

**CITY OF DECORAH
DECORAH, IOWA**

FINANCIAL REPORT

JUNE 30, 2014

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CITY OF DECORAH

OFFICIALS

(Before January 2014)

Name	Title	Term Expires
Donald Arendt	Mayor	01-02-14
John Franzen	First Ward	Resigned
Jarred Walter	First Ward	Appointed
Jody Niess	Second Ward	01-02-14
Paul Wanless	Third Ward	01-02-14
Carolyn Corbin	Fourth Ward	01-02-14
Randy Schissel	Fifth Ward	Resigned
Charles Lore	Fifth Ward	Appointed
Gary Rustad	At-Large	01-02-14
Rachel Vagts	At-Large	Resigned
Tade Kerndt	At-Large	Appointed

(After January 2014)

Name	Title	Term Expires
Donald Arendt	Mayor	01-02-17
Randy Schissel	First Ward	01-02-17
Jody Niess	Second Ward	01-02-15
Paul Wanless	Third Ward	01-02-17
William Wagner	Fourth Ward	01-02-15
Charles Lore	Fifth Ward	01-02-17
Gary Rustad	At-Large	01-02-17
Tade Kerndt	At-Large	01-02-15
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, 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 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, 2014, 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 for 2014 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedule of revenues by source and expenditures by function for 2014 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, 2005 through 2013, (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, 2005 through 2013 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 2005 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 revenues and expenditures of the governmental funds for the years ended June 30, 2005 through 2013 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 30, 2014, on our consideration of the 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 30, 2014

CITY OF DECORAH

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of City of Decorah provides this management's discussion and analysis of City of Decorah's annual financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014.

The intent of this discussion and analysis is to look at City of Decorah's financial performance as a whole with comparisons to the previous fiscal year activities. Readers should also review the basic financial statements and notes to enhance their understanding of the City's financial performance.

2014 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased \$33,000 or approximately .45% from FY 2013 to FY 2014. Property taxes for all purposes increased \$132,082. Operating grants increased \$85,956 and capital grants decreased \$329,630 from FY 2013 to FY 2014. The majority of the decrease in these grants is a result of airport improvements that were completed in FY 2013.
- Program expenditures excluding debt service and capital projects increased \$574,274.
- The City's total net position is \$45,571,050. Of this amount, the governmental activities claim net position of \$36,903,445.
- Net position in the business-type activity, which represents the City's sewer, water, and Metronet operations, decreased \$78,288. Water and sewer operating revenues remained comparable to 2013 while operating expenses increased \$7,331 and the City had a loss on capital assets sold of \$12,016.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements, notes to those 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, deferred outflows of resources, liabilities and deferred inflows of resources 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 assets, liabilities, and deferred inflows of resources with the difference 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), sewer system (collection, transmission, treatment and discharge), and Metronet (transmission). 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. State law requires some funds 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.

REPORTING THE CITY'S FINANCIAL ACTIVITIES (Continued)

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
	2014	2013	2014	2013	2014	2013	
Current and other assets	\$ 7,471	\$ 7,113	\$ 957	\$ 1,276	\$ 8,428	\$ 8,389	0.46%
Capital assets	37,233	38,027	9,145	9,111	46,378	47,138	-1.61%
Total assets	44,704	45,140	10,102	10,387	54,806	55,527	-1.30%
Long-term debt outstanding	2,512	3,196	966	1,217	3,478	4,413	-21.19%
Other liabilities	1,117	1,406	469	424	1,586	1,830	-13.33%
Total liabilities	3,629	4,602	1,435	1,641	5,064	6,243	-18.89%
Deferred inflows of resources	4,172	3,696			4,172	3,696	12.88%
Net position							
Net investment in capital assets	34,258	34,354	7,941	7,655	42,199	42,009	0.45%
Restricted	1,128	1,228			1,128	1,228	-8.14%
Unrestricted	1,517	1,260	726	1,091	2,243	2,351	-4.59%
Total net position	\$ 36,903	\$ 36,842	\$ 8,667	\$ 8,746	\$ 45,570	\$ 45,588	-0.04%

REPORTING THE CITY'S FINANCIAL ACTIVITIES (Continued)

Fund Financial Statements (Continued)

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

	Changes in Net Position of Governmental Activities						
	(In Thousands)						
	Governmental Activities		Business-type Activities		Total		Percent Change
2014	2013	2014	2013	2014	2013		
Revenues:							
Program revenue							
Charges for service	\$ 753	\$ 692	\$ 1,569	\$ 1,557	\$ 2,322	\$ 2,249	3.25%
Operating grants	1,318	1,232	39	37	1,357	1,269	6.93%
Capital grants	59	388	104		163	388	-57.99%
General revenue							
Property taxes	3,671	3,539			3,671	3,539	3.73%
Tax increment financing collections	250	265			250	265	-5.66%
Other city taxes	380	372			380	372	2.15%
Local option sales tax	869	889			869	889	-2.25%
Unrestricted investment earnings	29	7		1	29	8	262.50%
Gain (loss) on the sale of capital assets	11	3	(12)		(1)	3	-133.33%
Other revenue	53	40			53	40	32.50%
Total revenues	<u>7,393</u>	<u>7,427</u>	<u>1,700</u>	<u>1,595</u>	<u>9,093</u>	<u>9,022</u>	<u>0.79%</u>
Program expenses:							
Public safety	2,188	2,027			2,188	2,027	7.94%
Public works	2,567	2,179			2,567	2,179	17.81%
Health and social services	47	81			47	81	-41.98%
Culture and recreation	1,665	1,631			1,665	1,631	2.08%
Community and economic development	209	194			209	194	7.73%
General government	596	584			596	584	2.05%
Interest on long-term debt	60	78			60	78	-23.08%
Other expenses			1,779	1,768	1,779	1,768	0.62%
Total expenses	<u>7,332</u>	<u>6,774</u>	<u>1,779</u>	<u>1,768</u>	<u>9,111</u>	<u>8,542</u>	<u>6.66%</u>
Increase (decrease) in net position before transfers	61	653	(79)	(173)	(18)	480	-103.75%
Transfers		(149)		149			
Increase (decrease) in net position	61	504	(79)	(24)	(18)	480	-103.75%
Net position beginning of year	36,842	36,338	8,746	8,770	45,588	45,108	1.06%
Net position end of year	<u>\$ 36,903</u>	<u>\$ 36,842</u>	<u>\$ 8,667</u>	<u>\$ 8,746</u>	<u>\$ 45,570</u>	<u>\$ 45,588</u>	<u>-0.04%</u>

Individual Major Fund Analysis

At the end of FY 2013-2014, the City reflected a combined fund balance for its governmental funds of \$2,887,895 (see Exhibit D for details). This compares to \$2,746,099 for the combined fund balance for governmental funds at the end of FY 2012-2013. This is an increase of \$141,796. The general fund showed an increase of \$281,182 from the prior year to \$1,755,898.

The employee benefits fund within the special revenue funds of the City is used to account for property taxes levied for the payment of employee benefits. This fund ended fiscal 2014 with a \$470,193 balance compared to the prior year ending fund balance of \$518,550. Revenues increased approximately \$208,000 mostly due to an increase in property taxes while expenses increased approximately \$110,000.

REPORTING THE CITY'S FINANCIAL ACTIVITIES (Continued)

Individual Major Fund Analysis (Continued)

The state road use tax fund within the special revenue funds of the City accounts for the road use tax allocation from the State to be used for road construction and maintenance. This fund ended fiscal year 2014 with a fund balance of \$166,065 compared to the prior year ending balance of \$86,971. This increase was due to an increase in road use tax funds of approximately \$33,000 while expenses decreased approximately \$296,000.

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, 2014 is \$18,822,057.

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 net asset balance of \$2,470,449. This reflects a decrease of \$52,512 from the end of fiscal year 2013 when the net asset balance was \$2,522,961. Revenues in the water fund decreased \$14,569 while operating expenses increased \$21,856. The water fund also had a loss on capital assets sold of \$12,016.

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 asset balance of \$6,079,628. This reflects a decrease of \$143,304 from the end of fiscal year 2013 when the net asset balance was \$6,222,932. Revenues in the sewer fund increased \$13,653 while operating expenses decreased \$15,828.

The Metronet fund, which accounts for the operation of a fiber optic network that offers extensions to individuals and businesses in the community, ended fiscal year 2014 with a net asset balance of \$117,528. Fiscal year 2014 was the first year of operation for the Metronet.

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 \$37,232,659 (net of accumulated depreciation). The capital assets for the business-type activities totaled \$9,145,180 (net of accumulated depreciation) as of June 30, 2014. 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 and 9. The major capital outlay with the business-type activities was water and sewer improvements related to Short Street and the Highway 9 water and sewer expansion project.

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, 2014, the City's total outstanding G.O. debt of \$4,178,750 was well below the debt margin of \$23,000,807. 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 rebound as indicated by a slow drop in the unemployment rate and a slight increase in the consumer price index, the local municipal financial picture remains constrained due to a slow housing market and commercial expansion. Many difficult budgetary and financial issues facing rural Iowa communities continue to be of concern for the City of Decorah and her economic environment.

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 and discussion analysis, it was reported that there had been a decrease in total revenues of 23.65 percent at the end of FY2013. FY2014 overall revenues increased slightly due to a leveling off of special projects and grants over the past three years, an increase of approximately .79 percent.

Of this review of the City's revenue position, there is only a modest 3.73 percent increase in property taxes and an increase of 3.25 percent in charges for service. The increase in property tax revenue almost mirrors the City's overall valuation increase of 3% last year and the increase in charges for service is due to new Council policy to have enterprise funds keep pace with inflationary trends to operate the utility systems.

Of ongoing concern for cities and a very significant economic factor related to property tax revenues centers around the multitude of concerns surrounding the statewide property tax formulas, especially as these matters affect commercial properties. With Senate File 295, Property Tax Reform legislation passing in May of 2013 and signed by the Governor in June of 2013 we are starting to see slight decreases in valuations and this will have a long-term impact on the City's financial condition going forward.

Below is a summary of the tax levy rates per \$1,000 of taxable valuation for FY14:

Purpose	Rate
General levy	\$8.10
Liability and property insurance	0.51073
Emergency	.27
Employee benefits	3.58819
Debt service	0.07051
Total	<u>\$12.53943</u>

Another cause of concern in this still cautious economy is the decrease in revenues for FY14 in the Local Option Sales Tax Fund. This decrease equals \$20,000 or 2.25 percent, from \$889,000 to \$869,000.

While growth had been climbing in the LOST revenue fund over the past three years, this decrease is disappointing for several reasons. 1) The revenue is used to off-set the restricted Road Use Tax Fund for major street repairs and 2) and more importantly, increases in LOST revenues are a strong indicator of the economic activity of the community including uses associated with the Trout Run Trail and other community recreational amenities and events. City officials will continue to monitor any correlation between trail use and other tourism-oriented activities and LOST revenues. The revenue for FY14 in this category is still higher than FY11.

Despite continued financial uncertainty in recent years, the net position of the City at the end of the fiscal year decreased over the previous year as shown on page 5c above. The total net position decreased from that of the past year by a precarious .04 percent, statistically "flat." In terms of dollars, this is a decrease of \$18,000 in the City's net position at the end of the year.

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

It should also be pointed out that the business-type activities experienced another decrease in its net position of .90 percent. This represents a four-year trend downward in these funds from .27 percent last year, a 1.7 percent decline from two years ago, and a 3.2 percent drop from three years ago. The City Council has 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 a very slow turn-a-round 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 4.2 percent increase or \$33,222 in total Road Use Tax dollars on the year. This is up from the .9 increase realized in FY2013. 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 \$40,656 or 5.2 percent.

Also of note, the tax increment financing collections decreased by 5.6 percent or \$15,000. This decrease was attributable to the debt restructuring in FY2013 and the interest savings from that reissue. This compares to a 17 percent/\$55,000 decrease 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 21.19 percent decrease in the City's long-term obligations. This substantial change in debt position is due to previous restructuring and debt payments over the past 18 months. 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 20% 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 responses to water and sewer rates accordingly. The last rate increase was approved for the water and sewer utilities in the fourth quarter of FY14. 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 \$184,392. This represents the third year of losses in the two departments. Again, while the deficits have been stable, it shows that much work is yet to be done to balance these funds. As such, staff will continue to monitor rates and costs moving forward.

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 \$90,045 largely due to July 2013 flooding expenses and on-going levy certification expenses.
- b. Health and Social Service Program exceeded the original budget amount by \$25,500 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. General Government exceeded the original budget amount by \$36,138 due to unbudgeted lighting expenses and maintenance at City Hall and unknown additional contribution for Metronet Anchor members to the Decorah Metronet Fiber Optic Project.
- d. Debt Service Program exceeded the original budget amount by \$222,463 due to TIF debt payment being made out of the Debt Service Program. Payment originally budgeted in the Economic Development Program.
- e. Capital Projects Program exceeded the original budget amount by \$390,892 due to Short St. Project payments, Trout Run Trail, and Metronet expenses. It was expected these projects would have been concluded during FY13.
- f. Enterprise Program exceeded the original budget amount of \$154,403 due to water and sewer improvements related to 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, 2014

	Governmental Activities	Business-type Activities	Total	Decorah Volunteer Fire Department
ASSETS				
Cash and pooled investments	\$ 2,657,207	\$ 534,722	\$ 3,191,929	\$ 38,239
Receivables				
Accounts and unbilled usage, net	17,627	354,194	371,821	
Property tax				
Current	26,599		26,599	
Succeeding year	4,082,271		4,082,271	
Special assessments				
Current	5,763		5,763	
Deferred	89,655		89,655	
Accrued interest	1,865		1,865	
Due from other governments	196,707	42,648	239,355	
Inventories	7,236	15,000	22,236	
Prepaid expenses	34,626	10,731	45,357	
Restricted assets				
Investments	351,776		351,776	
Nondepreciable capital assets	1,138,113	342,672	1,480,785	
Capital assets, net of accumulated depreciation	36,094,546	8,802,508	44,897,054	
	<u>\$ 44,703,991</u>	<u>\$ 10,102,475</u>	<u>\$ 54,806,466</u>	<u>\$ 38,239</u>
LIABILITIES				
Accounts payable	\$ 224,084	\$ 160,308	\$ 384,392	
Salaries and benefits payable	155,819	23,591	179,410	
Accrued interest payable	4,279	1,950	6,229	
Long-term liabilities				
Portion due within one year				
Bonds payable	700,500	209,500	910,000	
Loan payable		45,000	45,000	
Compensated absences	31,608	28,568	60,176	
Portion due after one year				
Bonds payable	2,274,256	840,744	3,115,000	
Loan payable		108,750	108,750	
Compensated absences	158,044		158,044	
Net OPEB liability	80,030	16,459	96,489	
	<u>3,628,620</u>	<u>1,434,870</u>	<u>5,063,490</u>	<u>\$ -</u>
DEFERRED INFLOWS OF RESOURCES				
Succeeding year property tax	4,082,271		4,082,271	
Special assessments	89,655		89,655	
	<u>4,171,926</u>	<u>-</u>	<u>4,171,926</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	34,257,903	7,941,186	42,199,089	
Restricted for				
Debt service	69,341		69,341	
Other special revenue purposes	1,058,967		1,058,967	
Other purposes				38,239
Unrestricted	1,517,234	726,419	2,243,653	
	<u>36,903,445</u>	<u>8,667,605</u>	<u>45,571,050</u>	<u>38,239</u>
	<u>\$ 44,703,991</u>	<u>\$ 10,102,475</u>	<u>\$ 54,806,466</u>	<u>\$ 38,239</u>

See Notes to Financial Statements.

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CITY OF DECORAH
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

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	\$ 2,188,045		\$ 44,776	
Public works	2,566,758	\$ 32,489	833,731	\$ 58,696
Health and social services	46,595			
Culture and recreation	1,665,018	651,805	136,032	
Community and economic development	208,963		978	
General government	595,813	69,041	302,734	
Interest on long-term debt	60,547			
Total governmental activities	7,331,739	753,335	1,318,251	58,696
Business-type activities				
Water utilities	733,026	692,356		
Sewer utilities	1,044,949	862,213	39,014	
Metronet	1,303	14,600		104,231
Total business-type activities	1,779,278	1,569,169	39,014	104,231
Total primary government	\$ 9,111,017	\$ 2,322,504	\$ 1,357,265	\$ 162,927
Component Unit				
Decorah Volunteer Fire Department	\$ 106,915		\$ 61,483	
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 (loss) on sale of capital asset				
Total general revenues and transfers				
Change in net position				
Net position, beginning of year				
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
\$ (2,143,269)		\$ (2,143,269)	
(1,641,842)		(1,641,842)	
(46,595)		(46,595)	
(877,181)		(877,181)	
(207,985)		(207,985)	
(224,038)		(224,038)	
(60,547)		(60,547)	
(5,201,457)		(5,201,457)	
	\$ (40,670)	(40,670)	
	(143,722)	(143,722)	
	117,528	117,528	
-	(66,864)	(66,864)	
(5,201,457)	(66,864)	(5,268,321)	
			\$ (45,432)
3,650,643		3,650,643	
20,620		20,620	
250,073		250,073	
380,174		380,174	
868,545		868,545	
29,524	592	30,116	201
53,087		53,087	
10,813	(12,016)	(1,203)	
5,263,479	(11,424)	5,252,055	201
62,022	(78,288)	(16,266)	(45,231)
36,841,423	8,745,893	45,587,316	83,470
\$ 36,903,445	\$ 8,667,605	\$ 45,571,050	\$ 38,239

CITY OF DECORAH
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	General	Special Revenue		Other Governmental Funds	Total Governmental Funds
		Employee Benefits	State Road Use Tax		
ASSETS					
Cash	\$ 1,546,956	\$ 143,036	\$ 199,349	\$ 445,176	\$ 2,334,517
Investments				322,690	322,690
Receivables					
Property taxes					
Current	22,203	3,993		403	26,599
Succeeding year	2,511,224	1,099,969		471,078	4,082,271
Special assessments					
Current	5,763				5,763
Deferred	89,655				89,655
Interest		1,337		528	1,865
Other	17,627				17,627
Due from other funds	246,226				246,226
Due from other governments	196,707				196,707
Inventories			7,236		7,236
Prepaid expenditures	34,626				34,626
Restricted assets					
Investments		351,776			351,776
Total assets	\$ 4,670,987	\$ 1,600,111	\$ 206,585	\$ 1,239,875	\$ 7,717,558
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 178,979		\$ 18,273	\$ 26,832	\$ 224,084
Salaries and benefits payable	108,708	\$ 29,949	17,162		155,819
Due to other funds				246,226	246,226
Compensated absences	26,523		5,085		31,608
Total liabilities	314,210	29,949	40,520	273,058	657,737
Deferred inflows of resources					
Succeeding year property tax	2,511,224	1,099,969		471,078	4,082,271
Special assessments	89,655				89,655
Total deferred inflows of resources	2,600,879	1,099,969	-	471,078	4,171,926
Fund balances					
Nonspendable	34,626		7,236		41,862
Restricted			158,829	297,764	456,593
Committed				360,351	360,351
Assigned	312,880	470,193		76,918	859,991
Unassigned	1,408,392			(239,294)	1,169,098
Total fund balances	1,755,898	470,193	166,065	495,739	2,887,895
Total liabilities, deferred inflows of resources and fund balances	\$ 4,670,987	\$ 1,600,111	\$ 206,585	\$ 1,239,875	\$ 7,717,558

See Notes to Financial Statements.

CITY OF DECORAH
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

Reconciliation of governmental fund balances to net position	
Total governmental fund balances	\$ 2,887,895
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 \$ 20,718,566	37,232,659
Accrued interest and long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds	
Bonds payable	(2,974,756)
Compensated absences	(158,044)
Net OPEB liability	(80,030)
Accrued interest	(4,279)
	36,903,445
Net position of governmental activities	\$ 36,903,445

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, 2014

	General	Special Revenue		Other Governmental Funds	Total Governmental Funds
		Employee Benefits	State Road Use Tax		
REVENUES					
Property taxes	\$ 2,552,500	\$ 1,021,294		\$ 97,469	\$ 3,671,263
Tax increment financing collections				250,073	250,073
Other City tax	939,330	19,681		289,708	1,248,719
Licenses and permits	33,464				33,464
Use of money and property	16,994	17,889	\$ 16	1,885	36,784
Intergovernmental	463,264		811,511		1,274,775
Charges for service	538,131				538,131
Miscellaneous	241,504	16,589	22,220	49,426	329,739
Total revenues	4,785,187	1,075,453	833,747	688,561	7,382,948
EXPENDITURES					
Current operating					
Public safety	1,569,642	570,264			2,139,906
Public works	582,805	174,153	743,849		1,500,807
Health and social services	21,095			25,500	46,595
Culture and recreation	1,391,352	277,421		63,290	1,732,063
Community and economic development	27,681		17,304	163,978	208,963
General government	451,622	101,972			553,594
Capital projects	54,231			256,072	310,303
Debt service					
Principal	447,000			251,500	698,500
Interest and other charges	41,658			19,576	61,234
Total expenditures	4,587,086	1,123,810	761,153	779,916	7,251,965
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	198,101	(48,357)	72,594	(91,355)	130,983
OTHER FINANCING SOURCES (USES)					
Proceeds from capital assets sold	4,313		6,500		10,813
Transfers in/(out)	78,768			(78,768)	-
Total other financing sources (uses)	83,081	-	6,500	(78,768)	10,813
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	281,182	(48,357)	79,094	(170,123)	141,796
FUND BALANCES, beginning of year	1,474,716	518,550	86,971	665,862	2,746,099
FUND BALANCES, end of year	\$ 1,755,898	\$ 470,193	\$ 166,065	\$ 495,739	\$ 2,887,895

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, 2014

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	\$	141,796
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 depreciation exceeds capital outlay in the period.		
Depreciation	\$ (1,564,573)	
Capital outlays	<u>770,297</u>	(794,276)
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.		
		698,500
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.		
		687
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	31,726	
Compensated absences	(5,851)	
Net OPEB liability	<u>(10,560)</u>	<u>15,315</u>
Change in net position of governmental activities	\$	<u><u>62,022</u></u>

See Notes to Financial Statements.

CITY OF DECORAH
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014

	Water Utilities	Sewer Utilities	Metronet	Total
ASSETS				
Cash	\$ 53,335	\$ 481,387		\$ 534,722
Receivables				
Accounts and unbilled usage, net	144,699	194,895	\$ 14,600	354,194
Due from other governments		42,648		42,648
Inventory	15,000			15,000
Prepaid expenses	4,762	5,969		10,731
Total current assets	217,796	724,899	14,600	957,295
Noncurrent assets				
Land		79,775		79,775
Net capital assets	2,871,721	6,090,756	102,928	9,065,405
Total noncurrent assets	2,871,721	6,170,531	102,928	9,145,180
	\$ 3,089,517	\$ 6,895,430	\$ 117,528	\$ 10,102,475
LIABILITIES AND NET POSITION				
Liabilities				
Accounts payable	\$ 110,348	\$ 49,960		\$ 160,308
Salaries and benefits payable	12,343	11,248		23,591
Accrued interest payable	734	1,216		1,950
Long-term liabilities				
Loan payable	45,000			45,000
Bonds payable	59,500	150,000		209,500
Compensated absences	14,303	14,265		28,568
Total current liabilities	242,228	226,689	\$ -	468,917
Noncurrent liabilities				
Long-term liabilities				
Loan payable	108,750			108,750
Bonds payable	259,780	580,964		840,744
Net OPEB liability	8,310	8,149		16,459
Total long-term liabilities	376,840	589,113	-	965,953
Total liabilities	619,068	815,802	-	1,434,870
Net position				
Net investment in capital assets	2,398,691	5,439,567	102,928	7,941,186
Unrestricted	71,758	640,061	14,600	726,419
Total net position	2,470,449	6,079,628	117,528	8,667,605
Total liabilities and net position	\$ 3,089,517	\$ 6,895,430	\$ 117,528	\$ 10,102,475

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, 2014

	Water Utilities	Sewer Utilities	Metronet	Total
OPERATING REVENUES				
Charges for service				
Sewer rental fees		\$ 831,948		\$ 831,948
Sale of water	\$ 656,453			656,453
Miscellaneous	35,903	29,553	\$ 14,600	80,056
Intergovernmental				
Freeport share		39,014		39,014
Miscellaneous		712	104,231	104,943
Total operating revenues	692,356	901,227	118,831	1,712,414
OPERATING EXPENSES				
Salaries	263,888	258,309		522,197
Payroll taxes and fringe benefits	129,279	145,985		275,264
Insurance	18,635	16,106		34,741
Training	5,496	4,931		10,427
Vehicle repair and maintenance	5,098	19,545		24,643
Office supplies	5,650	5,696		11,346
Sales tax	35,137	14,365		49,502
Building maintenance and utilities	98,121	117,227		215,348
Emergency expense	11,094	8,000		19,094
Vehicle gas and oil	4,719	11,693		16,412
Engineering expense	5,139	47,296		52,435
Operating supplies and maintenance	26,882	45,898		72,780
Chemicals and testing	21,815			21,815
Hydrants, meters, and other parts	8,356	57,660		66,016
Depreciation	82,204	273,959	1,303	357,466
Total operating expenses	721,513	1,026,670	1,303	1,749,486
Total operating (loss) income	(29,157)	(125,443)	117,528	(37,072)
NONOPERATING REVENUES (EXPENSES)				
Loss on capital assets sold	(12,016)			(12,016)
Interest income	174	418		592
Interest and other charges	(11,513)	(18,279)		(29,792)
Net nonoperating expenses	(23,355)	(17,861)	-	(41,216)
Change in net position	(52,512)	(143,304)	117,528	(78,288)
NET POSITION, beginning of year	2,522,961	6,222,932		8,745,893
NET POSITION, end of year	\$ 2,470,449	\$ 6,079,628	\$ 117,528	\$ 8,667,605

See Notes to Financial Statements.

CITY OF DECORAH
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2014

	Water Utilities	Sewer Utilities	Metronet	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from rent		\$ 822,892		\$ 822,892
Cash received from charges for services	\$ 691,050	29,553	\$ 104,231	824,834
Cash payments to employees for services	(409,061)	(419,269)		(828,330)
Cash payments to suppliers for services	(145,129)	(320,525)		(465,654)
Net cash provided by operating activities	136,860	112,651	104,231	353,742
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal payments on bond	(59,500)	(147,000)		(206,500)
Principal payments on loan payable	(45,000)			(45,000)
Interest paid on long-term borrowing	(11,620)	(17,955)		(29,575)
Loss from sale of capital assets	(12,016)			(12,016)
Acquisition of capital assets	(149,571)	(138,074)	(104,231)	(391,876)
Net cash used in capital and related financing activities	(277,707)	(303,029)	(104,231)	(684,967)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	174	418		592
Net decrease in cash and cash equivalents	(140,673)	(189,960)	-	(330,633)
CASH and CASH EQUIVALENTS, beginning of year	194,008	671,347	-	865,355
CASH and CASH EQUIVALENTS, end of year	\$ 53,335	\$ 481,387	\$ -	\$ 534,722
Reconciliation of operating (loss) income to net cash provided by operating activities				
Operating (loss) income	\$ (29,157)	\$ (125,443)	\$ 117,528	\$ (37,072)
Adjustments to reconcile operating (loss) income to net cash provided by operating activities				
Depreciation and depletion	82,204	273,959	1,303	357,466
Increase in accounts receivable	(1,306)	(9,056)	(14,600)	(24,962)
Decrease in prepaid expense	9,111	4,168		13,279
Increase (decrease) in accounts payable	73,267	(32,108)		41,159
Decrease in salaries and benefits payable	(86)	(1,198)		(1,284)
Increase in accrued compensated absences	1,271	753		2,024
Increase in other postemployment benefits	1,556	1,576		3,132
Net cash provided by operating activities	\$ 136,860	\$ 112,651	\$ 104,231	\$ 353,742

See Notes to Financial Statements.

CITY OF DECORAH
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2014

	Metronet
ASSETS	
Receivables	
Accounts	\$ 50,551
Due from other governments	44,170
Total assets	\$ 94,721
LIABILITIES	
Accounts payable	\$ 93
Due to other governments	94,628
Total liabilities	\$ 94,721

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.

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

b. Significant Accounting Policies (Continued)

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 as an agency fund since the City maintains a fiduciary relationship with these organizations and, as such, are reported in the agency fund of the City.

Government-wide Financial Statements

The statement of net position 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, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories.

Net investment in capital assets 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 positions result when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

Unrestricted net positions consist of net position not meeting the definition of the two preceding categories. Unrestricted net position is often subject to constraints 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.

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 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 emergency levies 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.

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.

State Road Use Tax

To account for state revenues allocated to the City to be used to maintain and improve the City's 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.

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

b. Significant Accounting Policies (Continued)

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.

- a. All governmental fund financial statements are accounted for on current financial resources measurement focus. This means that only current assets and 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 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.

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, Deferred Inflows of Resources 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, Deferred Inflows of Resources 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, 2014. 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, 2014 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 15 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, 2012 assessed property valuations; is for the tax accrual period July 1, 2013 through June 30, 2014 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March 2013.

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, 2014, 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, Deferred Inflows of Resources 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, Deferred Inflows of Resources 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

Compensated Absences

City employees earn vacation leave at the following rates:

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

Employees may carryover up to 10 days vacation each year at their anniversary date however, the carryover must be used within 6 months. Employees who retire may use one half of their accumulated sick leave to pay for continuing health insurance coverage under City Code. Consequently, no liability for accumulated sick leave at June 30, 2014 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, 2014 is as follows:

Governmental	\$	189,652
Enterprise		28,568
Total	\$	218,220

These liabilities have been computed based on rates of pay as of June 30, 2014.

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

b. Significant Accounting Policies (Continued)

Assets, Liabilities, Deferred Inflows of Resources and Fund Equity (Continued)

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.

Deferred Inflows of Resources

Although certain revenues are measurable, they are not available to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent 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 year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of property tax receivable and other receivables not collected within sixty days after year end.

Deferred inflows of resources in the statement of net position consist of succeeding year property tax and special assessment receivable that will not be recognized as revenue until the year they are due.

Fund Equity

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

Nonspendable

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

Restricted

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

Committed

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

Assigned

Amounts the City Council intend to use for specific purposes.

Unassigned

All amounts not included in other spendable classifications.

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

b. Significant Accounting Policies (Continued)

Assets, Liabilities, Deferred Inflows of Resources and Fund Equity (Continued)

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, 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.

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.

NOTES TO FINANCIAL STATEMENTS

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

At June 30, 2014 the City had the following investments:

Type	Fair Value	Quoted Prices in Active Market for Identical Assets (Level 1)
Federal Home Loan Mortgage Corporation	\$ 4	\$ 4
Federal Home Loan Banks	151,282	151,282
United States Treasury Notes	38,316	38,316
Franklin US Government Securities Fund Class C	6,519	6,519
HSBC Bank USA	99,185	99,185
Bank of the West insured cash	56,470	56,470
	\$ 351,776	\$ 351,776

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, 2014 is rated AAA by Standard & Poor's Investor service.

At June 30, 2014, 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, 2014 was as follows:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 1,067,659			\$ 1,067,659
Infrastructure in progress	4,056,523	\$ 70,454	\$ 4,056,523	70,454
Total capital assets not being depreciated	5,124,182	70,454	4,056,523	1,138,113
Capital assets being depreciated				
Buildings and improvements	6,636,810	158,057		6,794,867
Improvements other than buildings	2,072,762	388,671		2,461,433
Equipment	3,351,731	174,851	5,718	3,520,864
Vehicles	1,809,962	25,635		1,835,597
Infrastructure	38,191,199	4,009,152		42,200,351
Total capital assets being depreciated	52,062,464	4,756,366	5,718	56,813,112
Less accumulated depreciation				
Buildings and improvements	2,736,860	184,614		2,921,474
Improvements other than buildings	1,353,405	38,088		1,391,493
Equipment	2,990,621	120,055	5,718	3,104,958
Vehicles	1,505,382	74,162		1,579,544
Infrastructure	10,573,443	1,147,654		11,721,097
Total accumulated depreciation	19,159,711	1,564,573	5,718	20,718,566
Total capital assets being depreciated, net	32,902,753	3,191,793	None	36,094,546
Governmental activities capital assets, net	\$ 38,026,935	\$ 3,262,247	\$ 4,056,523	\$ 37,232,659

NOTES TO FINANCIAL STATEMENTS

3. Capital Assets (Continued)

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 79,775			\$ 79,775
Infrastructure in progress	476,103	\$ 236,366	\$ 449,572	262,897
Total capital assets not being depreciated	555,878	236,366	449,572	342,672
Capital assets being depreciated				
Buildings and improvements	3,574,038			3,574,038
Improvements other than buildings	2,890,960			2,890,960
Equipment	4,903,961	123,976	13,762	5,014,175
Vehicles	173,732			173,732
Infrastructure, water and sewer network	5,381,211	493,122	21,090	5,853,243
Total capital assets being depreciated	16,923,902	617,098	34,852	17,506,148
Less accumulated depreciation				
Buildings and improvements	1,649,435	85,294		1,734,729
Improvements other than buildings	1,725,737	77,570		1,803,307
Equipment	2,458,643	105,250	13,762	2,550,131
Vehicles	168,003	3,819		171,822
Infrastructure, water and sewer network	2,367,192	85,533	9,074	2,443,651
Total accumulated depreciation	8,369,010	357,466	22,836	8,703,640
Total capital assets being depreciated, net	8,554,892	259,632	12,016	8,802,508
Business-type activities capital assets, net	\$ 9,110,770	\$ 495,998	\$ 461,588	\$ 9,145,180

3. **Capital Assets (Continued)**

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

Governmental activities			
Public safety	\$	69,841	
Public works		1,330,874	
Culture and recreation		123,318	
General government		40,540	
		1,564,573	
Total depreciation expense	\$		1,564,573
 Business-type activities			
Water	\$		82,204
Metronet			1,303
Sewer			
Sanitary sewer	\$	69,509	
Sewer utility		26,926	
Wastewater		177,524	273,959
		357,466	
Total depreciation expense	\$		357,466

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 5.95%, 5.78%, and 5.38% of their annual salary and the City is required to contribute 8.93%, 8.67%, and 8.07% of annual covered salary. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2014, 2013, and 2012 were \$184,833, \$172,177, and \$155,154, 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 30.41% of earnable compensation. Contribution rates are established by state statute. The City's contributions to MPFRSI for the years ended June 30, 2014, 2013, and 2012 were \$221,229, \$188,290, and \$174,162, 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, 2014. The lease requires a \$172,100 payment for the year to the City. The City also has other nominal leases with various parties and terms.

At June 30, 2014 future minimum lease receipts were as follows:

Year ending June 30,		
2015	\$	190,301
2016		9,161
2017		120
2018		120
2019		120
Later years		240
	\$	200,062

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, 2014:

Year ending June 30,		
2015	\$	1,464
2016		1,464
2017		1,464
2018		1,464
2019		1,464
Total minimum payments required	\$	7,320

6. Long-term Debt

Bonded Debt

General Obligation Bonds/Notes

As of June 30, 2014, one general obligation corporate purpose and refunding note originally totaling \$5,200,000 is outstanding. As of June 30, 2014, \$3,610,000 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, 2014, one general obligation corporate purpose note originally totaling \$750,000 is outstanding. As of June 30, 2014, \$415,000 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, 2014:

Hawkeye Tri-County Electric Cooperative

Rural Economic Development Loan

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

\$ 153,750

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					
Corporate Purpose Notes					
2008 Bond	\$ 490,000		\$ (75,000)	\$ 415,000	\$ 75,000
2013 Bond	4,440,000		(830,000)	3,610,000	835,000
Total bonded debt	\$ 4,930,000	\$ None	\$ (905,000)	\$ 4,025,000	\$ 910,000
Notes Payable					
Rural Economic					
Development Loan	\$ 198,750		\$ (45,000)	\$ 153,750	\$ 45,000
	\$ 198,750	\$ None	\$ (45,000)	\$ 153,750	\$ 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
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		
	\$ 4,025,000	\$ 208,564	\$ 153,750	\$ 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, 2014, the outstanding bond payable for the water fund, sewer fund and road use fund are:

Governmental funds	\$	88,756
Water fund		194,280
Sewer fund		131,964
	\$	415,000

The 2013 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, 2014 the outstanding note payable for the governmental funds, water fund, and sewer fund are:

Governmental funds	\$	2,886,000
Water fund		125,000
Sewer fund		599,000
	\$	3,610,000

At June 30, 2014 the debt issued by the City did not exceed its legal debt margin compiled as follows:

Total assessed valuation		\$ 460,016,134
Debt limit – 5% of total assessed valuation	\$	23,000,807
Debt applicable to debt limit		
Bank notes and bonded debt outstanding		4,178,750
Legal debt margin	\$	18,822,057

The City currently has Low-to-Moderate (LMI) set aside of \$149,122.

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, 2014, 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, 2013	Increases	Decreases	June 30, 2014	Payable Within One Year
Governmental activities	\$ 182,632	\$ 37,459	\$ (30,439)	\$ 189,652	\$ 31,608
Business-type activities	\$ 26,544	\$ 28,568	\$ (26,544)	\$ 28,568	\$ 28,568

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, 2014 is as follows:

	Transfer In	Transfer Out
General fund	\$ 78,768	
Emergency fund		\$ 78,030
Capital projects fund		738
	\$ 78,768	\$ 78,768

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, 2014 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	216,569
		\$ 246,226

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 61 active and 6 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits 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.

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 which, 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, 2014, 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		3,312
Adjustment to annual required contribution		(3,164)
Annual OPEB cost		71,991
Contributions made		(58,299)
Increase in net OPEB obligation		13,692
Net OPEB obligation beginning of year		82,797
Net OPEB obligation end of year	\$	96,489

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2014.

For the year ended June 30, 2014, the City contributed \$16,512 to the medical plan. Plan members eligible for benefits contributed \$22,097 or 57.2% 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, 2014 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
June 30, 2014	71,991	53.6%	96,489

Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, 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 \$2,703,285 and the ratio of the UAAL to covered payroll was 26.6%. As of June 30, 2014, 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 provide 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 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 \$1,128,308 of restricted net position at June 30, 2014.

The amounts restricted are as follows:

Restricted net position	
Special revenue funds	
Employee benefits	\$ 470,193
Self-supported municipal improvement district	25,246
Tax increment financing	199,672
Emergency	300
Police forfeitures	2,888
Memorial	317
Park commission special gifts	186,818
Library board special gifts	173,533
Debt service fund	69,341
	\$ 1,128,308

NOTES TO FINANCIAL STATEMENTS

11. Net Position and Fund Balances (Continued)

The governmental fund balances as of June 30, 2014 are as follows:

Nonspendable	
General fund	
Prepaid insurance	\$ 34,626
Special revenue funds	
State road use tax	
Inventory	7,236
	<u>\$ 41,862</u>
Restricted	
Special revenue funds	
Tax increment financing	\$ 199,672
State road use tax	158,829
Self-supported municipal improvement district	25,246
Emergency	300
Police forfeitures	2,888
Memorial	317
Debt service fund	69,341
	<u>\$ 456,593</u>
Committed	
Special revenue funds	
Park commission special gifts	\$ 186,818
Library board special gifts	173,533
	<u>\$ 360,351</u>
Assigned	
General fund	
Visioning committee	\$ 1,156
City Hall equipment	30,125
Skate park	105
Airport equipment	272
Swimming pool equipment	139,853
Recreation equipment	4,959
New shelter	5,615
Library technology	1,025
Softball/tennis improvement	23,434
Park equipment	20,805
Police equipment	31,453
Park land acquisition	20,751
Sidewalk	2,227
Fire department equipment	31,100
Special revenue funds	
Employee benefits	470,193
Capital projects fund	
Short Street improvement project	76,918
	<u>\$ 859,991</u>

12. Fund Balance Deficits

The local trail development and dry run trail capital projects funds have deficit balances as of June 30, 2014 of \$216,652 and \$22,642, respectively. These deficits 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, 2014 approximately \$2,292,524 of private college revenue bonds was outstanding.

14. 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 \$17,797 during the year ended June 30, 2014.

- The transaction with Randy Schissel consisted of retail purchases with total payments to Storey Kenworthy of \$7,133. 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 \$6,721. 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 \$3,943. Mr. Wanless is an owner of the Sports Shop.

15. 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 \$73,804 for the 2014 fiscal year. At June 30, 2014, the maximum potential additional City liability because of this plan was \$301,396.

16. 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, 2014 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.

NOTES TO FINANCIAL STATEMENTS

17. **Joint Ventures**

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, 2014:

Additions		
Contributions from government units		
Winneshiek County	\$	45,376
Decorah Community School District		47,601
Upper Explorerland		31,910
Winneshiek Medical Center		39,840
Luther College		39,840
City of Decorah		68,951
Miscellaneous		486
Total additions		274,004
Deductions		
Engineering		7,387
Equipment		283,987
Advertising		539
Dues		30
Education		68
Fiber Optic line		247,045
Net		(265,052)
Balance, beginning of year		359,773
Balance, end of year		\$ 94,721

18. New Governmental Accounting Standards 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.

19. Accounting Change

GASB Statement 65, *Items Previously Classified as Assets and Liabilities*; and No. 66 *Technical Corrections-2012, an amendment of GASB Statements 10 and 62*, were implemented during fiscal year 2014.

20. Commitments

The City has entered into construction contracts totaling \$3,092,798 for the 2014 street and alley improvement project and Highway 9 East sewer and water main improvement project. The costs will be paid with proceeds from bond issuance.

21. Subsequent Events

The City issued a \$4,845,000 general obligation bond on August 5, 2014 to pay for the Highway 9 utility expansion project, a new fire truck, and to refinance existing debt at a lower interest rate.

Management has evaluated subsequent events through December 30, 2014, 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, 2014

	Governmental Fund Type Actual	Proprietary Fund Type Actual	Total Actual
RECEIPTS			
Property taxes	\$ 3,572,976		\$ 3,572,976
Tax increment financing collections			
Other City taxes	1,501,425		1,501,425
Licenses and permits	33,247		33,247
Use of money and property	38,265	\$ 592	38,857
Intergovernmental revenues	1,444,984	37,648	1,482,632
Charges for services	535,014	1,526,519	2,061,533
Special assessments	58,830	711	59,541
Miscellaneous	478,930	20,351	499,281
Total receipts	7,663,671	1,585,821	9,249,492
DISBURSEMENTS			
Public safety	2,108,788		2,108,788
Public works	1,706,269		1,706,269
Health and social services	46,595		46,595
Culture and recreation	1,705,900		1,705,900
Community and economic development	208,421		208,421
General government	542,846		542,846
Debt service	740,983		740,983
Capital projects	390,891		390,891
Total governmental activities disbursements	7,450,693	-	7,450,693
Business-type enterprises		1,916,454	1,916,454
Total disbursements	7,450,693	1,916,454	9,367,147
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	212,978	(330,633)	(117,655)
OTHER FINANCING SOURCES (USES)			
Proceeds from fixed assets sold	10,813		10,813
Operating transfers in	197,999	30,000	227,999
Operating transfers out	(197,999)	(30,000)	(227,999)
OTHER FINANCING SOURCES (USES), NET	10,813	-	10,813
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	223,791	(330,633)	(106,842)
FUND BALANCE/RETAINED EARNINGS, June 30, 2013	2,785,192	865,355	3,650,547
FUND BALANCE/RETAINED EARNINGS, June 30, 2014	\$ 3,008,983	\$ 534,722	\$ 3,543,705

See Notes to Required Supplementary Information.

Budget Amounts		Variance - Favorable (Unfavorable)
Original	Final	
\$ 3,586,841	\$ 3,586,841	\$ (13,865)
235,000	235,000	(235,000)
1,215,964	1,215,964	285,461
24,400	27,755	5,492
29,850	29,850	9,007
1,503,088	1,651,925	(169,293)
2,215,802	2,225,312	(163,779)
	58,830	711
302,702	533,908	(34,627)
9,113,647	9,565,385	(315,893)
2,018,743	2,191,189	82,401
1,877,102	2,137,926	431,657
21,095	46,595	-
1,716,308	1,830,008	124,108
453,173	459,578	251,157
535,939	581,349	38,503
518,520	768,620	27,637
	386,843	(4,048)
7,140,880	8,402,108	951,415
1,762,051	2,033,551	117,097
8,902,931	10,435,659	1,068,512
210,716	(870,274)	752,619
	35,731	(24,918)
120,000	120,000	107,999
(120,000)	(120,000)	(107,999)
-	35,731	(24,918)
210,716	(834,543)	\$ 727,701
3,650,547	3,650,547	
\$ 3,861,263	\$ 2,816,004	

CITY OF DECORAH
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
BUDGET TO GAAP RECONCILIATION
Year Ended June 30, 2014

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 7,663,671	\$ (280,723)	\$ 7,382,948
Expenditures	7,450,693	(198,728)	7,251,965
Net	212,978	(81,995)	130,983
Other financing sources, net	10,813	-	10,813
Beginning fund balance	2,785,192	(39,093)	2,746,099
Ending fund balance	<u>\$ 3,008,983</u>	<u>\$ (121,088)</u>	<u>\$ 2,887,895</u>
	Proprietary Fund Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 1,585,821	\$ 127,185	\$ 1,713,006
Expenditures	1,916,454	(125,160)	1,791,294
Net	(330,633)	252,345	(78,288)
Other financing sources, net	-	-	-
Beginning fund balance	865,355	7,880,538	8,745,893
Ending fund balance	<u>\$ 534,722</u>	<u>\$ 8,132,883</u>	<u>\$ 8,667,605</u>

See Notes to Required Supplementary Information.

CITY OF DECORAH

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2014

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

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

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

Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds, and enterprise funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by funds. During the year, one budget amendment increased budgeted expenditures by \$1,532,728. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements in the capital projects function exceeded the amount budgeted.

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%
2014	July 1, 2012	-	\$ 718	\$ 718	0.0%	\$ 2,703	26.6%

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.

See Independent Auditor's Report.

Other Supplementary Information

CITY OF DECORAH
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2014

		Special Revenue Funds				
		Tax Increment Financing	Self-supported Municipal Improvement District	Emergency	Police Forfeitures	Memorial
ASSETS						
Cash		\$ 229,329	\$ 26,536		\$ 2,888	\$ 317
Investments						
Receivables						
Taxes						
Current			25	\$ 300		
Succeeding year			15,000	54,972		
Interest						
Total assets		\$ 229,329	\$ 41,561	\$ 55,272	\$ 2,888	\$ 317
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
Liabilities						
Accounts payable			\$ 1,315			
Due to other funds		\$ 29,657				
Total liabilities		29,657	1,315	\$ -	\$ -	\$ -
Deferred inflows of resources						
Succeeding year property taxes			15,000	54,972		
Total deferred inflows of resources		-	15,000	54,972	-	-
Fund balances						
Restricted		199,672	25,246	300	2,888	317
Committed						
Assigned						
Unassigned						
Total fund balances		199,672	25,246	300	2,888	317
Total liabilities, deferred inflows of resources and fund balances		\$ 229,329	\$ 41,561	\$ 55,272	\$ 2,888	\$ 317

See Independent Auditor's Report.

Special Revenue Funds			Capital Projects Fund						Total Nonmajor Governmental Funds
Park Commission Special Gifts	Library Board Special Gifts	Total	Debt Service Fund	Capital Projects Interest	Short Street Improvement Project	Local Trail Development	Dry Run Trail	Total	
\$ 12,392	\$ 27,533	\$ 298,995	\$ 69,263		\$ 76,918			\$ 76,918	\$ 445,176
176,690	146,000	322,690							322,690
		325	78						403
		69,972	401,106						471,078
214	314	528							528
<u>\$ 189,296</u>	<u>\$ 173,847</u>	<u>\$ 692,510</u>	<u>\$ 470,447</u>	<u>\$ -</u>	<u>\$ 76,918</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76,918</u>	<u>\$ 1,239,875</u>
\$ 2,478	\$ 314	\$ 4,107				\$ 83	\$ 22,642	\$ 22,725	\$ 26,832
		29,657				216,569		216,569	246,226
2,478	314	33,764	\$ -	\$ -	\$ -	216,652	22,642	239,294	273,058
		69,972	401,106						471,078
-	-	69,972	401,106	-	-	-	-	-	471,078
186,818	173,533	228,423	69,341		76,918	(216,652)	(22,642)	76,918	297,764
		360,351						(239,294)	360,351
									76,918
									(239,294)
<u>186,818</u>	<u>173,533</u>	<u>588,774</u>	<u>69,341</u>	<u>-</u>	<u>76,918</u>	<u>(216,652)</u>	<u>(22,642)</u>	<u>(162,376)</u>	<u>495,739</u>
<u>\$ 189,296</u>	<u>\$ 173,847</u>	<u>\$ 692,510</u>	<u>\$ 470,447</u>	<u>\$ -</u>	<u>\$ 76,918</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76,918</u>	<u>\$ 1,239,875</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, 2014

	Special Revenue Funds					
	Tax Increment Financing	Self-supported Municipal Improvement District	Hotel/Motel Tax	Emergency	Police Forfeitures	Memorial
REVENUES						
Property taxes				\$ 76,849		
Tax increment financing collections	\$ 250,073					
Other City tax		\$ 15,000	\$ 149,099	1,481		
Use of money and property						
Miscellaneous					\$ 679	\$ 978
Total revenues	250,073	15,000	149,099	78,330	679	978
EXPENDITURES						
Current						
Health and social services	25,500					
Culture and recreation						
Community and economic development	1,803	11,004	149,099			2,072
Capital projects						
Debt service						
Principal	235,000					
Interest and other charges	15,073					
Total expenditures	277,376	11,004	149,099	-	-	2,072
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	(27,303)	3,996	-	78,330	679	(1,094)
OTHER FINANCING SOURCES (USES)						
Transfers out				(78,030)		
(DEFICIENCY) EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) OVER EXPENDITURES AND OTHER FINANCING USES	(27,303)	3,996	-	300	679	(1,094)
FUND BALANCES, beginning of year	226,975	21,250			2,209	1,411
FUND BALANCES, end of year	\$ 199,672	\$ 25,246	\$ -	\$ 300	\$ 2,888	\$ 317

See Independent Auditor's Report.

Special Revenue Funds			Capital Projects Fund						Total Nonmajor Governmental Funds
Park Commission Special Gifts	Library Board Special Gifts	Total	Debt Service Fund	Capital Projects Interest	Short Street Improvement Project	Local Trail Development	Dry Run Trail	Total	
		\$ 76,849	\$ 20,620						\$ 97,469
		250,073							250,073
		165,580	387			\$ 123,741		\$ 123,741	289,708
\$ 670	\$ 1,013	1,683			\$ 202			202	1,885
16,560	16,840	35,057				14,369		14,369	49,426
17,230	17,853	529,242	21,007	\$ -	202	138,110	\$ -	138,312	688,561
		25,500							25,500
28,725	34,565	63,290							63,290
		163,978			220,376	13,054	22,642	256,072	163,978
		235,000	16,500						251,500
		15,073	4,503						19,576
28,725	34,565	502,841	21,003	-	220,376	13,054	22,642	256,072	779,916
(11,495)	(16,712)	26,401	4	-	(220,174)	125,056	(22,642)	(117,760)	(91,355)
		(78,030)			(738)			(738)	(78,768)
(11,495)	(16,712)	(51,629)	4	(738)	(220,174)	125,056	(22,642)	(118,498)	(170,123)
198,313	190,245	640,403	69,337	738	297,092	(341,708)		(43,878)	665,862
\$ 186,818	\$ 173,533	\$ 588,774	\$ 69,341	\$ -	\$ 76,918	\$ (216,652)	\$ (22,642)	\$ (162,376)	\$ 495,739

CITY OF DECORAH
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUNDS
 For the Year Ended June 30, 2014

	Metronet
ASSETS AND LIABILITIES	
BALANCE, beginning of year	\$ 359,773
ADDITIONS	
Miscellaneous	274,004
Total additions	274,004
DEDUCTIONS	
Agency remittances	
Engineering	7,387
Fiber Optic Line	7,244
Miscellaneous	524,425
Total deductions	539,056
BALANCE, end of year	\$ 94,721

See Independent Auditor's Report.

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

	Modified Accrual Basis			
	2014	2013	2012	2011
Revenues				
Property tax	\$ 3,671,263	\$ 3,539,181	\$ 3,415,785	\$ 3,374,547
Tax increment financing revenue	250,073	264,852	320,138	311,411
Other City tax	1,248,719	1,260,962	1,212,521	1,190,353
Licenses and permits	33,464	28,988	29,669	29,852
Use of money and property	36,784	13,833	52,022	51,485
Intergovernmental	1,274,775	1,620,094	3,952,427	2,720,047
Charges for service	538,131	491,210	538,520	496,138
Miscellaneous	329,739	204,398	763,160	644,349
Total	\$ 7,382,948	\$ 7,423,518	\$ 10,284,242	\$ 8,818,182
Expenditures				
Operating				
Public safety	\$ 2,139,906	\$ 1,942,864	\$ 1,873,558	\$ 1,834,165
Public works	1,500,807	2,259,413	2,243,801	1,788,587
Health and social services	46,595	81,224	41,414	30,284
Culture and recreation	1,732,063	1,584,249	1,774,404	1,692,389
Community and economic development	208,963	193,981	318,886	264,179
General government	553,594	654,777	1,064,782	823,867
Debt service	759,734	2,057,834	483,369	482,125
Capital projects	310,303	3,344,387	2,847,613	1,824,392
Total	\$ 7,251,965	\$ 12,118,729	\$ 10,647,827	\$ 8,739,988

See Independent Auditor's Report.

Modified Accrual Basis						
2010	2009	2008	2007	2006	2005	
\$ 2,983,326	\$ 3,055,199	\$ 2,766,021	\$ 2,792,106	\$ 2,658,525	\$ 2,595,871	
586,153	351,092	412,913	121,451	211,559	236,228	
1,128,426	1,176,038	1,091,758	1,161,593	958,282	1,043,493	
27,511	27,876	29,527	31,567	21,690	27,983	
69,068	90,233	154,927	200,056	157,361	170,653	
1,702,044	2,127,342	1,918,414	1,837,272	1,692,123	1,708,217	
437,368	445,392	410,662	393,374	415,992	405,666	
725,574	998,901	602,745	608,238	196,906	296,929	
<u>\$ 7,659,470</u>	<u>\$ 8,272,073</u>	<u>\$ 7,386,967</u>	<u>\$ 7,145,657</u>	<u>\$ 6,312,438</u>	<u>\$ 6,485,040</u>	
\$ 2,002,994	\$ 1,966,056	\$ 1,627,775	\$ 1,706,035	\$ 1,501,249	\$ 1,385,420	
1,108,378	1,345,113	1,176,561	1,320,506	788,113	883,506	
21,209	21,129	17,129	17,129	27,579	10,450	
1,481,633	1,511,608	1,477,976	1,456,849	1,281,232	1,221,974	
1,436,641	1,223,052	1,582,343	1,066,783	977,114	809,164	
462,811	417,998	400,494	423,004	363,985	302,879	
483,205	467,575	454,742	502,553	828,262	653,552	
481,161	1,043,181	2,034,181	1,250,087	1,522,421	504,879	
<u>\$ 7,478,032</u>	<u>\$ 7,995,712</u>	<u>\$ 8,771,201</u>	<u>\$ 7,742,946</u>	<u>\$ 7,289,955</u>	<u>\$ 5,771,824</u>	

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

To the Honorable Mayor and Members of the City Council
City of 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, 2014, 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 30, 2014.

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 discussed below that we consider to be a significant deficiency.

Overlapping Duties

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

Recommendation

While we do recognize that the City is not large enough to permit a segregation of duties for effective internal controls, we believe it is important the Council be aware that this condition does exist and continue reviewing operating procedures in order to obtain maximum internal control possible under the circumstances.

Response

Management is cognizant of this limitation.

Conclusion

Response accepted.

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 above. 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 30, 2014

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, 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 9 below are compliance comments required by the Iowa Auditor of State. A separate report dated December 30, 2014, contains our report on the City's internal control over financial reporting. This letter does not affect our report dated December 30, 2014 on the basic financial statements of City of Decorah. Comments 4, 9, 11, and 12 are unresolved comments from the prior year. All other prior year comments have been resolved. We did not audit the City's responses and, accordingly, we express no opinion on them.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 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 during the year ended June 30, 2014 exceeded the amount budgeted in the capital projects function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation

The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response

The capital project function was overspent due to emergency repairs. The fiber cable was damaged by a contractor which necessitated emergency repairs. The amended budget would have been enough to cover expenses if not for this event. The timing was such that we could not hold the invoice until after July 1 and it was too late to include with the May 31 amendment deadline.

Conclusion

Response accepted.

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	\$ 7,133
Brett Willie, Airport Commission Member, Manager Sherwin Williams	Retail purchases	\$ 6,721
Paul Wanless, City Council Member, Owner Sports Shop	Retail purchases	\$ 3,943

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 exception was 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.

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

After consultation with audit staff we understand this number needs to reflect the beginning of the fiscal year balance rather than the fiscal year ending balance. It will be noted for future years.

Conclusion

Response accepted.

10. Tax Increment Financing

During the year ended June 30, 2014, the City paid \$1,803 of legal fees from the special revenue, tax increment financing fund. These costs do not represent TIF debt and, accordingly, are not allowable uses of tax increment financing receipts in accordance with Chapter 403.19 of the Code of Iowa.

Recommendation

The City should consult TIF legal counsel to determine the proper disposition of these matters.

Response

City staff has always understood legal fees associated with TIF was eligible to be paid with TIF financing. The City did not certify for this amount for several reasons: 1. Fees were unknown when certifying debt December 1, 2013; 2. Cash balance was sufficient enough to make the payment without certifying. In the future only formal TIF bond debt will be certified and paid from TIF funds.

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 Iowa 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

We have discussed this issue previously and understand the City Clerk's efforts to report these transactions properly. In the future, the City should investigate ways to record the transfers from the TIF fund into the debt service fund in their accounting software. The source of the bond repayment will not change.

Response

City staff met with audit staff in March 2014 to determine the proper method of accounting for TIF debt. All involved agreed on how the payment should be handled. City staff proceeded exactly in the manner agreed upon. Based on this finding it is clear audit staff is no longer in agreement with that method. We have proceeded to make changes to comply with this finding. An amendment will need to be approved for FY15 to accommodate previous budget figures. FY16 is budgeted in compliance with this finding. It should be noted the appropriate payment amount was certified to the County Auditor within the required time frame. TIF debt is accurately paid and accounted for in the Annual Report Debt Page and the State Debt Report.

Conclusion

Response accepted.

12. Fund Balance

The local trail development and dry run trail capital projects fund balances had negative fund balances at year end.

Recommendation

While we recognize that contributions for these projects have not matched expenditures, we suggest the Council develop a plan to alleviate these deficits.

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.