

CITY OF WAUKON
FINANCIAL REPORT
JUNE 30, 2015

TABLE OF CONTENTS

		<u>Page</u>
OFFICIALS		1
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS		2-4
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)		5-5d
BASIC FINANCIAL STATEMENTS	<u>Exhibit</u>	
Government-wide Financial Statement		
Cash Basis Statement of Activities and Net Position	A	6
Governmental Funds Financial Statements		
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances	B	7
Reconciliation of the Statement of Cash Receipts, Disbursements, and Changes in Cash Balances to the Cash Basis Statement of Activities and Net Position	C	8
Proprietary Funds Financial Statements		
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances	D	9
Reconciliation of the Statement of Cash Receipts, Disbursements, and Changes in Cash Balances to the Cash Basis Statement of Activities and Net Position	E	10
Notes to Financial Statements		11-24
Other Information		
Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		25
Notes to Other Information – Budgetary Reporting		26
Schedule of the City's Proportionate Share of the Net Pension Liability		27
Schedule of City Contributions		28
Notes to Other Information – Pension Liability		29
SUPPLEMENTARY INFORMATION	<u>Schedule</u>	
Governmental Activities		
Nonmajor Governmental Funds		
Schedule of Cash Receipts, Disbursements, and Changes in Cash Balances	1	30
Nonmajor Special Revenue Funds		
Schedule of Cash Receipts, Disbursements, and Changes in Cash Balances	2	31
Nonmajor Capital Projects Funds		
Schedule of Cash Receipts, Disbursements, and Changes in Cash Balances	3	32-33
Schedule of Indebtedness	4	34
Bond and Note Maturities	5	35
Comparative Schedule of Receipts by Source and Disbursements by Function All Governmental Funds	6	36
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		37-38
MANAGEMENT LETTER		39-40

CITY OF WAUKON

OFFICIALS

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

*Retired June 19, 2015

**Appointed June 20, 2015

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

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

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the discretely presented component unit of City of Waukon, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. 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 City'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 City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion on Aggregate Discretely Presented Component Units

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

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities of the City of Waukon, as of June 30, 2015, and the respective changes in its cash basis financial position for the year then ended in accordance with the cash basis of accounting described in Note 1.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the business-type activities, each major fund, the aggregate remaining fund information, and the discretely presented component unit of the City of Waukon, as of June 30, 2015, and the respective changes in its cash basis financial position for the year then ended in accordance with the cash basis of accounting described in Note 1.

Basis of Accounting

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

Emphasis of a Matter

As disclosed in Note 4 to the financial statements, City of Waukon adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Waukon's June 30, 2015 basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the three years ended June 30, 2014, (which are not presented herein) and expressed modified opinions on the primary government financial statements, which were prepared on the basis of cash receipts and disbursements, due to the omission of the financial transactions of component units, which should be included. The supplementary information included in Schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information shown on Schedules 1 through 6 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The financial statements of City of Waukon for the years ended June 30, 2006 through 2011 were audited by other auditors who expressed modified opinions on the primary government financial statements, which were prepared on the basis of cash receipts and disbursements, due to the omission of the financial transactions of component units, which should be included. Their reports on the information presented on page 36 related to 2006 through 2011 financial statements stated that, in their opinion, such information was fairly stated in all material respects in relation to the 2006 through 2011 financial statements taken as a whole.

The other information, the city's management's discussion and analysis, the budgetary comparison information, the schedule of the city's proportionate share of the net pension liability and the schedule of city contributions on pages 5 through 5d and pages 25 through 29, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2016, on our consideration of City of Waukon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Waukon's internal control over financial reporting and compliance.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
January 13, 2016

CITY OF WAUKON

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the City of Waukon's financial performance provides an overview of the City's financial activities for the fiscal year ending June 30, 2015. Please read this in conjunction with the transmittal letter and the City's financial statements contained within this audit report.

2015 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased \$99,167 or approximately 2.02% from FY 2014 to FY 2015. Property taxes for all purposes increased \$135,648.
- Program disbursements excluding debt service and capital projects decreased \$458,809 or 15.51%.
- The City's total cash basis net position is \$3,993,062. Of this amount, the governmental activities claim cash basis net position of \$2,029,636.
- The City's governmental cash basis net position increased \$548,402.
- Net position (cash basis) in the business-type activities, which represents the City's sewer and water operations, decreased \$3,381. Operating receipts decreased \$3,583 while operating disbursements decreased \$10,299.

USING THIS ANNUAL REPORT

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

- Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- The government-wide financial statement consists of a cash basis statement of activities and net position. This statement provides information about the activities of the City as a whole and provides an overall view of the City's finances.
- The fund financial statements tell 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 more detail than the government-wide financial statement 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.
- Other information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.
- The supplementary information provides detailed information about the nonmajor governmental funds. In addition, the budgetary comparison schedules support the financial statements with a comparison of the City's budget for the year. Also, the schedule of indebtedness and bond and note maturities reflect the City's debt activity.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions 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 cash basis statement of activities and net position reports information, which helps answer this question.

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

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

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

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds as well as balances at year-end that are available for spending. The governmental funds include: 1) the general fund 2) the special revenue funds (i.e., tax increment financing funds, local option sales tax, and road use taxes) 3) the debt service fund and 4) capital projects fund. These funds are reported on the basis of cash receipts and disbursements. The governmental funds 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 statement for governmental funds is a statement of cash receipts, disbursements, and changes in cash balances.

REPORTING THE CITY'S FINANCIAL ACTIVITIES (Continued)

Fund Financial Statements (Continued)

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

The required financial statements for proprietary funds is a statement of cash receipts, disbursements, and changes in cash balances.

Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

The following analysis shows the changes in net position for the years ending June 30, 2015 and 2014:

	Changes in Cash Basis Net Position of Governmental Activities						
	(In Thousands)						
	Governmental Activities		Business-type Activities		Total		Percent Change
	2015	2014	2015	2014	2015	2014	
Receipts:							
Program receipts							
Charges for service	\$ 885	\$ 879	\$ 930	\$ 933	\$ 1,815	\$ 1,812	0.17%
Operating grants	496	559			496	559	-11.27%
Capital grants	131	804			131	804	-83.71%
General receipts							
Property taxes	1,491	1,267			1,491	1,267	17.68%
Tax increment financing collections	603	678			603	678	-11.06%
Local option sales tax	374	351			374	351	6.55%
Unrestricted investment earnings	15	22	3	4	18	26	-30.77%
Gain on the sale of capital assets	123				123	-	-100.00%
Bond proceeds	680	330			680	330	106.06%
Other revenue	2	9			2	9	-77.78%
Total receipts	4,800	4,899	933	937	5,733	5,836	-1.76%
Program disbursements:							
Public safety	545	795			545	795	-31.45%
Public works	583	716			583	716	-18.58%
Culture and recreation	771	817			771	817	-5.63%
Community and economic development	248	329			248	329	-24.62%
General government	352	301			352	301	16.94%
Debt service	672	818			672	818	-17.85%
Capital projects	1,226	2,054			1,226	2,054	-40.31%
Other expenses			791	837	791	837	-5.50%
Total disbursements	4,397	5,830	791	837	5,188	6,667	-22.18%
Change in cash basis net position before transfers	403	(931)	142	100	545	(831)	-252.48%
Transfers	146	9	(146)	(9)	-	-	
Change in cash basis net position	549	(922)	(4)	91	545	(831)	-165.58%
Cash basis net position beginning of year	1,481	2,403	1,967	1,876	3,448	4,279	-19.42%
Cash basis net position end of year	\$ 2,030	\$ 1,481	\$ 1,963	\$ 1,967	\$ 3,993	\$ 3,448	15.81%

REPORTING THE CITY'S FINANCIAL ACTIVITIES (Continued)

Individual Major Fund Analysis

As the City completed the year, its governmental funds reported a combined cash balance of \$2,029,636, a \$548,402 increase from the 2014 fiscal year end balance of \$1,481,234. This increase is mostly due to capital projects expenses decreasing approximately \$828,000 due to the library expansion project in the prior year, a \$256,000 decrease in public safety due to fire truck purchase and the City's contribution to the new fire station, and debt service expenses decreasing approximately \$146,000 while revenues remained comparable to the prior year overall.

The general fund cash balance increased \$122,719 from the prior year of \$418,013. This was due to an increase in property taxes and other city taxes of \$95,557 and \$28,100, respectively. Overall, disbursements increased \$40,574. The largest increase was \$46,866 in general government. The cash balance at year-end was \$540,732.

The road use tax fund cash balance at June 30, 2015 was \$124,633. The balance increased \$73,322 from the prior year balance of \$51,311. Receipts were up \$15,590 and disbursements decreased \$62,399 resulting in a cash balance at year-end of \$124,633.

The urban renewal tax increment fund cash balance decreased \$57,234 from the prior year of \$132,457 to \$75,223. The decrease in cash balance was a result of a decrease in revenue of \$75,104 while disbursements decreased only \$17,814. The fund is used for urban renewal tax increment capital projects and debt payments.

The local option sales tax fund was established upon approval of a referendum imposing a 1% local option sales tax and service tax for reconstruction/repair/replacement of existing streets and curbs, storm sewers, sanitary sewers, water mains, and other structures that relate to streets. At the end of the fiscal year, the cash balance was \$708,373, a \$333,552 increase from the prior year balance of \$374,821. The City continues to use proceeds from this fund for street improvements each year.

The fire capital improvement received \$680,000 of loan proceeds during fiscal year 2015. These funds were used for building a new fire station.

The debt service fund cash balance at June 30, 2015 was \$12,167. The balance was down \$5,276 from the prior year balance of \$17,443. Receipts, including transfers in, were down approximately \$150,000 while disbursements decreased approximately \$146,000.

Proprietary Funds Highlights

The water fund, which accounts for the operation and maintenance of the City's water system, ended fiscal year 2015 with a cash basis net position balance of \$1,052,736. This reflects a decrease of \$41,992 from the end of fiscal year 2014 when the net position balance was \$1,094,728. The water fund had a net operating profit of \$45,769 for fiscal year 2015.

The sewer fund, which accounts for the operation and maintenance of the sewer system and the wastewater treatment facility, ended fiscal year 2015 with a net position balance of \$910,690. This reflects an increase of \$38,611 from the end of fiscal year 2014 when the net position balance was \$872,079. The sewer fund had a net operating profit of \$94,396 for fiscal year 2015.

BUDGETARY HIGHLIGHTS

The City Council annually adopts a budget as required by Iowa law. Proper public notice and a required public hearing are held before final approval of the budget. The budget document presents functional disbursements by function and the legal level of control is at the expense level by the different functions. Over the course of the year, the City amended its budget once. The amendment increased budgeted disbursement by \$52,533.

DEBT ADMINISTRATION

At June 30, 2015, the City had \$5,654,599 in bonds and other long-term debt, compared to \$5,444,460 last year, as shown below:

Outstanding Debt at Year-End (in thousands) Year ended June 30,									
	2015		2014		2013		2012		2011
General obligation bonds	\$ 5,026	\$	5,444	\$	5,724	\$	5,954	\$	6,277
Notes payable	629								
Total	\$ 5,655	\$	5,444	\$	5,724	\$	5,954	\$	6,277

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is significantly below its constitutional debt limit of \$9,859,421.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

1. The City of Waukon refinanced the 2006 GO Urban Renewal Bonds for the Wellness Center with an estimated cost savings of \$174,261 over ten years. The new bond is for \$2,485,000.
2. The City received a short term loan drawdown loan from the local banks in December 14, 2015 for the amount of \$500,000 of which \$350,000 was used for two payments to the Bresnahan family (December 23, 2015 for \$175,000 and January 4, 2016 for \$175,000) to acquire 26 acres of land as part of a lawsuit settlement.
3. The remaining \$150,000 will be drawn down to cover repair expenses of the 2013 flood damage in the Park until the projects are completed and the City is reimbursed by FEMA and the State of Iowa for their costs.
4. A final payment of \$110,000 for the Bresnahan settlement will be budgeted for January 2017.
5. The City will combine the \$500,000 short term loan into a long term loan with an additional amount of \$600,000 to construct a storm water detention pond on the acquired property.
6. The City will be looking at an assessment/revenue bond to cover the assessed property owner's portion (\$435,225.77) of the 2016 Street Improvement Project - 3rd Ave SW.
7. The City has received administrative notice on October 22, 2015 from the EPA of violations at the Waste Water Treatment Plant and has signed the preliminary paperwork to have the problems corrected within 36 months. However, the start of "36 month timeline" clock is in limbo, as the Iowa DNR has not decided what the new permit discharge limits will be, and could take 6 to 9 months of water sampling to determine. The costs of repairs/modifications will not be known until the designs have been approved by the EPA and IDNR. The Council has established a sewer plant fund and will start budgeting funds into it.
8. The City has approved a "Natural Gas" Franchise Fee with an estimated revenue of \$80,000 annually.
9. The City is working on establishing an "Electrical" Franchise Fee with an estimated revenue of \$150,000 annually.

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

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CITY OF WAUKON
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
For the Year Ended June 30, 2015

Functions and Programs	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
Primary Government				
Governmental activities				
Public safety	\$ 545,481	\$ 16,230	\$ 29,817	\$ 419
Public works	583,320	262,296	405,220	
Culture and recreation	771,132	422,477	60,968	10,487
Community and economic development	247,785			94,271
General government	351,965	83,623		
Debt service	672,405	100,100		
Capital projects	1,225,868			25,482
Total governmental activities	<u>4,397,956</u>	<u>884,726</u>	<u>496,005</u>	<u>130,659</u>
Business-type activities				
Water utilities	420,533	466,302		
Sewer utilities	369,006	463,402		
Total business-type activities	<u>789,539</u>	<u>929,704</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 5,187,495</u>	<u>\$ 1,814,430</u>	<u>\$ 496,005</u>	<u>\$ 130,659</u>
Component Unit				
Robey Memorial Library Foundation	<u>\$ 181,746</u>			<u>\$ 72,966</u>
General Receipts and Transfers				
Property and other City taxes levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
General obligation bond proceeds				
Sale of capital assets				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position, beginning of year				
Cash basis net position, end of year				
Cash Basis Net Position				
Restricted for:				
Urban renewal purposes				
Debt service				
Streets				
Streets and related infrastructure				
Other purposes				
Committed for special purposes				
Assigned for special purposes				
Unassigned				
Total cash basis net position				

See Notes to Financial Statements.

EXHIBIT A

Net (Disbursements) Receipts and Changes in Cash Basis Net Position			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Robey Memorial Library Foundation
\$ (499,015)		\$ (499,015)	
84,196		84,196	
(277,200)		(277,200)	
(153,514)		(153,514)	
(268,342)		(268,342)	
(572,305)		(572,305)	
(1,200,386)		(1,200,386)	
(2,886,566)	\$ -	(2,886,566)	
	45,769	45,769	
	94,396	94,396	
-	140,165	140,165	
(2,886,566)	140,165	(2,746,401)	
			\$ (108,780)
1,327,954		1,327,954	
162,642		162,642	
603,219		603,219	
373,948		373,948	
15,461	2,881	18,342	338
680,000		680,000	
122,837		122,837	
2,480		2,480	
146,427	(146,427)	-	
3,434,968	(143,546)	3,291,422	338
548,402	(3,381)	545,021	(108,442)
1,481,234	1,966,807	3,448,041	132,797
\$ 2,029,636	\$ 1,963,426	\$ 3,993,062	\$ 24,355
\$ 75,223		\$ 75,223	
12,167		12,167	
124,633		124,633	
708,373		708,373	
567,289		567,289	\$ 24,355
36,811		36,811	
179,992		179,992	
325,148	\$ 1,963,426	2,288,574	
\$ 2,029,636	\$ 1,963,426	\$ 3,993,062	\$ 24,355

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CITY OF WAUKON
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

	General	Special Revenue		
		Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax
RECEIPTS				
Property tax	\$ 972,751			
Tax increment financing			\$ 603,219	
Other City taxes	67,882		83	\$ 373,948
Licenses and permits	17,713			
Use of money and property	41,252			
Intergovernmental	71,727	\$ 405,220		
Charges for services	389,614			
Special assessments	624			117,153
Miscellaneous	40,092			
Total receipts	1,601,655	405,220	603,302	491,101
DISBURSEMENTS				
Operating				
Public safety	458,316			
Public works	213,721	369,599		
Culture and recreation	441,696			
Community and economic development	71,586		99,559	
General government	321,075			
Debt service				
Capital projects	8,937			157,549
Total disbursements	1,515,331	369,599	99,559	157,549
Excess (deficiency) of receipts over (under) disbursements	86,324	35,621	503,743	333,552
OTHER FINANCING SOURCES (USES)				
General obligation bond proceeds				
Sale of capital assets				
Operating transfers in	122,775	38,214	361,239	
Operating transfers out	(86,380)	(513)	(922,216)	
Net other financing sources (uses)	36,395	37,701	(560,977)	-
Net change in cash balances	122,719	73,322	(57,234)	333,552
Cash balances, beginning of year	418,013	51,311	132,457	374,821
Cash balances, end of year	\$ 540,732	\$ 124,633	\$ 75,223	\$ 708,373
Cash Basis Balances				
Restricted for:				
Urban renewal purposes			\$ 75,223	
Debt service				
Streets		\$ 124,633		
Streets and related infrastructure				\$ 708,373
Other purposes	\$ 72,354			
Committed for special purposes	31,811			
Assigned for special purposes	111,419			
Unassigned	325,148			
Total cash basis balances	\$ 540,732	\$ 124,633	\$ 75,223	\$ 708,373

See Notes to Financial Statements.

EXHIBIT B

Capital Projects Fire Capital Improvements	Debt Service	Other Nonmajor Governmental Funds	Total
	\$ 160,129	\$ 191,472	\$ 1,324,352
	2,513	3,601	603,219
			448,027
			17,713
\$ 37	100,100	6,120	147,509
		150,672	627,619
		255,938	645,552
			117,777
		25,234	65,326
<u>37</u>	<u>262,742</u>	<u>633,037</u>	<u>3,997,094</u>
		87,165	545,481
			583,320
		329,436	771,132
		76,640	247,785
		30,890	351,965
	672,405		672,405
680,000		379,382	1,225,868
<u>680,000</u>	<u>672,405</u>	<u>903,513</u>	<u>4,397,956</u>
<u>(679,963)</u>	<u>(409,663)</u>	<u>(270,476)</u>	<u>(400,862)</u>
680,000		-	680,000
		122,837	122,837
	404,387	785,957	1,712,572
<u>(1,011)</u>	<u></u>	<u>(556,025)</u>	<u>(1,566,145)</u>
<u>678,989</u>	<u>404,387</u>	<u>352,769</u>	<u>949,264</u>
(974)	(5,276)	82,293	548,402
<u>1,011</u>	<u>17,443</u>	<u>486,178</u>	<u>1,481,234</u>
<u>\$ 37</u>	<u>\$ 12,167</u>	<u>\$ 568,471</u>	<u>\$ 2,029,636</u>
			\$ 75,223
	\$ 12,167		12,167
			124,633
			708,373
		\$ 494,935	567,289
		5,000	36,811
\$ 37		68,536	179,992
			325,148
<u>\$ 37</u>	<u>\$ 12,167</u>	<u>\$ 568,471</u>	<u>\$ 2,029,636</u>

CITY OF WAUKON
RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
TO THE CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

Total governmental funds cash balances	\$ 2,029,636
Amounts reported for governmental activities in the cash basis statement of activities and net position are different because:	
Not applicable	<u>-</u>
Cash basis net position of governmental activities	<u>\$ 2,029,636</u>
Net change in cash balances	\$ 548,402
Amounts reported for governmental activities in the cash basis statement of activities and net position are different because:	
Not applicable	<u>-</u>
Change in cash balance of governmental activities	<u>\$ 548,402</u>

See Notes to Financial Statements.

CITY OF WAUKON
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
For the Year Ended June 30, 2015

	Enterprise Funds		
	Water	Sewer	Total
Operating Receipts			
Charges for services	\$ 422,570	\$ 461,305	\$ 883,875
Miscellaneous	43,732	2,097	45,829
Total operating receipts	466,302	463,402	929,704
Operating Disbursements			
Business-type activities	420,533	369,006	789,539
Total operating disbursements	420,533	369,006	789,539
Excess of operating receipts over operating disbursements	45,769	94,396	140,165
Nonoperating Receipts (Disbursements)			
Interest on investments	1,049	1,832	2,881
Net nonoperating receipts	1,049	1,832	2,881
Excess of receipts over disbursements	46,818	96,228	143,046
Transfers			
Operating transfers in	519		519
Operating transfers out	(89,329)	(57,617)	(146,946)
Net transfers out	(88,810)	(57,617)	(146,427)
Net change in cash balances	(41,992)	38,611	(3,381)
Cash balances, beginning of year	1,094,728	872,079	1,966,807
Cash balances, end of year	\$ 1,052,736	\$ 910,690	\$ 1,963,426
Cash Basis Balances			
Unrestricted	\$ 1,052,736	\$ 910,690	\$ 1,963,426
Total cash basis balances	\$ 1,052,736	\$ 910,690	\$ 1,963,426

See Notes to Financial Statements.

CITY OF WAUKON
 RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
 AND CHANGES IN CASH BALANCES
 TO THE CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
 PROPRIETARY FUNDS
 For the Year Ended June 30, 2015

Total enterprise funds cash balances	\$ 1,963,426
Amounts reported for business-type activities in the cash basis statement of activities and net position are different because:	
Not applicable	-
Cash basis net position of business-type activities	\$ 1,963,426
Net change in cash balances	\$ (3,381)
Amounts reported for business-type activities in the cash basis statement of activities and net position are different because:	
Not applicable	-
Change in cash balance of business-type activities	\$ (3,381)

See Notes to Financial Statements.

CITY OF WAUKON

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Significant Accounting Policies

a. Nature of Operations

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

b. Significant Accounting Policies

Reporting Entity

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

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

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

Excluded Component Units

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

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

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

b. Significant Accounting Policies (Continued)

Jointly Governed Organizations

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

Government-wide Financial Statement

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

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

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

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

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

b. Significant Accounting Policies (Continued)

Fund Financial Statements

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

The City reports the following major governmental funds:

Governmental

General Fund

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

Special Revenue

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

Debt Service

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

Capital Projects

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

- *Fire capital improvements* accounts for loan proceeds and payments to Waukon Area Fire Protection District for a new fire station.

The City reports the following major proprietary funds:

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

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

b. Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting

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

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

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

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

Governmental Cash Basis Fund Balances

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

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

Budgets and Budgetary Accounting

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

NOTES TO FINANCIAL STATEMENTS

2. **Deposits and Investments**

The City's deposits in banks at June 30, 2015 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 investments trusts; and warrants or improvement certificates of a drainage district.

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

Interest Rate Risk

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

3. **Bonds and Notes Payable**

A summary of the changes in debt, by type, for the year ended June 30, 2015 is as follows:

	Balance June 30, 2014	Borrowed	Paid	Balance June 30, 2015	Amounts Due Within One Year
General Obligation					
Medical Clinic	\$ 469,223		\$ (33,483)	\$ 435,740	\$ 35,074
Medical Clinic	469,237		(33,483)	435,754	35,074
Urban renewal	2,505,000		(165,000)	2,340,000	175,000
Corporate purpose	90,000		(45,000)	45,000	45,000
Corporate purpose	1,655,000		(120,000)	1,535,000	120,000
Fire equipment	186,000		(14,895)	171,105	16,672
Fire station	70,000		(7,000)	63,000	7,000
Total bonded debt	\$ 5,444,460	\$ None	\$ (418,861)	\$ 5,025,599	\$ 433,820
Notes Payable					
Rural economic development loan		\$ 680,000	\$ (51,000)	\$ 629,000	\$ 68,000

NOTES TO FINANCIAL STATEMENTS

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

a. **General Obligation Bonds Payable at June 30, 2015**

\$710,000 General Obligation Bond, Medical Clinic, due in monthly installments of \$4,550 from July 2016 through May 2025, including interest at 4.65%	\$ 435,740
\$710,000 General Obligation Bond, Medical Clinic, due in monthly installments of \$4,550 from July 2016 through May 2025, including interest at 4.65%	435,754
\$3,500,000 General Obligation Bond Urban Renewal Corporate Purpose Bond, due semi-annually in varying installments from December 2015 through June 2026, plus interest at 3.7% - 4.125%	2,340,000
\$400,000 General Obligation Corporate Purpose Bond Series 2007, due semi-annually in varying installments from December 2015 through June 2016, plus interest at 4.25%	45,000
\$1,890,000 General Obligation Corporate Purpose Bonds Series 2011, due semi-annually in varying installments December 2015 through June 2031, plus interest at 3.7% - 4.15%	1,535,000
\$186,000 General Obligation Fire Equipment Note, due in annual installments of \$22,233 from June 2016 through June 2024, including interest at 3.25%	171,105
\$70,000 General Obligation Fire Station Note, due in annual installments of \$7,000 from June 2016 through June 2024, plus interest at 3.25%	63,000
	\$ 5,025,599

b. **Notes Payable at June 30, 2015**

\$680,000 Rural Economic Development Fire Station Loan, due in monthly installments of \$5,667 from July 2015 through September 2024, interest at 0.00%	\$ 629,000
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c. **Debt Payment Schedule**

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

Year Ending June 30,	General Obligation Bonds		Notes Payable	
	Principal	Interest	Principal	Interest
2016	\$ 433,820	\$ 185,122	\$ 68,000	
2017	402,693	170,891	68,000	
2018	416,743	157,615	68,000	
2019	430,979	143,391	68,000	
2020	450,405	128,279	68,000	
2021-2025	2,205,959	387,644	289,000	
2026-2030	610,000	70,466		
2031	75,000	3,112		
	\$ 5,025,599	\$ 1,246,520	\$ 629,000	\$ None

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

4. Pension Plan

Plan Description

IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits

A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

Protection occupation members may retire at normal retirement age which is generally at age 55. The formula used to calculate a protection occupation members' monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

4. **Pension Plan (Continued)**

Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions

Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95% of pay and the City contributed 8.93% for a total rate of 14.88%. Protective occupation members contributed 6.76% of pay and the City contributed 10.14% for a total of 16.90%.

The City's contributions to IPERS for the year ended June 30, 2015 were \$94,898.

Collective Net Pension Liabilities, Collective Pension Expense, and Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the City's liability for its proportionate share of the collective net pension liability totaled \$378,074. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the City's proportion was 0.0467378%, which was a decrease of 0.0051188 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the City collective pension expense, collective deferred outflows and collective deferred inflows totaled \$40,952, \$130,227, and \$237,798 respectively.

4. **Pension Plan (Continued)**

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00% per annum
Rates of salary increase (effective June 30, 2010)	4.00% to 17.00%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50%, compounded annually, net of investment expense, including inflation.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-term Expected Real Rate of Return
US Equity	23%	6.31%
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

4. **Pension Plan (Continued)**

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 899,876	\$ 378,074	\$ (62,191)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

5. **Self-Funding**

The City has established a partially self-funded group medical plan. The plan allows the City lower monthly premiums for coverage in exchange for the potential of claims actually filed. The City may be contingently liable for any claims in excess of funds available at June 30, 2015. The City's share of the liability for any unreported claim or assessment at June 30, 2015 was unavailable as of January 13, 2016.

6. **Other Postemployment Benefits (OPEB)**

Plan Description

The City of Waukon operates a single-employer health benefit plan, which provides medical/prescription drug benefits for employees, retirees and their spouses until they become Medicare eligible. There are currently 23 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

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

Funding Policy

The contribution requirements for the medical/prescription drug plan are established and may be amended by the City. Retirees pay 100% of the premium for their coverage. The most recent active member monthly premiums are \$480.15/single, \$1,035.03 employee/spouse, \$953.78 employee/children, and \$1,489.14/family. The same monthly premiums apply to retirees. For the year ended June 30, 2015, the City contributed \$146,272 and plan members eligible for benefits contributed \$25,867 to the plan.

7. Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City’s approximate liability for earned vacation and sick leave payable to employees at June 30, 2015, primarily relating to the general fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 66,329
Sick leave	<u>132,487</u>
	<u>\$ 198,816</u>

Sick leave is forfeited if not used by the employee before termination. Upon retirement, an employee is eligible for payment of 50% of the unused sick leave. This liability has been computed based on rates of pay in effect at June 30, 2015.

8. Risk Management

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

9. Economic Development

The City, to encourage economic development, provides rebates to businesses and developers. The rebates are paid only from incremental property taxes; therefore, do not constitute a general obligation of the City. Terms of rebates vary according to the agreement. The City, as of June 30, 2015, had a total of \$167,374 to pay in rebates through the year 2017.

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

10. Leases

The City leases real estate to a communications company for a communication tower. The lease agreement started March 2006 and is for five years with options to renew every five years for a maximum of thirty years. The rent may be adjusted at each renewal and is currently \$600 per month.

The City leases real estate to a medical clinic. The lease started in 2005 and is for twenty years. The City receives monthly payments of \$9,100. The lease payments are then used to pay the underlying debt on the property, which has a balance outstanding of \$871,494 as of June 30, 2015.

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

NOTES TO FINANCIAL STATEMENTS

10. Leases (Continued)

The City in July 2012 entered into a fifteen-year agreement to allow a company the right to maintain an antenna on the City’s water tower and other equipment on the City’s property with options to renew for successive one-year periods. The rent will start at \$360 per month and may be adjusted at each renewal. The current rate is \$367.92 per month.

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

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

Minimum lease payments are as follows:

Year Ending June 30,	As Lessor	As Lessee
2016	\$ 129,215	\$ 1,188
2017	129,215	1,188
2018	129,950	1,189
2019	130,475	
2020	130,475	
2021-2025	656,118	
2026-2030	214,247	
2031-2035	104,825	
2036-2010	43,303	
	\$ 1,667,823	\$ 3,565

The City’s non-cancelable lease expense for 2015 was \$1,188.

11. Contingencies

The City participates in state and federal assisted grant programs. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of City management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at June 30, 2015.

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

NOTES TO FINANCIAL STATEMENTS

12. Transfers

The detail of interfund transfers for the year ended June 30, 2015 is as follows:

Transfers to		Transfers from	
General		General	
General	\$ 112,654	General	\$ 83,861
T & A Insurance	513	Economic development special	2,519
Library	9,608		\$ 86,380
	\$ 122,775		
Debt Service		Special Revenue	
General obligation bond	\$ 404,387	Urban renewal tax increment	\$ 922,216
		Road use tax	513
		Flood	16,622
Special Revenue		Emergency	29,339
Urban renewal tax increment	\$ 361,239	CDBG housing	76,533
CDBG housing	52,451	Library memorial	61,232
Road use tax	38,214	Employee benefits	9,608
	\$ 451,904		\$ 1,116,063
Capital Projects		Capital Projects	
Library expansion	\$ 293,687	Library expansion	\$ 232,455
2011 capital improvement	2,559	IDOT	108,614
IDOT	108,614	Lomen	20,170
West Side development	295,210	West Side development project	1,452
West Side development project	1,429	Fire capital improvements	1,011
Wellness maintenance	2,500		\$ 363,702
Administration	9,337		
Lomen	20,170	Water	\$ 89,329
	\$ 733,506		
Water	\$ 519	Sewer	\$ 57,617

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

13. Cash Basis Net Position

The cash basis statement of activities and net position reports \$1,487,685 of restricted cash basis net position, of which \$708,373 is restricted by enabling legislation.

14. New Governmental Accounting Standard Board (GASB) Standards

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

GASB Statement 77, *Tax Abatement Disclosures*, issued August 2015, will be effective for the fiscal year ended June 30, 2017. The primary objective of this statement is to provide users with information about the nature and magnitude of tax abatements to make them more transparent. Users will be better equipped to understand how tax abatements affect a government's future ability to raise resources and meet its financial obligations and the impact abatements have on a government's financial position and economic condition.

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

15. Subsequent Events and Commitments

The City has committed \$7,300 to a regional revolving loan fund. Cities and counties in the area and the federal government have committed a total of \$500,000. The funds will be used for economic development. After approval of an application, the various governmental units will then submit their committed funds. As of June 30, 2015, no funds have been requested of the City.

The City has outstanding construction contracts of \$12,521 at June 30, 2015. The costs will be paid from various revenue sources available to the City.

The City settled a lawsuit in October 2015 for \$560,000. \$100,000 had already been deposited with the Clerk of Court and was paid out. The remaining \$460,000 is to be paid in three installments. The City received a short term loan and made the first payment of \$175,000 in December 2015, the second payment of \$175,000 was made in January 2016, and the final payment of \$110,000 will be made in January 2017.

Management has evaluated subsequent events through January 13, 2016, the date on which the financial statements were available to be issued.

Other Information

CITY OF WAUKON
OTHER INFORMATION
BUDGETARY COMPARISON SCHEDULE OF
RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS)
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
Year Ended June 30, 2015

	Primary Government		Total	Budgeted Amounts		Final to Total Variance
	Governmental Funds	Proprietary Funds		Original	Final	
	Actual	Actual				
Receipts						
Property tax	\$ 1,324,352		\$ 1,324,352	\$ 1,293,599	\$ 1,293,599	\$ 30,753
Tax increment financing	603,219		603,219	600,000	600,000	3,219
Other City taxes	448,027		448,027	434,793	434,793	13,234
Licenses and permits	17,713		17,713	11,543	11,543	6,170
Use of money and property	147,509	\$ 2,881	150,390	132,160	132,160	18,230
Intergovernmental	627,619		627,619	944,685	944,685	(317,066)
Charges for services	645,552	883,875	1,529,427	1,486,750	1,486,750	42,677
Special assessments	117,777		117,777	25,000	25,000	92,777
Miscellaneous	65,326	45,829	111,155	363,020	363,020	(251,865)
Total receipts	3,997,094	932,585	4,929,679	5,291,550	5,291,550	(361,871)
Disbursements						
Public safety	545,481		545,481	581,458	593,458	47,977
Public works	583,320		583,320	677,045	677,045	93,725
Health and social services				3,000	3,000	3,000
Culture and recreation	771,132		771,132	1,065,283	1,065,283	294,151
Community and economic development	247,785		247,785	283,799	283,799	36,014
General government	351,965		351,965	341,400	379,600	27,635
Debt service	672,405		672,405	695,556	697,889	25,484
Capital projects	1,225,868		1,225,868	1,999,777	1,999,777	773,909
Business-type activities		789,539	789,539	1,359,182	1,359,182	569,643
Total disbursements	4,397,956	789,539	5,187,495	7,006,500	7,059,033	1,871,538
(Deficiency) excess of receipts (under) over disbursements	(400,862)	143,046	(257,816)	(1,714,950)	(1,767,483)	1,509,667
Other financing sources, net	949,264	(146,427)	802,837	750,000	750,000	52,837
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	548,402	(3,381)	545,021	(964,950)	(1,017,483)	1,562,504
Balances, beginning of year	1,481,234	1,966,807	3,448,041	3,290,903	3,290,903	157,138
Balances, end of year	\$ 2,029,636	\$ 1,963,426	\$ 3,993,062	\$ 2,325,953	\$ 2,273,420	\$ 1,719,642

See Notes to Budgetary Reporting Information and Independent Auditor's Report.

CITY OF WAUKON

NOTES TO OTHER INFORMATION – BUDGETARY REPORTING

June 30, 2015

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except internal service funds. The City had no internal service funds for the year ended June 30, 2015. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business-type activities. Function disbursements required to be budgeted include disbursements for the general fund, the special revenue funds, the debt service fund, the capital projects funds, and the proprietary funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$52,533. The budget amendment is reflected in the final budgeted amounts.

At year ended June 30, 2015, disbursements did not exceed the amounts budgeted in the general government and business-type activities functions.

See Independent Auditor's Report.

CITY OF WAUKON
 OTHER INFORMATION
 SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
 Last Fiscal Year*
 (In Thousands)

	2015
City's proportion of the net pension liability	0.0467378%
City's proportionate share of the net pension liability	\$ 378
City's covered-employee payroll	\$ 986
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	38.34%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

* The amounts presented for each fiscal year were determined as of June 30.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See Notes to Pension Liability Information and Independent Auditor's Report.

CITY OF WAUKON
OTHER INFORMATION
SCHEDULE OF CITY CONTRIBUTIONS
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
Last 10 Fiscal Years
(In Thousands)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Statutorily required contribution	\$ 95	\$ 91	\$ 88	\$ 83	\$ 76	\$ 68	\$ 64	\$ 56	\$ 52	\$ 50
Contributions in relation to the statutorily required contribution	(95)	(91)	(88)	(83)	(76)	(68)	(64)	(56)	(52)	(50)
Contribution deficiency (excess)	<u>\$ -</u>									
City's covered-employee payroll	\$ 1,026	\$ 986	\$ 965	\$ 961	\$ 968	\$ 930	\$ 931	\$ 835	\$ 759	\$ 731
Contributions as a percentage of covered-employee payroll	9.26%	9.23%	9.12%	8.64%	7.85%	7.31%	6.87%	6.71%	6.85%	6.84%

See Notes to Pension Liability Information and Independent Auditor's Report.

CITY OF WAUKON

NOTES TO OTHER INFORMATION – PENSION LIABILITY
Year Ended June 30, 2015

Changes of Benefit Terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups - emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers - from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of Assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25% to 4.00%.
- Lowered the inflation assumption from 3.50% to 3.25%.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

See Independent Auditor's Report.

Supplementary Information

CITY OF WAUKON
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

	Special Revenue	Capital Projects	Total
RECEIPTS			
Property tax	\$ 191,472		\$ 191,472
Other City taxes	3,601		3,601
Use of money and property	6,097	\$ 23	6,120
Intergovernmental	128,304	22,368	150,672
Charges for services	255,938		255,938
Miscellaneous	22,754	2,480	25,234
Total receipts	608,166	24,871	633,037
DISBURSEMENTS			
Operating			
Public safety	87,165		87,165
Culture and recreation	329,436		329,436
Community and economic development	76,640		76,640
General government	21,553	9,337	30,890
Capital projects		379,382	379,382
Total disbursements	514,794	388,719	903,513
Excess (deficiency) of receipts over (under) disbursements	93,372	(363,848)	(270,476)
OTHER FINANCING SOURCES (USES)			
Sale of capital assets		122,837	122,837
Operating transfers in	52,451	733,506	785,957
Operating transfers out	(193,334)	(362,691)	(556,025)
Net other financing (uses) sources	(140,883)	493,652	352,769
Net change in cash balances	(47,511)	129,804	82,293
Cash balances, beginning of year	332,544	153,634	486,178
Cash balances, end of year	<u>\$ 285,033</u>	<u>\$ 283,438</u>	<u>\$ 568,471</u>
Cash Basis Balances			
Restricted for:			
Other purposes	\$ 285,033	\$ 209,902	\$ 494,935
Committed for special purposes		5,000	5,000
Assigned for special purposes		68,536	68,536
Total cash basis balances	<u>\$ 285,033</u>	<u>\$ 283,438</u>	<u>\$ 568,471</u>

See Independent Auditor's Report.

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CITY OF WAUKON
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2015

	Employee Benefits	Emergency	Library Memorial	Park Memorial
RECEIPTS				
Property tax	\$ 162,675	\$ 28,797		
Other City taxes	3,059	542		
Use of money and property			\$ 465	\$ 66
Intergovernmental				
Charges for services				
Miscellaneous			3,114	1,579
Total receipts	165,734	29,339	3,579	1,645
DISBURSEMENTS				
Operating				
Public safety	86,084			
Culture and recreation	40,499		3,595	
Community and economic development	6,752			
General government	21,553			
Total disbursements	154,888	-	3,595	-
Excess (deficiency) of receipts over (under) disbursements	10,846	29,339	(16)	1,645
OTHER FINANCING SOURCES (USES)				
Operating transfers in				
Operating transfers out	(9,608)	(29,339)	(61,232)	
Net other financing (uses) sources	(9,608)	(29,339)	(61,232)	-
Net change in cash balances	1,238	-	(61,248)	1,645
Cash balances, beginning of year	73,412		123,545	15,440
Cash balances, end of year	\$ 74,650	\$ -	\$ 62,297	\$ 17,085
Cash Basis Balances				
Restricted for:				
Other purposes	\$ 74,650	\$ -	\$ 62,297	\$ 17,085
Total cash basis balances	\$ 74,650	\$ -	\$ 62,297	\$ 17,085

See Independent Auditor's Report.

SCHEDULE 2

Special Law Enforcement	Flood	CDBG Housing	Wellness Center		Total
			Operations	Trust	
					\$ 191,472
					3,601
			\$ 5,485	\$ 81	6,097
	\$ 16,281	\$ 94,271	17,752		128,304
			255,938		255,938
			8,186	9,875	22,754
\$ -	16,281	94,271	287,361	9,956	608,166
1,081					87,165
			275,197	10,145	329,436
		69,888			76,640
					21,553
1,081	-	69,888	275,197	10,145	514,794
(1,081)	16,281	24,383	12,164	(189)	93,372
		52,451			52,451
	(16,622)	(76,533)			(193,334)
-	(16,622)	(24,082)	-	-	(140,883)
(1,081)	(341)	301	12,164	(189)	(47,511)
1,081	36,703	532	62,627	19,204	332,544
\$ -	\$ 36,362	\$ 833	\$ 74,791	\$ 19,015	\$ 285,033
\$ -	\$ 36,362	\$ 833	\$ 74,791	\$ 19,015	\$ 285,033
\$ -	\$ 36,362	\$ 833	\$ 74,791	\$ 19,015	\$ 285,033

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CITY OF WAUKON
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
For the Year Ended June 30, 2015

	Storm Sewer	Park Capital Improvement	GIS	2011 Capital Improvement	West Side Development
RECEIPTS					
Use of money and property	\$ 22				
Intergovernmental					
Miscellaneous					
Total receipts	22	\$ -	\$ -	\$ -	\$ -
DISBURSEMENTS					
Operating					
General government					
Capital projects	1,333			1,238	295,210
Total disbursements	1,333	-	-	1,238	295,210
(Deficiency) excess of receipts (under) over disbursements	(1,311)	-	-	(1,238)	(295,210)
OTHER FINANCING SOURCES (USES)					
General obligation bond proceeds					
Sale of capital assets					50,000
Operating transfers in				2,559	295,210
Operating transfers out					
Net other financing sources (uses)	-	-	-	2,559	345,210
Net change in cash balances	(1,311)	-	-	1,321	50,000
Cash balances, beginning of year	6,663	123	3,183	106,326	
Cash balances, end of year	\$ 5,352	\$ 123	\$ 3,183	\$ 107,647	\$ 50,000
Cash Basis Balances					
Restricted for:					
Other purposes				\$ 107,647	
Committed for special purposes					
Assigned for special purposes	\$ 5,352	\$ 123	\$ 3,183		\$ 50,000
Total cash basis balances	\$ 5,352	\$ 123	\$ 3,183	\$ 107,647	\$ 50,000

See Independent Auditor's Report.

Lomen	West Side Development Project	IDOT	Capital Projects	Library Expansion	Wellness Maintenance	Wellness Construction	Logan Street	Administration
				\$ 22,368		\$ 1		
	\$ 2,480							
\$ -	2,480	\$ -	\$ -	22,368	\$ -	1	\$ -	\$ -
								9,337
	4,621			76,980				
-	4,621	-	-	76,980	-	-	-	9,337
-	(2,141)	-	-	(54,612)	-	1	-	(9,337)
20,170 (20,170)	1,429 (1,452)	108,614 (108,614)	72,837	293,687 (232,455)	2,500			9,337
-	(23)	-	72,837	61,232	2,500	-	-	9,337
-	(2,164)	-	72,837	6,620	2,500	1	-	-
	2,164				2,500	206	6,195	
\$ -	\$ -	\$ -	\$ 72,837	\$ 6,620	\$ 5,000	\$ 207	\$ 6,195	\$ -
			\$ 72,837	\$ 6,620	\$ 5,000	\$ 207	\$ 6,195	
\$ -	\$ -	\$ -	\$ 72,837	\$ 6,620	\$ 5,000	\$ 207	\$ 6,195	\$ -

CITY OF WAUKON
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
NONMAJOR CAPITAL PROJECTS FUND
For the Year Ended June 30, 2015

	City Hall Preservation	City Hall Improvements	Park Trust Tennis Court	Kitchen Krafts	Total
RECEIPTS					
Use of money and property					\$ 23
Intergovernmental					22,368
Miscellaneous					2,480
Total receipts	\$ -	\$ -	\$ -	\$ -	24,871
DISBURSEMENTS					
Operating					
General government					9,337
Capital projects					379,382
Total disbursements	-	-	-	-	388,719
(Deficiency) excess of receipts (under) over disbursements	-	-	-	-	(363,848)
OTHER FINANCING SOURCES (USES)					
General obligation bond proceeds					-
Sale of capital assets					122,837
Operating transfers in					733,506
Operating transfers out					(362,691)
Net other financing sources (uses)	-	-	-	-	493,652
Net change in cash balances	-	-	-	-	129,804
Cash balances, beginning of year	1,474	3,476	21,314	10	153,634
Cash balances, end of year	\$ 1,474	\$ 3,476	\$ 21,314	\$ 10	\$ 283,438
Cash Basis Balances					
Restricted for:					
Other purposes	\$ 1,474		\$ 21,314	\$ 10	\$ 209,902
Committed for special purposes					5,000
Assigned for special purposes		\$ 3,476			68,536
Total cash basis balances	\$ 1,474	\$ 3,476	\$ 21,314	\$ 10	\$ 283,438

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CITY OF WAUKON
 SCHEDULE OF INDEBTEDNESS
 For the Year Ended June 30, 2015

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year
General Obligation Bonds				
Medical Clinic	May 20, 2005	4.65%	\$ 710,000	\$ 469,223
Medical Clinic	May 20, 2005	4.65%	710,000	469,237
G.O. Urban Renewal Corporate Purpose	October 11, 2006	3.70 - 4.50%	3,500,000	2,505,000
Corporate Purpose	June 1, 2007	4.15 - 4.25%	400,000	90,000
Corporate Purpose	June 21, 2011	.85 - 4.15%	1,890,000	1,655,000
G.O. Fire Equipment Note	March 14, 2014	3.25%	186,000	186,000
G.O. Fire Station Note	June 10, 2014	3.25%	70,000	70,000
				<u>5,444,460</u>
Notes Payable				
Rural Economic Development Fire Station Loan	September 30, 2014	0.00%	680,000	
				<u>\$ 5,444,460</u>

See Independent Auditor's Report.

SCHEDULE 4

Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
	\$ 33,483	\$ 435,740	\$ 21,117
	33,483	435,754	21,117
	165,000	2,340,000	99,405
	45,000	45,000	3,802
	120,000	1,535,000	45,947
	14,895	171,105	7,338
	7,000	63,000	2,219
\$ -	418,861	5,025,599	200,945
680,000	51,000	629,000	
\$ 680,000	\$ 469,861	\$ 5,654,599	\$ 200,945

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CITY OF WAUKON
 BOND AND NOTE MATURITIES
 For the Year Ended June 30, 2015

GENERAL OBLIGATION BONDS

Year Ending June 30,	Medical Clinic		Medical Clinic		G.O. Urban Renewal Corporate Purpose		Corporate Purpose	
	Issued May 20, 2005		Issued May 20, 2005		Issued October 11, 2006		Issued June 1, 2007	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2016	4.65%	\$ 35,074	4.65%	\$ 35,074	3.70%	\$ 175,000	4.25%	\$ 45,000
2017	4.65%	36,740	4.65%	36,740	3.75%	180,000		
2018	4.65%	38,485	4.65%	38,485	3.80%	185,000		
2019	4.65%	40,314	4.65%	40,314	3.83%	195,000		
2020	4.65%	42,229	4.65%	42,229	3.85%	205,000		
2021	4.65%	44,235	4.65%	44,235	3.90%	210,000		
2022	4.65%	46,336	4.65%	46,336	3.95%	220,000		
2023	4.65%	48,537	4.65%	48,537	4.00%	230,000		
2024	4.65%	50,843	4.65%	50,843	4.05%	240,000		
2025	4.65%	52,947	4.65%	52,961	4.10%	245,000		
2026					4.125%	255,000		
2027								
2028								
2029								
2030								
2031								
		\$ 435,740		\$ 435,754		\$ 2,340,000		\$ 45,000

See Independent Auditor's Report.

GENERAL OBLIGATION BONDS						NOTES PAYABLE				
Corporate Purpose		G.O. Fire Equipment Note		G.O. Fire Station Note		Rural Economic Development Fire Station Loan				
Issued June 21, 2011		Issued March 14, 2014		Issued June 10, 2014		Issued September 30, 2014				
Interest Rates		Interest Rates		Interest Rates		Interest Rates		Interest Rates		Total
Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount		
1.45%	\$ 120,000	3.25%	\$ 16,672	3.25%	\$ 7,000	0.00%	\$ 68,000	\$	501,820	
1.80%	125,000	3.25%	17,213	3.25%	7,000	0.00%	68,000		470,693	
2.10%	130,000	3.25%	17,773	3.25%	7,000	0.00%	68,000		484,743	
2.30%	130,000	3.25%	18,351	3.25%	7,000	0.00%	68,000		498,979	
2.50%	135,000	3.25%	18,947	3.25%	7,000	0.00%	68,000		518,405	
2.70%	140,000	3.25%	19,563	3.25%	7,000	0.00%	68,000		533,033	
2.90%	140,000	3.25%	20,198	3.25%	7,000	0.00%	68,000		547,870	
3.30%	60,000	3.25%	20,855	3.25%	7,000	0.00%	68,000		482,929	
3.30%	60,000	3.25%	21,533	3.25%	7,000	0.00%	68,000		498,219	
3.65%	65,000					0.00%	17,000		432,908	
3.65%	65,000								320,000	
4.00%	70,000								70,000	
4.00%	70,000								70,000	
4.15%	75,000								75,000	
4.15%	75,000								75,000	
4.15%	75,000								75,000	
	<u>\$ 1,535,000</u>		<u>\$ 171,105</u>		<u>\$ 63,000</u>		<u>\$ 629,000</u>		<u>\$ 5,654,599</u>	

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

	2015	2014	2013	2012	2011
RECEIPTS					
Property tax	\$ 1,324,352	\$ 1,188,704	\$ 1,136,366	\$ 1,064,881	\$ 1,075,049
Tax increment financing	603,219	678,406	669,196	807,299	640,990
Other City taxes	448,027	397,392	368,781	303,863	481,393
Licenses and permits	17,713	42,996	41,718	44,474	16,907
Use of money and property	147,509	181,728	168,917	176,057	182,127
Intergovernmental	627,619	787,217	557,556	456,591	552,566
Charges for services	645,552	596,384	583,962	564,429	509,723
Special assessments	117,777	32,882	41,156	116,406	
Miscellaneous	65,326	663,846	171,705	138,143	129,550
Total	\$ 3,997,094	\$ 4,569,555	\$ 3,739,357	\$ 3,672,143	\$ 3,588,305
DISBURSEMENTS					
Operating					
Public safety	\$ 545,481	\$ 795,296	\$ 608,947	\$ 523,096	\$ 501,648
Public works	583,320	716,357	586,457	568,883	561,219
Health and social services					
Culture and recreation	771,132	816,537	732,490	829,007	784,295
Community and economic development	247,785	329,293	294,715	154,750	108,846
General government	351,965	301,009	296,849	293,484	267,993
Debt service	672,405	817,835	587,757	555,208	1,474,317
Capital projects	1,225,868	2,053,595	726,789	1,415,112	610,093
Total	\$ 4,397,956	\$ 5,829,922	\$ 3,834,004	\$ 4,339,540	\$ 4,308,411

See Independent Auditor's Report.

SCHEDULE 6

	2010	2009	2008	2007	2006
\$	884,842	\$ 974,518	\$ 923,499	\$ 931,811	\$ 853,693
	650,698	636,692	487,998	452,561	448,923
	415,147	382,991	370,726	350,641	286,452
	12,884	10,979	13,463	11,301	14,683
	184,044	218,447	255,387	312,123	82,703
	443,644	426,795	1,216,107	1,451,962	394,135
	277,885	508,645	467,718	285,540	289,470
	2,384	4,036	3,727	3,463	5,464
	86,204	147,094	307,617	130,383	295,087
\$	2,957,732	\$ 3,310,197	\$ 4,046,242	\$ 3,929,785	\$ 2,670,610
\$	574,431	\$ 478,171	\$ 436,920	\$ 434,797	\$ 438,537
	580,668	593,093	558,547	778,560	550,421
			119		9,000
	457,265	737,415	628,303	420,223	422,983
	98,913	103,857	54,665	49,349	44,269
	267,738	232,376	231,418	241,774	246,945
	506,910	620,567	668,463	452,906	377,036
	615,665	454,702	3,459,224	3,206,539	1,607,830
\$	3,101,590	\$ 3,220,181	\$ 6,037,659	\$ 5,584,148	\$ 3,697,021

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

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

We have audited, in accordance with the U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund, the aggregate remaining fund information, and the discretely presented component unit of City of Waukon, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City of Waukon's basic financial statements, and have issued our report thereon dated January 13, 2016. Our report expressed a modified opinion on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles, due to the omission of the financial transactions of component units which should be included.

Internal Control over Financial Reporting

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

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

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

Overlapping Duties

During our review of internal controls, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. The City has implemented various procedures to enhance their internal control however; the City's offices are not large enough to permit an adequate segregation of duties for effective internal controls. The concentration of closely related duties and responsibilities such as the receipt and posting functions, disbursements preparation and posting functions, and reconciliation function from receipt and disbursement functions by a small staff makes it impossible to establish an adequate system of automatic internal checks on the accuracy and reliability of the accounting records. Management has not separated incompatible activities of personnel, thereby creating risks related to the safeguarding of cash and the accuracy of the financial statements.

Criteria

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

Recommendation

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

Response and Corrective Action Planned

The City is looking at adding an additional staff member in the Clerk's office. The City staff will make changes whenever possible and economically feasible.

Conclusion

Response accepted.

Compliance and Other Matters

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

City of Waukon's Response to Finding

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

Purpose of this Report

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

Decorah, Iowa
January 13, 2016

Hacker, Nelson & Co., P.C.

MANAGEMENT LETTER

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

In planning and performing our audit of the basic financial statements of the City Waukon for the year ended June 30, 2015, 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 8 below are compliance comments required by the Iowa Auditor of State. A separate report dated January 13, 2016, contains our report on the City's internal control over financial reporting. This letter does not affect our report dated January 13, 2016, on the basic financial statements of City of Waukon. All prior year comments have been resolved. These comments are not intended to and do not constitute legal opinions. We did not audit the City's responses and, accordingly, we express no opinion on them.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

1. Certified Budget
Disbursements for the year ended June 30, 2015 did not exceed the amounts budgeted.
2. Questionable Disbursements
We noted no disbursements that may not meet the requirements of public purposes as defined in an Attorney General's opinion dated April 25, 1979.
3. Travel Expense
No expenditures of City money for travel expenses of spouses of City officials and/or employees were noted.
4. Business Transactions
No business transactions between the City and City officials or employees were noted.

5. Bond Coverage

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

6. Council Minutes

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

7. Deposits and Investments

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

8. Urban Renewal Annual Report

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

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

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

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

Hacker, Nelson & Co., P.C.

Decorah, Iowa
January 13, 2016