25%	90,000
\$1,890,000 General Obligation Corporate Purpose Bonds Series 2011, due semi-annually in varying installments December 2014 through June 2031, plus interest at 3.7 - 4.15%	1,655,000
\$186,000 General Obligation Fire Equipment Note, due annually in varying installments from June 2015 through June 2024, plus interest at 3.25%	186,000
\$70,000 General Obligation Fire Station Note, due in annual installments of \$7,000 from June 2015 through June 2024, plus interest at 3.25%	70,000
	\$ 5,444,460

b. Debt Payment Schedule

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

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2015	\$ 418,861	\$ 200,946
2016	433,820	185,122
2017	402,693	170,891
2018	416,743	157,615
2019	430,979	143,391
2020-2024	2,240,456	473,028
2025-2029	950,908	107,136
2030-2031	150,000	9,337
	\$ 5,444,460	\$ 1,447,466

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

NOTES TO FINANCIAL STATEMENTS

4. Pension and Retirement Benefits

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

Most regular plan members are required to contribute 5.95%, 5.78%, and 5.38% of their annual covered salary and the City is required to contribute 8.93%, 8.67%, and 8.07% of covered salary for the years ended June 30, 2014, 2013, and 2012, respectively. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2014, 2013, and 2012 were \$91,166, \$88,030, and \$82,842, respectively, equal to the required contributions for each year.

5. Self-Funding

The City has established a partially self-funded group medical plan. The plan allows the City lower monthly premiums for coverage in exchange for the potential of claims actually filed. If all the covered individuals submitted the maximum claim to be paid by the City, the total would be estimated at \$33,424.

6. Other Postemployment Benefits (OPEB)

Plan Description

The City of Waukon operates a single-employer retiree benefit plan, which provides medical/prescription drug benefits for retirees and their spouses until they become Medicare eligible. There are currently 21 active and no retired members enrolled in the plan. To qualify for the retiree benefit, the retiree must be age 55 or older at retirement.

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

Funding Policy

The contribution requirements for the medical/prescription drug plan are established and may be amended by the City. Retirees pay 100% of the premium for their coverage. The most recent active member monthly premiums are \$461.24/single, \$996.30 employee/spouse, \$917.98 employee/children, and \$1,431.10/family. The same monthly premiums apply to retirees. For the year ended June 30, 2014, the City contributed \$137,118 and plan members eligible for benefits contributed \$22,568 to the plan.

NOTES TO FINANCIAL STATEMENTS

7. Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2014, primarily relating to the general fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 68,756
Sick leave	224,541
	<u>\$ 293,297</u>

Sick leave is forfeited if not used by the employee before termination. Upon retirement, an employee is eligible for payment of 50% of the unused sick leave. This liability has been computed based on rates of pay in effect at June 30, 2014.

8. Risk Management

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

9. Economic Development

The City, to encourage economic development, provides rebates to businesses and developers. The rebates are paid only from incremental property taxes; therefore, do not constitute a general obligation of the City. Terms of the rebates vary according to the agreement. The City, as of June 30, 2014, had a total of \$167,374 to pay in rebates through the year 2017.

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

10. Leases

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

The City leases real estate to a medical clinic. The lease started in 2005 and is for twenty years. The City receives monthly payments of \$9,100. The lease payments are then used to pay the underlying debt on the property, which has a balance outstanding of \$938,460 as of June 30, 2014.

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

NOTES TO FINANCIAL STATEMENTS

10. Leases (Continued)

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

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

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

Minimum lease payments are as follows:

Year Ending June 30,	As Lessor	As Lessee
2015	\$ 131,342	\$ 1,188
2016	131,342	1,188
2017	131,342	1,188
2018	131,342	1,188
2019	122,942	
2020-2024	614,710	
2025-2029	279,384	
2030-2034	46,635	
2035-2039	46,635	
	1,635,674	4,752
Less sublease	(45,000)	None
	\$ 1,590,674	\$ 4,752

The City's non-cancelable lease expense for 2014 was \$1,188.

11. Contingencies

The City participates in state and federal assisted grant programs. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at June 30, 2014.

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

NOTES TO FINANCIAL STATEMENTS

12. Transfers

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

Transfers to		Transfers from	
General		General	
General	\$ 32,470	General	\$ 29,101
Capital equipment	45,000	Economic development special	2,931
Library	7,516		\$ 32,032
	\$ 84,986		
Debt Service		Special Revenue	
General obligation bond	\$ 563,740	Urban renewal tax increment	\$ 1,221,859
		Road use tax	15,160
Special Revenue		Park memorial	5,605
Urban renewal tax increment	\$ 323,228	2013 flood	79,366
CDBG Housing	29,532	Emergency	26,148
2013 flood	105,067	Library expansion	250,000
	\$ 457,827	Library memorial	69,916
		Employee benefits	7,516
			\$ 1,675,570
Capital Projects		Capital Projects	
Library expansion	\$ 635,067	IDOT	\$ 4,750
WW Homestead Dairy	50,000	2011 capital improvement	47,199
IDOT	14,840	Wellness maintenance fund	18,120
C Mart	1,500	Kitchen Krafts	358
Wellness maintenance fund	20,620	WW Homestead Dairy	50,000
Administration	8,150		\$ 120,427
Kitchen Krafts	358		
	\$ 730,535		
Water	\$ 100,000	Water	\$ 115,000
Sewer	\$ 178,865	Sewer	\$ 172,924

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

13. Related Party Transactions

The City had business transactions between the City and City officials or employees totaling \$1,063 during the year ended June 30, 2014.

NOTES TO FINANCIAL STATEMENTS

14. New Governmental Accounting Standard Board (GASB) Standards

The Governmental Accounting Standards Board (GASB) has issued one statement not yet implemented by the City. The statement which might impact the City is as follows:

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. In addition, the statement of net position is expected to include a significant liability for the government's proportionate share of the employee pension plan.

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

15. Subsequent Events and Commitments

The City has committed \$7,300 to a regional revolving loan fund. Cities and counties in the area and the federal government have committed a total of \$500,000. The funds will be used for economic development. After approval of an application, the various governmental units will then submit their committed funds. As of June 30, 2014, no funds have been requested of the City.

The City has outstanding construction contracts of \$247,147 at June 30, 2014. The costs will be paid from various revenue sources available to the City.

Management has evaluated subsequent events through February 18, 2015, the date on which the financial statements were available to be issued.

Other Information

CITY OF WAUKON
 BUDGETARY COMPARISON SCHEDULE OF
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES
 BUDGET AND ACTUAL (CASH BASIS)
 ALL GOVERNMENTAL AND PROPRIETARY FUNDS
 OTHER INFORMATION
 Year Ended June 30, 2014

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Total Variance
	Funds Actual	Funds Actual		Original	Final	
Receipts						
Property tax	\$ 1,188,704		\$ 1,188,704	\$ 1,202,578	\$ 1,202,578	\$ (13,874)
Tax increment financing	678,406		678,406	689,000	689,000	(10,594)
Other City taxes	397,392		397,392	425,792	425,792	(28,400)
Licenses and permits	42,996		42,996	10,985	10,985	32,011
Use of money and property	181,728	\$ 4,317	186,045	132,425	132,425	53,620
Intergovernmental	787,217		787,217	1,669,670	1,669,670	(882,453)
Charges for services	596,384	933,287	1,529,671	1,390,500	1,390,500	139,171
Special assessments	32,882		32,882	20,000	20,000	12,882
Miscellaneous	663,846		663,846	223,580	223,580	440,266
Total receipts	4,569,555	937,604	5,507,159	5,764,530	5,764,530	(257,371)
Disbursements						
Public safety	795,296		795,296	598,725	1,534,725	739,429
Public works	716,357		716,357	662,460	739,565	23,208
Health and social services				3,000	3,000	3,000
Culture and recreation	816,537		816,537	847,588	847,588	31,051
Community and economic development	329,293		329,293	456,040	456,040	126,747
General government	301,009		301,009	321,990	321,990	20,981
Debt service	817,835		817,835	588,236	868,236	50,401
Capital projects	2,053,595		2,053,595	2,902,237	2,902,237	848,642
Business-type activities		837,578	837,578	1,265,386	1,265,386	427,808
Total disbursements	5,829,922	837,578	6,667,500	7,645,662	8,938,767	2,271,267
(Deficiency) excess of receipts (under) over disbursements	(1,260,367)	100,026	(1,160,341)	(1,881,132)	(3,174,237)	2,013,896
Other financing sources, net	338,602	(9,059)	329,543	100,000	1,036,000	(706,457)
(Deficiency) excess of receipts and other financing sources (under) over disbursements and other financing uses	(921,765)	90,967	(830,798)	(1,781,132)	(2,138,237)	1,307,439
Balances, beginning of year	2,402,999	1,875,840	4,278,839	3,784,746	3,784,746	494,093
Balances, end of year	\$ 1,481,234	\$ 1,966,807	\$ 3,448,041	\$ 2,003,614	\$ 1,646,509	\$ 1,801,532

See Notes to Other Information.

CITY OF WAUKON

NOTES TO OTHER INFORMATION–BUDGETARY REPORTING
June 30, 2014

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except internal service funds. The City had no internal service funds for the year ended June 30, 2014. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business-type activities. Function disbursements required to be budgeted include disbursements from the general fund, special revenue funds, debt service fund, capital projects funds, and proprietary funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,293,105. The budget amendment is reflected in the final budgeted amounts.

At year ended June 30, 2014, disbursements did not exceed the amounts budgeted in the general government and business-type activities functions.

See Independent Auditor's Report.

Supplementary Information

CITY OF WAUKON
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	Special Revenue	Capital Projects	Total
Receipts			
Property tax	\$ 178,616		\$ 178,616
Other City taxes	3,913		3,913
Use of money and property	9,268	\$ 509	9,777
Intergovernmental	243,325		243,325
Charges for services	252,837	2,310	255,147
Miscellaneous	31,801	9,363	41,164
	<u>719,760</u>	<u>12,182</u>	<u>731,942</u>
Disbursements			
Operating			
Public safety	80,060	256,000	336,060
Public works	77,105		77,105
Culture and recreation	366,772		366,772
Community and economic development	127,627		127,627
General government	18,650	8,150	26,800
Capital projects	43,475	202,293	245,768
	<u>713,689</u>	<u>466,443</u>	<u>1,180,132</u>
Excess (deficiency) of receipts over (under) disbursements	<u>6,071</u>	<u>(454,261)</u>	<u>(448,190)</u>
Other Financing Sources (Uses)			
General obligation bond proceeds		329,543	329,543
Operating transfers in	134,599	95,468	230,067
Operating transfers out	(188,551)	(120,427)	(308,978)
	<u>(53,952)</u>	<u>304,584</u>	<u>250,632</u>
Net change in cash balances	(47,881)	(149,677)	(197,558)
Cash balances, beginning of year	<u>380,425</u>	<u>304,322</u>	<u>684,747</u>
Cash balances, end of year	<u>\$ 332,544</u>	<u>\$ 154,645</u>	<u>\$ 487,189</u>
Cash Basis Balances			
Restricted for:			
Other purposes	\$ 332,544	\$ 122,645	\$ 455,189
Committed for special purposes		2,500	2,500
Assigned for special purposes		29,500	29,500
	<u>\$ 332,544</u>	<u>\$ 154,645</u>	<u>\$ 487,189</u>

See Independent Auditor's Report.

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CITY OF WAUKON
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2014

	Employee Benefits	Library Memorial	Park Memorial	Special Law Enforcement	Emergency
Receipts					
Property tax	\$ 153,028				\$ 25,588
Other City taxes	3,353				560
Use of money and property		\$ 1,281	\$ 134		
Intergovernmental			1,997		
Charges for services					
Miscellaneous		3,028	657		
Total receipts	156,381	4,309	2,788	\$ -	26,148
Disbursements					
Operating					
Public safety	80,060				
Public works					
Culture and recreation	41,696	828	900		
Community and economic development	3,072				
General government	18,650				
Capital projects		43,475			
Total disbursements	143,478	44,303	900	-	-
Excess (deficiency) of receipts over (under) disbursements	12,903	(39,994)	1,888	-	26,148
Other financing sources (uses)					
Operating transfers in					
Operating transfers out	(7,516)	(69,916)	(5,605)		(26,148)
Total other financing sources (uses)	(7,516)	(69,916)	(5,605)	-	(26,148)
Net change in cash balances	5,387	(109,910)	(3,717)	-	-
Cash balances, beginning of year	68,025	233,455	19,157	1,081	-
Cash balances, end of year	\$ 73,412	\$ 123,545	\$ 15,440	\$ 1,081	\$ -
Cash Basis Balances					
Restricted for:					
Other purposes	\$ 73,412	\$ 123,545	\$ 15,440	\$ 1,081	
Total cash basis balances	\$ 73,412	\$ 123,545	\$ 15,440	\$ 1,081	\$ -

See Independent Auditor's Report.

SCHEDULE 2

Flood	CDBG Housing	Wellness Center		Total
		Operations	Trust	
				\$ 178,616
				3,913
		\$ 7,724	\$ 129	9,268
\$ 93,712	\$ 126,935	20,681		243,325
		252,837		252,837
	2,400	8,461	17,255	31,801
93,712	129,335	289,703	17,384	719,760
				80,060
77,105				77,105
5,605		296,010	21,733	366,772
	124,555			127,627
				18,650
				43,475
82,710	124,555	296,010	21,733	713,689
11,002	4,780	(6,307)	(4,349)	6,071
105,067	29,532			134,599
(79,366)				(188,551)
25,701	29,532	-	-	(53,952)
36,703	34,312	(6,307)	(4,349)	(47,881)
-	(33,780)	68,934	23,553	380,425
\$ 36,703	\$ 532	\$ 62,627	\$ 19,204	\$ 332,544
\$ 36,703	\$ 532	\$ 62,627	\$ 19,204	\$ 332,544
\$ 36,703	\$ 532	\$ 62,627	\$ 19,204	\$ 332,544

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CITY OF WAUKON
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
For the Year Ended June 30, 2014

	Storm Sewer	Park Capital Improvement	GIS	2011 Capital Improvement	West Side Development
Receipts					
Use of money and property	\$ 33			\$ 453	
Charges for services					\$ 2,310
Miscellaneous					2,180
Total receipts	33	\$ -	\$ -	453	4,490
Disbursements					
Operating					
Public safety					
General government					
Capital projects			390	114,343	75,970
Total disbursements	-	-	390	114,343	75,970
Excess (deficiency) of receipts over (under) disbursements	33	-	(390)	(113,890)	(71,480)
Other Financing Sources (Uses)					
General obligation bond proceeds					73,543
Operating transfers in					
Operating transfers out				(47,199)	
Total other financing sources (uses)	-	-	-	(47,199)	73,543
Net change in cash balances	33	-	(390)	(161,089)	2,063
Cash balances, beginning of year	6,630	123	3,573	267,415	101
Cash balances, end of year	\$ 6,663	\$ 123	\$ 3,183	\$ 106,326	\$ 2,164
Cash Basis Balances					
Restricted for:					
Other purposes				\$ 99,847	
Committed for special purposes					
Assigned for special purposes	\$ 6,663	\$ 123	\$ 3,183	6,479	\$ 2,164
Total cash basis balances	\$ 6,663	\$ 123	\$ 3,183	\$ 106,326	\$ 2,164

See Independent Auditor's Report.

SCHEDULE 3

IDOT	C-Mart	WW Homestead Dairy	Fire Capital Improvements	Wellness Maintenance	Wellness Construction	Logan Street	Administration
			\$ 23				
			988			\$ 6,195	
\$ -	\$ -	\$ -	1,011	\$ -	\$ -	6,195	\$ -
			256,000				8,150
10,090	1,500						
10,090	1,500	-	256,000	-	-	-	8,150
(10,090)	(1,500)	-	(254,989)	-	-	6,195	(8,150)
			256,000				8,150
14,840 (4,750)	1,500	50,000 (50,000)		20,620 (18,120)			
10,090	1,500	-	256,000	2,500	-	-	8,150
-	-	-	1,011	2,500	-	6,195	-
						206	
\$ -	\$ -	\$ -	1,011	\$ 2,500	\$ 206	\$ 6,195	\$ -
			\$ 1,011	\$ 2,500	\$ 206	\$ 6,195	
\$ -	\$ -	\$ -	1,011	\$ 2,500	\$ 206	\$ 6,195	\$ -

CITY OF WAUKON
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
NONMAJOR CAPITAL PROJECTS FUND
For the Year Ended June 30, 2014

	City Hall Preservation	City Hall Improvements	Park Trust Tennis Court	Kitchen Krafts	Total
Receipts					
Use of money and property				\$	509
Charges for services					2,310
Miscellaneous					9,363
Total receipts	\$ -	\$ -	\$ -	\$ -	12,182
Disbursements					
Operating					
Public safety					256,000
General government					8,150
Capital projects					202,293
Total disbursements	-	-	-	-	466,443
Excess (deficiency) of receipts over (under) disbursements	-	-	-	-	(454,261)
Other Financing Sources (Uses)					
General obligation bond proceeds					329,543
Operating transfers in				358	95,468
Operating transfers out				(358)	(120,427)
Total other financing sources (uses)	-	-	-	-	304,584
Net change in cash balances	-	-	-	-	(149,677)
Cash balances, beginning of year	1,474	3,476	21,314	10	304,322
Cash balances, end of year	\$ 1,474	\$ 3,476	\$ 21,314	\$ 10	\$ 154,645
Cash Basis Balances					
Restricted for:					
Other purposes	\$ 1,474		\$ 21,314	\$ 10	\$ 122,645
Committed for special purposes					2,500
Assigned for special purposes		\$ 3,476			29,500
Total cash basis balances	\$ 1,474	\$ 3,476	\$ 21,314	\$ 10	\$ 154,645

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CITY OF WAUKON
SCHEDULE OF INDEBTEDNESS
For the Year Ended June 30, 2014

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year
General Obligation Bonds				
Hospital	September 1, 1976	5.00 - 6.25%	\$ 800,000	\$ 10,000
Medical Clinic	May 20, 2005	4.65%	710,000	501,288
Medical Clinic	May 20, 2005	4.65%	710,000	501,302
G.O. Urban Renewal Corporate Purpose	October 11, 2006	3.70 - 4.50%	3,500,000	2,665,000
Corporate Purpose	June 1, 2007	4.15 - 4.25%	400,000	130,000
Corporate Purpose	June 21, 2011	.85 - 4.15%	1,890,000	1,775,000
G.O. Urban Renewal Corporate Purpose	June 10, 2013	2.45%	141,500	141,500
G.O. Fire Equipment Note	March 14, 2014	3.25%	186,000	
G.O. Fire Station Note	June 10, 2014	3.25%	70,000	
				\$ 5,724,090

SCHEDULE 4

Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
	\$ 10,000	\$ -	
	32,065	469,223	\$ 22,635
	32,065	469,237	22,635
	160,000	2,505,000	106,605
	40,000	90,000	5,462
	120,000	1,655,000	46,967
\$ 73,544	215,044	-	4,557
186,000		186,000	
70,000		70,000	
\$ 329,544	\$ 609,174	\$ 5,444,460	\$ 208,861

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CITY OF WAUKON
 BOND AND NOTE MATURITIES
 For the Year Ended June 30, 2014

GENERAL OBLIGATION BONDS

Year Ending June 30,	Medical Clinic		Medical Clinic		G.O. Urban Renewal Corporate Purpose		Corporate Purpose	
	Issued May 20, 2005		Issued May 20, 2005		Issued October 11, 2006		Issued June 1, 2007	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2015	4.65%	\$ 33,483	4.65%	\$ 33,483	4.50%	\$ 165,000	4.20%	\$ 45,000
2016	4.65%	35,074	4.65%	35,074	3.70%	175,000	4.25%	45,000
2017	4.65%	36,740	4.65%	36,740	3.75%	180,000		
2018	4.65%	38,485	4.65%	38,485	3.80%	185,000		
2019	4.65%	40,314	4.65%	40,314	3.83%	195,000		
2020	4.65%	42,229	4.65%	42,229	3.85%	205,000		
2021	4.65%	44,235	4.65%	44,235	3.90%	210,000		
2022	4.65%	46,336	4.65%	46,336	3.95%	220,000		
2023	4.65%	48,537	4.65%	48,537	4.00%	230,000		
2024	4.65%	50,843	4.65%	50,843	4.05%	240,000		
2025	4.65%	52,947	4.65%	52,961	4.10%	245,000		
2026					4.125%	255,000		
2027								
2028								
2029								
2030								
2031								
		<u>\$ 469,223</u>		<u>\$ 469,237</u>		<u>\$ 2,505,000</u>		<u>\$ 90,000</u>

See Independent Auditor's Report.

GENERAL OBLIGATION BONDS

Corporate Purpose		G.O. Fire Equipment		G.O. Fire Station		Total
Issued June 21, 2011		Note		Note		
Interest		Interest		Interest		
Rates	Amount	Rates	Amount	Rates	Amount	
1.15%	\$ 120,000	3.25%	\$ 14,895	3.25%	\$ 7,000	\$ 418,861
1.45%	120,000	3.25%	16,672	3.25%	7,000	433,820
1.80%	125,000	3.25%	17,213	3.25%	7,000	402,693
2.10%	130,000	3.25%	17,773	3.25%	7,000	416,743
2.30%	130,000	3.25%	18,351	3.25%	7,000	430,979
2.50%	135,000	3.25%	18,947	3.25%	7,000	450,405
2.70%	140,000	3.25%	19,563	3.25%	7,000	465,033
2.90%	140,000	3.25%	20,198	3.25%	7,000	479,870
3.30%	60,000	3.25%	20,855	3.25%	7,000	414,929
3.30%	60,000	3.25%	21,533	3.25%	7,000	430,219
3.65%	65,000					415,908
3.65%	65,000					320,000
4.00%	70,000					70,000
4.00%	70,000					70,000
4.15%	75,000					75,000
4.15%	75,000					75,000
4.15%	75,000					75,000
	<u>\$ 1,655,000</u>		<u>\$ 186,000</u>		<u>\$ 70,000</u>	<u>\$ 5,444,460</u>

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

	2014	2013	2012	2011	2010
Receipts					
Property tax	\$ 1,188,704	\$ 1,136,366	\$ 1,064,881	\$ 1,075,049	\$ 884,842
Tax increment financing	678,406	669,196	807,299	640,990	650,698
Other City taxes	397,392	368,781	303,863	481,393	415,147
Licenses and permits	42,996	41,718	44,474	16,907	12,884
Use of money and property	181,728	168,917	176,057	182,127	184,044
Intergovernmental	787,217	557,556	456,591	552,566	443,644
Charges for services	596,384	583,962	564,429	509,723	277,885
Special assessments	32,882	41,156	116,406		2,384
Miscellaneous	663,846	171,705	138,143	129,550	86,204
Total	\$ 4,569,555	\$ 3,739,357	\$ 3,672,143	\$ 3,588,305	\$ 2,957,732
Disbursements					
Operating					
Public safety	\$ 795,296	\$ 608,947	\$ 523,096	\$ 501,648	\$ 574,431
Public works	716,357	586,457	568,883	561,219	580,668
Health and social services					
Culture and recreation	816,537	732,490	829,007	784,295	457,265
Community and economic development	329,293	294,715	154,750	108,846	98,913
General government	301,009	296,849	293,484	267,993	267,738
Debt service	817,835	587,757	555,208	1,474,317	506,910
Capital projects	2,053,595	726,789	1,415,112	610,093	615,665
Total	\$ 5,829,922	\$ 3,834,004	\$ 4,339,540	\$ 4,308,411	\$ 3,101,590

See Independent Auditor's Report.

SCHEDULE 6

	2009	2008	2007	2006	2005
\$	974,518	\$ 923,499	\$ 931,811	\$ 853,693	\$ 785,895
	636,692	487,998	452,561	448,923	653,627
	382,991	370,726	350,641	286,452	331,177
	10,979	13,463	11,301	14,683	8,126
	218,447	255,387	312,123	82,703	41,479
	426,795	1,216,107	1,451,962	394,135	399,854
	508,645	467,718	285,540	289,470	294,924
	4,036	3,727	3,463	5,464	5,830
	147,094	307,617	130,383	295,087	210,022
\$	3,310,197	\$ 4,046,242	\$ 3,929,785	\$ 2,670,610	\$ 2,730,934
\$	478,171	\$ 436,920	\$ 434,797	\$ 438,537	\$ 363,429
	593,093	558,547	778,560	550,421	544,427
		119		9,000	9,000
	737,415	628,303	420,223	422,983	365,944
	103,857	54,665	49,349	44,269	44,704
	232,376	231,418	241,774	246,945	221,971
	620,567	668,463	452,906	377,036	275,081
	454,702	3,459,224	3,206,539	1,607,830	1,470,751
\$	3,220,181	\$ 6,037,659	\$ 5,584,148	\$ 3,697,021	\$ 3,295,307

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

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

We have audited, in accordance with the U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund, the aggregate remaining fund information, and the discretely presented component unit of City of Waukon, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise City of Waukon's basic financial statements, and have issued our report thereon dated February 18, 2015. Our report expressed a modified opinion on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles, due to the omission of the financial transactions of component units which should be included.

Internal Control over Financial Reporting

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

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

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

Overlapping Duties

During our review of internal controls, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. The City has implemented various procedures to enhance their internal control however; 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 receipt and posting functions, disbursements preparation and posting functions, and reconciliation function from receipt and disbursement functions 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.

Criteria

A properly designed segregation of duties allows entities to initiate, authorize, record, process, and report financial data reliably in accordance with generally accepted accounting principles.

Recommendation

While we do recognize 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 and continue reviewing operating procedures in order to obtain maximum internal control possible under the circumstances.

Response and Corrective Action Planned

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

Conclusion

Response accepted.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Waukon's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Waukon's Response to Finding

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

Purpose of this Report

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

Decorah, Iowa
February 18, 2015

Hacker, Nelson & Co., P.C.

MANAGEMENT LETTER

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

In planning and performing our audit of the basic financial statements of the City Waukon for the year ended June 30, 2014, 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 or state statutory compliance matters, accordingly, we provide no such assurance.

In accordance with Chapter 11 of the Code of Iowa, we are required to report on the City's compliance with certain sections of the Iowa Code, Attorney General's Opinions and other matters. Items 1 through 7 below are compliance comments required by the Iowa Auditor of State. A separate report dated February 18, 2015, contains our report on the City's internal control over financial reporting. This letter does not affect our report dated February 18, 2015, on the basic financial statements of City of Waukon. All prior year comments have been resolved. These comments are not intended to and do not constitute legal opinions. We did not audit the City's responses and, accordingly, we express no opinion on them.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 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, 2014 did not exceed the amounts budgeted. Disbursements in the public safety function exceeded the budget prior to the amendment.

Recommendation

The budget should have been amended in accordance with Chapter 331.435 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response and Corrective Action Planned

The City exceeded the budget due to the purchase of a fire truck that was not budgeted. The City did not amend the budget for this since they were waiting to see how much money would be needed for the fire station. The City did not want to amend the budget twice and will continue to monitor the budget and expenses and amend as needed in the future.

Conclusion

Response accepted.

2. Questionable Disbursements

We noted no disbursements that may not meet the requirements of public purposes as defined in an Attorney General's opinion dated April 25, 1979.

3. Travel Expense

No expenditures of City money for travel expenses of spouses of City officials and/or employees were noted.

4. Business Transactions

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

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Diane Sweeney, City Clerk Husband owns Sweeney Oil	Fuel and oil	\$ <u>1,063</u>

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

5. Bond Coverage

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

6. Council Minutes

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

7. Deposits and Investments

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

8. 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.

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

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

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

Decorah, Iowa
February 18, 2015

Hacker, Nelson & Co., P.C.