

**CITY OF DECORAH
DECORAH, IOWA**

FINANCIAL REPORT

JUNE 30, 2015

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CITY OF DECORAH

OFFICIALS

(Before January 2015)

Name	Title	Term Expires
Donald Arendt	Mayor	01-02-18
Randy Schissel	First Ward	01-02-18
Jody Niess	Second Ward	01-02-16
Paul Wanless	Third Ward	Resigned
Andy Carlson	Third Ward	Appointed
William Wagner	Fourth Ward	01-02-16
Charles Lore	Fifth Ward	01-02-18
Gary Rustad	At-Large	01-02-18
Tade Kerndt	At-Large	01-02-16
Chad Bird	City Manager	Appointed
Wanda Hemesath	City Clerk, Treasurer	Appointed
Richard Zahasky	City Attorney	Appointed

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

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Decorah, 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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Decorah, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 19 to the financial statements, City of Decorah 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

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis, the budgetary comparison information, the schedule of the city's proportionate share of the net pension liability, the schedule of the city contributions, and the schedule of funding progress for the retiree health plan on pages 5 through 5i and pages 47 through 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Decorah's 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 nine years ended June 30, 2014 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 4, 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 4 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2015, on our consideration of the City of Decorah's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Decorah's internal control over financial reporting and compliance.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
November 4, 2015

CITY OF DECORAH

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of City of Decorah provides this management's discussion and analysis of City of Decorah's annual financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015.

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

2015 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased approximately \$835,000 or 11.3 percent from FY2014 to FY2015. Property taxes for all purposes increased \$496,427. Capital grants increased approximately \$215,000 while operating grants decreased approximately \$37,000 from FY2014 to FY2015. The majority of the increase in capital grants is a result of the dry run box culvert project.
- Program expenditures excluding debt service and capital projects increased \$22,063.
- The City's total net position is \$43,251,012. Of this amount, the governmental activities claim net position of \$31,776,485.
- Net position in the business-type activity, which represents the City's sewer, water, and Metronet operations, increased \$3,216,140. The large increase came from debt proceeds that were transferred into the sewer and water funds. Total proceeds were \$3,723,916 while repayments on all debt totaled \$584,944. Water and sewer operating revenues remained comparable to 2014 while operating expenses increased approximately \$20,000.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements, notes to those statements and other information as follows:

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES (Continued)

Fund Financial Statements (Continued)

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

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

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

As noted earlier, net position may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net position for governmental and business-type activities.

	Condensed Statement of Net Position (In Thousands)						
	Governmental Activities		Business-type Activities		Total		Percent Change
	2015	2014*	2015	2014*	2015	2014*	
Current and other assets	\$ 8,777	\$ 7,471	\$ 2,625	\$ 957	\$ 11,402	\$ 8,428	35.29%
Capital assets	36,844	37,233	10,897	9,145	47,741	46,378	2.94%
Total assets	45,621	44,704	13,522	10,102	59,143	54,806	7.91%
Deferred outflows of resources	535	-	80	-	615	-	0.00%
Long-term debt outstanding	6,520	2,975	937	966	7,457	3,941	89.22%
Other liabilities	2,826	654	1,062	469	3,888	1,123	246.22%
Total liabilities	9,346	3,629	1,999	1,435	11,345	5,064	124.03%
Deferred inflows of resources	5,034	4,172	128		5,162	4,172	23.73%
Net position							
Net investment in capital assets	30,432	34,258	9,961	7,941	40,393	42,199	-4.28%
Restricted	1,030	1,128			1,030	1,128	-8.69%
Unrestricted	314	1,517	1,514	726	1,828	2,243	-18.50%
Total net position	\$ 31,776	\$ 36,903	\$ 11,475	\$ 8,667	\$ 43,251	\$ 45,570	-5.09%

* Not restated

REPORTING THE CITY'S FINANCIAL ACTIVITIES (Continued)

Fund Financial Statements (Continued)

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 for governmental activities and business-type activities were restated by decreasing \$2,512,118 and \$409,218, respectively, to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. Fiscal years 2013 and 2014 financial statement amounts for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense, which is more reflective of the amounts employees earned during the year.

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

	Changes in Net Position of Governmental Activities (In Thousands)						
	Governmental Activities		Business-type Activities		Total		Percent Change
	2015	2014*	2015	2014*	2015	2014*	
Revenues:							
Program revenue							
Charges for service	\$ 750	\$ 753	\$ 1,574	\$ 1,569	\$ 2,324	\$ 2,322	0.09%
Operating grants	1,282	1,318	41	39	1,323	1,357	-2.51%
Capital grants	274	59		104	274	163	68.10%
General revenue							
Property taxes	4,168	3,671			4,168	3,671	13.54%
Tax increment financing collections	244	250			244	250	-2.40%
Other city taxes	403	380			403	380	6.05%
Local option sales tax	992	869			992	869	14.15%
Unrestricted investment earnings	27	29	1		28	29	-3.45%
Gain (loss) on the sale of capital assets	2	11		(12)	2	(1)	-300.00%
Other revenue	87	53			87	53	64.15%
Total revenues	8,229	7,393	1,616	1,700	9,845	9,093	8.27%
Program expenses:							
Public safety	2,078	2,188			2,078	2,188	-5.03%
Public works	2,562	2,567			2,562	2,567	-0.19%
Health and social services	31	47			31	47	-34.04%
Culture and recreation	1,816	1,665			1,816	1,665	9.07%
Community and economic development	212	209			212	209	1.44%
General government	594	596			594	596	-0.34%
Interest on long-term debt	150	60			150	60	150.00%
Other expenses			1,800	1,779	1,800	1,779	1.18%
Total expenses	7,443	7,332	1,800	1,779	9,243	9,111	1.45%
Increase (decrease) in net position before transfers	786	61	(184)	(79)	602	(18)	-3444.44%
Transfers	(3,401)		3,401				
(Decrease) increase in net position	(2,615)	61	3,217	(79)	602	(18)	-3444.44%
Net position beginning of year, restated	34,391	36,842	8,258	8,746	42,649	45,588	-6.45%
Net position end of year	\$ 31,776	\$ 36,903	\$ 11,475	\$ 8,667	\$ 43,251	\$ 45,570	-5.09%

* Not restated

REPORTING THE CITY'S FINANCIAL ACTIVITIES (Continued)

Individual Major Fund Analysis

At the end of FY2014-2015, the City reflected a combined fund balance for its governmental funds of \$4,033,005 (see Exhibit D for details). This compares to \$2,887,895 for the combined fund balance for governmental funds at the end of FY2013-2014. This is an increase of \$1,145,110. The general fund showed an increase of \$265,159 from the prior year to \$1,755,898.

The employee benefits fund within the special revenue funds of the City is used to account for property taxes levied for the payment of employee benefits. This fund ended fiscal 2015 with a \$452,065 balance compared to the prior year ending fund balance of \$470,193. Revenues increased approximately \$79,000 mostly due to an increase in property taxes while expenses increased approximately \$48,000.

The state road use tax fund within the special revenue funds of the City accounts for the road use tax allocation from the State to be used for road construction and maintenance. This fund ended fiscal year 2015 with a fund balance of \$322,695 compared to the prior year ending balance of \$166,065. This increase was due to an increase in road use tax funds of approximately \$34,000 while expenses decreased approximately \$49,000.

The debt service fund ended fiscal year 2015 with a \$78,577 fund balance compared to the prior year ending fund balance of \$69,341. Property tax revenue increased \$429,641 while bond principal and interest payments increased \$630,421.

The City's obligations, which are met by way of the debt service fund, are fully explained under the notes to the financial statements. The City's legal bonding capacity as of June 30, 2015 is \$16,661,518.

Proprietary Fund Highlights

The water fund, which accounts for the operation and maintenance of the City's water system, ended fiscal year 2015 with a net asset balance of \$3,869,659. This reflects an increase of \$1,592,339 from the end of fiscal year 2014 when the net asset balance was \$2,277,320. Operating revenues in the water fund were comparable to the prior year while operating expenses increased \$33,360. The large increase in net assets was a result of debt issued with proceeds of \$1,667,666 being transferred into the water fund.

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 asset balance of \$7,499,866. This reflects an increase of \$1,636,327 from the end of fiscal year 2014 when the net asset balance was \$5,863,539. Operating revenues in the sewer fund decreased \$9,625 while operating expenses decreased \$43,971. The large increase in net assets was a result of debt issued with proceeds of \$1,739,553 being transferred into the sewer fund.

The Metronet fund, which accounts for the operation of a fiber optic network that offers extensions to individuals and businesses in the community, ended fiscal year 2015 with a net asset balance of \$105,002. This reflects a decrease of \$12,526 from the end of fiscal year 2014 when the net asset balance was \$117,528. Revenues decreased \$88,407 while operating expenses increased \$41,647.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the City Council annually adopts a budget following required public notice and hearing. 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 enterprise funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by funds. Over the course of the year, the City amended its budget once increasing budgeted expenditures by \$1,527,688. The amendment was done in May 2015. The City's receipts were \$6,259 more than budgeted while total disbursements were \$3,268,930 less than budgeted.

The following chart shows the original and amended budget for fiscal 2015 as well as the actual revenue and expenditures for the year:

Budgetary Comparison Schedule (Expressed in Thousands)					
REVENUES	Budget Basis	Budget Amounts			
		Original	Final		
Property taxes	\$ 4,118	\$ 4,082	\$ 4,082	\$ 36	
Tax increment financing collections	244	244	244	-	
Other City taxes	1,365	1,241	1,241	124	
Licenses and permits	34	25	28	6	
Use of money and property	35	27	41	(6)	
Intergovernmental revenues	1,587	1,392	1,623	(36)	
Charges for services	2,058	2,210	2,212	(154)	
Special assessments	3		1	2	
Miscellaneous	380	245	346	34	
Total revenues	\$ 9,824	\$ 9,466	\$ 9,818	\$ 6	
EXPENDITURES					
Public safety	\$ 2,495	\$ 2,442	\$ 2,590	\$ 95	
Public works	1,795	1,870	2,249	454	
Health and social services	31	21	31	-	
Culture and recreation	1,753	1,780	1,948	195	
Community and economic development	215	217	225	10	
General government	584	573	622	38	
Debt service	1,137	1,138	1,138	1	
Capital projects	176	1,007	1,290	1,114	
Business-type	3,668	4,547	5,030	1,362	
Total expenditures	\$ 11,854	\$ 13,595	\$ 15,123	\$ 3,269	

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets include land, buildings, and improvements, equipment, streets, bridges, storm sewer systems, water and wastewater systems, lighting systems, traffic signals, the swimming pool, and other infrastructure. The capital assets for governmental activities totaled \$36,844,341 (net of accumulated depreciation). The capital assets for the business-type activities totaled \$10,897,254 (net of accumulated depreciation) as of June 30, 2015. Detailed information regarding specific capital asset categories and depreciation can be found in Note 3 under the notes to the financial statements.

The major capital outlays for this fiscal year within the governmental activities involved street and alley improvements. The major capital outlay with the business-type activities was water and sewer improvements related to the Highway 9 water and sewer expansion project.

Long-term Debt

The State Constitution limits the amount of general obligation debt that cities can issue to five percent of the assessed value of all taxable property within the City. As of June 30, 2015, the City's total outstanding G.O. debt of \$7,348,750 was well below the debt limit of \$24,010,268. The City does not have a current bond rating and therefore, depending upon the size of the next issue, may wish to consider taking the steps to obtain a rating.

Details of the debt issued by the City's specific debt issues can be found in Note 5 under the notes to the financial statements.

ECONOMIC FACTORS BEARING ON THE CITY'S FUTURE

While the overall national economy continues to languish in mediocre vitality, many organizations in the public and private sectors continue to be cautious about growth and expansion. While the unemployment rate remains steady or decreasing, the consumer price index took a turn downward on the back of decreased prices for fuel and energy. The local municipal financial picture remains precarious and balanced on the agricultural and tourism sectors. While recent Council policy has bolstered the housing market, growth is slow. Commercial expansion follows at a modest upward pattern. Many difficult budgetary and financial issues that have faced, and continue to plague, many cities throughout the country starting with the 2008 economic downturn remain as continued issues facing the City of Decorah.

A brief review of pages 5b and 5c above will reveal that, while growth is slow, City revenues are still precariously balanced with special project and bond revenues. In last year's management and discussion analysis, it was reported that there had been a very slight increase in total revenues of .79 percent at the end of FY2014. FY2015 overall revenues showed higher due to a capital project revenue and an increase in local option sales tax, resulting in an increase of approximately 8.27 percent.

Of this review of the City's revenue position, there is healthy increase of 13.54 percent in property taxes and an increase of 64.15 percent, or \$34,000, in "other revenues." The increase in property tax revenue could be from several sources including new property assessments and payment of previously delinquent taxes.

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

Of ongoing concern for cities and a very significant economic factor related to property tax revenues centers around the multitude of concerns surrounding the statewide property tax formulas, especially as these matters affect commercial properties. With Senate File 295, Property Tax Reform legislation passing in May of 2013 and signed by the Governor in June of 2013 we are starting to see slight decreases in valuations and this will have a long-term impact on the City's financial condition going forward. Of particular concern will be the beginning of the multi-family housing rollback from commercial to residential valuation status by 2022. In FY2015 that newly created multi-family class was rolled back to 86.25 percent per language in the legislation. It is estimated that the City has approximately \$15,000,000 in multi-family classification valuation.

Below is a summary of the tax levy rates per \$1,000 of taxable valuation for FY15:

Purpose	Rate
General levy	\$8.10
Liability and property insurance	0.45654
Emergency	.18756
Employee benefits	3.75298
Debt service	1.30075
Total	<u>\$13.79783</u>

Despite this rather bleak outlook on the economy, it is interesting to note that the local option sales tax took a turn for the better in FY2015, increasing 14.15 percent, or \$123,000 over FY2014.

While growth had been climbing in the LOST revenue fund over the three years prior to last (FY2014), it is encouraging that FY2015 is back to a robust level, perhaps the highest in a decade.

The LOST revenue fund is an important fund for the City for several reasons. 1) the revenue is used to off-set the restricted road use tax fund for major street repairs and 2) and more importantly, increases in LOST revenues are a strong indicator of the economic activity of the community including uses associated with the Trout Run Trail and other community recreational amenities and events. City officials will continue to monitor any correlation between local tourism oriented activities and LOST revenues.

Despite continued financial uncertainty in recent years, the net position of the City at the end of the fiscal year for both the governmental and business-type activities decreased over the previous year as shown on page 5c above. The total net position decreased from that of the past year by 5.09 percent. In terms of dollars, this is a decrease of \$2,319,000 in the City's net position at the end of the year. In large part, this may be attributed to the utility improvement bonding utilized by the City recently.

It should also be pointed out that the business-type activities experienced another decrease in its net position of 6.8 percent. This represents a five-year trend downward in these funds from .90 percent last year, a .27 percent decline from two years ago, and a 1.7 percent drop from three years ago. The decrease in this year was most likely due to the harsh winter, which resulted in several unscheduled repairs to the distribution system. The City Council has adopted a policy of reviewing enterprise fund balances and fees for services to increase the cash position of these funds.

Again, as discussed in management discussion and analysis during the last several years, City of Decorah elected and appointed officials celebrated when the Iowa Legislature voted to increase the state's fuel service fee or gas tax by 10 cents in March of 2015. The increase was to take effect immediately. Reference had been made to some adjustments over the years; these changes are incremental and although helpful, continue to fall far short of meeting the full array of identified street construction and maintenance needs.

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

In relative terms, the City experienced a 4.1 percent increase or \$34,673 in total road use tax dollars on the year. This is stable compared with FY2014. While there is modest growth, this fund continues to be pressed for consistent funding that keeps pace with the costs of inflation for repairs and fuel for maintenance of city streets and snow removal. Time will tell how impactful the State Legislature's action will be on street finances.

Also of note, the tax increment financing collections decreased by 2.3 percent or \$5,736. This decrease was attributable to the debt restructuring in FY2013 and the interest savings from that reissue. As explained in the financial statements and further detailed in the notes to the financial statements under the section of long-term debt, the tax increment financing revenues are used to meet debt obligations for public improvements to the Decorah Business Park. The tax increment financing proceeds received are derived by way of a certification made to the County some seven months prior to the start of the fiscal year in which these proceeds are needed.

As for the City's long-term debt obligations, the condensed statement of net position (on page 5b) indicates that there was an 89.22 percent increase in the City's long-term obligations. This substantial change in debt position is due to receipt of a substantial General Obligation Utility Bond. Details with regard to each of the City's debt obligations including the pledged funding sources can be found under the notes to the financial statements within this financial report. The City's overall debt position remains strong at less than 30.6 percent issued debt of the City's overall debt capacity.

Of continuing concern are the water and sewer funds as reflected in both the statement of net position and the cash flow statement. As stated earlier, the City Council has initiated a policy that will allow for a review of year-end fund balances and appropriate responses to water and sewer rates accordingly. The last rate increase was approved for the water and sewer utilities in the fourth quarter of FY15. Both funds continue to struggle financially. As noted earlier in this report, while the funds still report a decline in net position, that rate of decline is receding. For the period covered in this report, the two departments combined for a loss of \$153,300. This represents the fourth year of losses in the two departments. Again, while the deficits have been stable, it shows that much work is yet to be done to balance these funds. As such, staff will continue to monitor rates and costs moving forward.

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

- a. Public safety program exceeded the original budget amount by \$50,054 largely due to fire equipment repair, new equipment, and flood control.
- b. Health and social service program exceeded the original budget amount by \$10,043 due to TIF LM&I contribution to the Northeast Iowa Regional Housing Agency. The proceeds for this contribution came from the low-to-moderate income set asides prescribed for specific TIF projects.
- c. Community Betterment and Economic Development exceeded the original budget amount by \$2,583 due to tree planting and removal projects. This expense was offset by grants obtained for said purpose.
- d. General government exceeded the original budget amount by \$12,736 due to unexpected audit, legal, IT expenses, and infrastructure repairs.

Public works, culture and recreation, debt service, capital projects, and enterprise programs did not exceed original budgeted amounts. Additional details behind the approved budget amendment are reflected in the amendment documents as well as in the annual financial report.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF DECORAH
STATEMENT OF NET POSITION
June 30, 2015

	Governmental Activities	Business-type Activities	Total	Decorah Volunteer Fire Department
ASSETS				
Cash and pooled investments	\$ 3,929,329	\$ 2,198,478	\$ 6,127,807	\$ 46,568
Receivables				
Accounts and unbilled usage, net	11,839	357,435	369,274	
Property tax				
Current	18,765		18,765	
Succeeding year	4,054,337		4,054,337	
Special assessments				
Current	8,894		8,894	
Deferred	126,016		126,016	
Accrued interest	1,698		1,698	
Due from other governments	227,692	42,179	269,871	
Inventories	6,254	15,000	21,254	
Prepaid expenses	35,476	11,289	46,765	
Restricted assets				
Investments	356,086		356,086	
Nondepreciable capital assets	1,457,201	2,337,512	3,794,713	
Capital assets, net of accumulated depreciation	35,387,140	8,559,741	43,946,881	
Total assets	45,620,727	13,521,634	59,142,361	46,568
DEFERRED OUTFLOWS OF RESOURCES				
Pension related deferred outflows	535,573	79,961	615,534	-
Total assets and deferred outflows of resources	\$ 46,156,300	\$ 13,601,595	\$ 59,757,895	\$ 46,568
LIABILITIES				
Accounts payable	\$ 346,946	\$ 642,701	\$ 989,647	
Salaries and benefits payable	182,352	29,041	211,393	
Accrued interest payable	8,819	1,051	9,870	
Long-term liabilities				
Portion due within one year				
Bonds payable	1,006,300	213,700	1,220,000	
Loan payable		45,000	45,000	
Compensated absences	33,730	31,600	65,330	
Portion due after one year				
Bonds payable	5,513,542	614,200	6,127,742	
Loan payable		63,750	63,750	
Compensated absences	168,650		168,650	
Net pension liability	1,986,033	336,886	2,322,919	
Net OPEB liability	99,646	20,661	120,307	
Total liabilities	9,346,018	1,998,590	11,344,608	\$ -
DEFERRED INFLOWS OF RESOURCES				
Pension related deferred inflows	853,444	128,478	981,922	
Succeeding year property tax	4,054,337		4,054,337	
Special assessments	126,016		126,016	
Total deferred inflows of resources	5,033,797	128,478	5,162,275	-
NET POSITION				
Net investment in capital assets	30,432,241	9,960,603	40,392,844	
Restricted for				
Debt service	78,577		78,577	
Other special revenue purposes	1,273,846		1,273,846	
Other purposes				46,568
Unrestricted	(8,179)	1,513,924	1,505,745	
Total net position	31,776,485	11,474,527	43,251,012	46,568
Total liabilities, deferred inflows of resources and net position	\$ 46,156,300	\$ 13,601,595	\$ 59,757,895	\$ 46,568

See Notes to Financial Statements.

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CITY OF DECORAH
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

Functions and Programs	Expenses	Charges for Services	Program Revenues	
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Primary Government				
Governmental activities				
Public safety	\$ 2,078,411		\$ 39,337	
Public works	2,561,805	\$ 31,879	864,897	\$ 182,081
Health and social services	31,138			
Culture and recreation	1,815,967	647,047	135,518	90,000
Community and economic development	212,350			1,960
General government	593,584	70,968	241,918	
Interest on long-term debt	149,654			
Total governmental activities	7,442,909	749,894	1,281,670	274,041
Business-type activities				
Water utilities	761,892	692,625		
Sewer utilities	995,301	850,442	41,160	
Metronet	42,950	30,424		
Total business-type activities	1,800,143	1,573,491	41,160	-
Total primary government	\$ 9,243,052	\$ 2,323,385	\$ 1,322,830	\$ 274,041
Component Unit				
Decorah Volunteer Fire Department	\$ 49,565		\$ 57,733	
General Revenues and Transfers				
Property and other City taxes levied for				
General purposes				
Debt service				
Tax increment financing collections				
Other City taxes				
Local option sales tax				
Unrestricted investment earnings				
Miscellaneous				
Gain (loss) on sale of capital assets				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position, beginning of year, restated				
Net position, end of year				

See Notes to Financial Statements.

EXHIBIT B

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Decorah Volunteer Fire Department
\$ (2,039,074)		\$ (2,039,074)	
(1,482,948)		(1,482,948)	
(31,138)		(31,138)	
(943,402)		(943,402)	
(210,390)		(210,390)	
(280,698)		(280,698)	
(149,654)		(149,654)	
(5,137,304)		(5,137,304)	
	\$ (69,267)	(69,267)	
	(103,699)	(103,699)	
	(12,526)	(12,526)	
-	(185,492)	(185,492)	
(5,137,304)	(185,492)	(5,322,796)	
			\$ 8,168
3,758,669		3,758,669	
409,021		409,021	
244,337		244,337	
403,591		403,591	
992,241		992,241	
26,514	553	27,067	161
87,186		87,186	
1,982		1,982	
(3,401,079)	3,401,079	-	
2,522,462	3,401,632	5,924,094	161
(2,614,842)	3,216,140	601,298	8,329
34,391,327	8,258,387	42,649,714	38,239
\$ 31,776,485	\$ 11,474,527	\$ 43,251,012	\$ 46,568

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CITY OF DECORAH
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015

	General	Special Revenue	
		Employee Benefits	State Road Use Tax
ASSETS			
Cash	\$ 1,859,082	\$ 125,505	\$ 389,105
Investments			
Receivables			
Property taxes			
Current	12,015	4,725	
Succeeding year	2,516,151	1,067,142	
Special assessments			
Current	8,894		
Deferred	126,016		
Interest		1,338	
Other	11,839		
Due from other funds	166,783		
Due from other governments	227,692		
Inventories			6,254
Prepaid expenditures	35,476		
Restricted assets			
Investments		356,086	
Total assets	<u>\$ 4,963,948</u>	<u>\$ 1,554,796</u>	<u>\$ 395,359</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 142,805		\$ 50,090
Salaries and benefits payable	128,981	\$ 35,589	17,782
Due to other funds			
Compensated absences	28,938		4,792
Total liabilities	<u>300,724</u>	<u>35,589</u>	<u>72,664</u>
Deferred inflows of resources			
Succeeding year property tax	2,516,151	1,067,142	
Special assessments	126,016		
Total deferred inflows of resources	<u>2,642,167</u>	<u>1,067,142</u>	<u>-</u>
Fund balances			
Nonspendable	35,476		6,254
Restricted			316,441
Committed			
Assigned	415,627	452,065	
Unassigned	1,569,954		
Total fund balances	<u>2,021,057</u>	<u>452,065</u>	<u>322,695</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,963,948</u>	<u>\$ 1,554,796</u>	<u>\$ 395,359</u>

See Notes to Financial Statements.

EXHIBIT C

Debt Service	Other Governmental Funds	Total Governmental Funds
\$ 76,884	\$ 1,249,168 229,585	\$ 3,699,744 229,585
1,693 391,999	332 79,045	18,765 4,054,337
		8,894 126,016 1,698 11,839 166,783 227,692 6,254 35,476
		356,086
<u>\$ 470,576</u>	<u>\$ 1,558,490</u>	<u>\$ 8,943,169</u>
	\$ 154,051	\$ 346,946 182,352 166,783 33,730
<u>\$ -</u>	<u>320,834</u>	<u>729,811</u>
391,999	79,045	4,054,337 126,016
<u>391,999</u>	<u>79,045</u>	<u>4,180,353</u>
78,577	223,031 276,055 796,651 (137,126)	41,730 618,049 276,055 1,664,343 1,432,828
<u>78,577</u>	<u>1,158,611</u>	<u>4,033,005</u>
<u>\$ 470,576</u>	<u>\$ 1,558,490</u>	<u>\$ 8,943,169</u>

CITY OF DECORAH
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015

Reconciliation of governmental fund balances to net position	
Total governmental fund balances	\$ 4,033,005
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds, net of accumulated depreciation of \$ 22,321,806	
	36,844,341
Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:	
Deferred outflows of resources	535,573
Deferred inflows of resources	(853,444)
Long-term liabilities, including bonds payable, compensated absences, other postemployment benefits payable, net pension liabilities and accrued interest payable, are not due and payable in the current year and, therefore, are not reported as liabilities in the governmental funds:	
Bonds payable	(6,412,100)
Bond premium	(145,356)
Bond discount	37,614
Compensated absences	(168,650)
Net pension liability	(1,986,033)
Net OPEB liability	(99,646)
Accrued interest	(8,819)
	<u>31,776,485</u>
Net position of governmental activities	<u>\$ 31,776,485</u>

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CITY OF DECORAH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

	General	Special Revenue	
		Employee Benefits	State Road Use Tax
REVENUES			
Property taxes	\$ 2,590,277	\$ 1,112,317	
Tax increment financing collections			
Other City tax	1,118,279	20,376	
Licenses and permits	32,559		
Use of money and property	21,578	4,311	\$ 23
Intergovernmental	453,230		845,066
Charges for service	525,261		
Miscellaneous	201,531	17,102	23,331
Total revenues	4,942,715	1,154,106	868,420
EXPENDITURES			
Current operating			
Public safety	1,885,462	613,113	
Public works	834,702	172,501	670,592
Health and social services	21,095		
Culture and recreation	1,348,286	277,637	
Community and economic development	26,486		22,184
General government	503,371	108,983	
Capital projects	45,137		
Debt service			
Principal	539,756		17,300
Interest and other charges	35,178		1,729
Total expenditures	5,239,473	1,172,234	711,805
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	(296,758)	(18,128)	156,615
OTHER FINANCING SOURCES (USES)			
Proceeds from capital assets sold	7,275		15
Proceeds from issuance of debt	415,285		
Debt issuance premium			
Transfers in/(out)	139,357		
Total other financing sources (uses)	561,917	-	15
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	265,159	(18,128)	156,630
FUND BALANCES, beginning of year	1,755,898	470,193	166,065
FUND BALANCES, end of year	\$ 2,021,057	\$ 452,065	\$ 322,695

See Notes to Financial Statements.

EXHIBIT D

Debt Service	Other Governmental Funds	Total Governmental Funds
\$ 409,021	\$ 56,075	\$ 4,167,690
	244,337	244,337
7,302	249,875	1,395,832
		32,559
	8,102	34,014
	244,526	1,542,822
		525,261
	42,685	284,649
<u>416,323</u>	<u>845,600</u>	<u>8,227,164</u>
	2,055	2,500,630
		1,677,795
	10,043	31,138
	126,601	1,752,524
	163,680	212,350
		612,354
	256,309	301,446
533,000		1,090,056
<u>118,424</u>		<u>155,331</u>
<u>651,424</u>	<u>558,688</u>	<u>8,333,624</u>
<u>(235,101)</u>	<u>286,912</u>	<u>(106,460)</u>
		7,290
3,288,357	823,758	4,527,400
117,959		117,959
<u>(3,161,979)</u>	<u>(378,457)</u>	<u>(3,401,079)</u>
<u>244,337</u>	<u>445,301</u>	<u>1,251,570</u>
9,236	732,213	1,145,110
<u>69,341</u>	<u>426,398</u>	<u>2,887,895</u>
<u>\$ 78,577</u>	<u>\$ 1,158,611</u>	<u>\$ 4,033,005</u>

CITY OF DECORAH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

Reconciliation of the statement of revenues, expenditures, and changes in fund balances of governmental funds to the statement of activities			
Net change in fund balances - total governmental funds		\$	1,145,110
Amounts reported for governmental activities in the statement of activities are different because:			
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlay in the period:			
Depreciation		\$ (1,639,656)	
Capital outlays		<u>1,251,338</u>	(388,318)
Proceeds from issuing long-term debt are included in the governmental funds but issuing debt increases long-term liabilities in the statement of net position. Repayment of long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position. Current year issuances exceeded repayments, as follows:			
Issued		(4,527,400)	
Premium on general obligation bonds issued		(159,141)	
Discount on general obligation bonds issued		41,182	
Repaid		<u>1,090,056</u>	(3,555,303)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.			
			(4,540)
The current year City employer share of IPERS contributions are reported as expenditures in the governmental funds, but are reported as a deferred outflow of resources in the statement of net position.			
			139,061
The current year City employer share of MFPRSI contributions are reported as expenditures in the governmental funds, but are reported as a deferred outflow of resources in the statement of net position.			
			234,080
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:			
Accounts payable			
Compensated absences		(10,606)	
Net OPEB liability		(19,616)	
Pension expense		(164,927)	
Interest on long-term debt		<u>10,217</u>	(184,932)
Change in net position of governmental activities		\$	<u>(2,614,842)</u>

See Notes to Financial Statements.

CITY OF DECORAH
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2015

	Water Utilities	Sewer Utilities	Metronet	Total
ASSETS				
Cash	\$ 679,650	\$ 1,504,585	\$ 14,243	\$ 2,198,478
Receivables				
Accounts and unbilled usage, net	148,791	195,607	13,037	357,435
Due from other governments		42,179		42,179
Inventory	15,000			15,000
Prepaid expenses	5,158	6,131		11,289
Total current assets	848,599	1,748,502	27,280	2,624,381
Noncurrent assets				
Land		123,553		123,553
Net capital assets	3,903,798	6,777,397	92,505	10,773,700
Total noncurrent assets	3,903,798	6,900,950	92,505	10,897,253
Total assets	4,752,397	8,649,452	119,785	13,521,634
DEFERRED OUTFLOWS OF RESOURCES				
Pension related deferred outflows	37,733	42,228		79,961
Total assets and deferred outflows of resources	\$ 4,790,130	\$ 8,691,680	\$ 119,785	\$ 13,601,595
LIABILITIES AND NET POSITION				
Liabilities				
Accounts payable	\$ 297,348	\$ 330,570	\$ 14,783	\$ 642,701
Salaries and benefits payable	15,482	13,559		29,041
Accrued interest payable	343	708		1,051
Long-term liabilities				
Loan payable	45,000			45,000
Bonds payable	62,500	151,200		213,700
Compensated absences	15,999	15,601		31,600
Total current liabilities	436,672	511,638	14,783	963,093
Noncurrent liabilities				
Long-term liabilities				
Loan payable	63,750			63,750
Bonds payable	189,800	424,400		614,200
Net pension liability	158,992	177,894		336,886
Net OPEB liability	10,622	10,039		20,661
Total long-term liabilities	423,164	612,333	-	1,035,497
Total liabilities	859,836	1,123,971	14,783	1,998,590
DEFERRED INFLOWS OF RESOURCES				
Pension related deferred inflows	60,635	67,843		128,478
Total liabilities and deferred inflows of resources	920,471	1,191,814	14,783	2,127,068
Net position				
Net investment in capital assets	3,542,748	6,325,350	92,505	9,960,603
Unrestricted	326,911	1,174,516	12,497	1,513,924
Total net position	3,869,659	7,499,866	105,002	11,474,527
Total liabilities, deferred inflows of resources, and net position	\$ 4,790,130	\$ 8,691,680	\$ 119,785	\$ 13,601,595

See Notes to Financial Statements.

CITY OF DECORAH
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2015

	Water Utilities	Sewer Utilities	Metronet	Total
OPERATING REVENUES				
Charges for service				
Sewer rental fees		\$ 823,240		\$ 823,240
Sale of water	\$ 666,613			666,613
Miscellaneous	25,705	23,545	\$ 30,424	79,674
Intergovernmental				
Freeport share		41,160		41,160
Miscellaneous	307	3,657		3,964
Total operating revenues	692,625	891,602	30,424	1,614,651
OPERATING EXPENSES				
Salaries	278,463	262,895		541,358
Payroll taxes and fringe benefits	109,337	159,583		268,920
Insurance	18,731	16,292		35,023
Training	5,275	6,313		11,588
Vehicle repair and maintenance	3,146	17,577		20,723
Office supplies	2,813	3,474	902	7,189
Sales tax	34,933	13,902		48,835
Building maintenance and utilities	89,399	106,034	4,019	199,452
Emergency expense	4,089	9,753		13,842
Vehicle gas and oil	4,355	12,238		16,593
Engineering expense	17,466	9,759		27,225
Operating supplies and maintenance	51,179	58,691	19,401	129,271
Chemicals and testing	14,810			14,810
Hydrants, meters, and other parts	31,707	34,544	8,205	74,456
Depreciation	89,170	271,644	10,423	371,237
Total operating expenses	754,873	982,699	42,950	1,780,522
Total operating (loss)	(62,248)	(91,097)	(12,526)	(165,871)
NONOPERATING REVENUES (EXPENSES)				
Interest income	80	473		553
Interest and other charges	(7,019)	(12,602)		(19,621)
Net nonoperating expenses	(6,939)	(12,129)	-	(19,068)
Loss before contributions and transfers	(69,187)	(103,226)	(12,526)	(184,939)
CAPITAL CONTRIBUTIONS AND TRANSFERS				
Transfers in	1,667,666	1,739,553		3,407,219
Transfers out	(6,140)			(6,140)
	1,661,526	1,739,553	-	3,401,079
Change in net position	1,592,339	1,636,327	(12,526)	3,216,140
NET POSITION, beginning of year, restated	2,277,320	5,863,539	117,528	8,258,387
NET POSITION, end of year	\$ 3,869,659	\$ 7,499,866	\$ 105,002	\$ 11,474,527

See Notes to Financial Statements.

CITY OF DECORAH
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2015

	Water Utilities	Sewer Utilities	Metronet	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from rent		\$ 822,997		\$ 822,997
Cash received from charges for services	\$ 688,533	23,545	\$ 31,987	744,065
Cash payments to employees for services	(399,384)	(433,233)		(832,617)
Cash payments to suppliers for services	(83,803)	40,400	(17,744)	(61,147)
Net cash provided by operating activities	205,346	453,709	14,243	673,298
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating transfers in	1,667,666	1,739,553		3,407,219
Operating transfers out	(6,140)			(6,140)
Net cash provided by noncapital financing activities	1,661,526	1,739,553	-	3,401,079
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal payments on bond	(256,780)	(283,164)		(539,944)
Principal payments on loan payable	(45,000)			(45,000)
Proceeds from bonds	189,800	127,800		317,600
Interest paid on long-term borrowing	(7,410)	(13,110)		(20,520)
Acquisition of capital assets	(1,121,247)	(1,002,063)		(2,123,310)
Net cash used in capital and related financing activities	(1,240,637)	(1,170,537)	-	(2,411,174)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	80	473		553
Net increase in cash and cash equivalents	626,315	1,023,198	14,243	1,663,756
CASH and CASH EQUIVALENTS, beginning of year	53,335	481,387	-	534,722
CASH and CASH EQUIVALENTS, end of year	\$ 679,650	\$ 1,504,585	\$ 14,243	\$ 2,198,478
Reconciliation of operating loss to net cash provided by operating activities				
Operating loss	\$ (62,248)	\$ (91,097)	\$ (12,526)	\$ (165,871)
Adjustments to reconcile operating loss to net cash provided by operating activities				
Depreciation and depletion	89,170	271,644	10,423	371,237
(Increase) decrease in accounts receivable	(4,092)	(243)	1,563	(2,772)
Increase in prepaid expense	(396)	(162)		(558)
Increase in accounts payable	187,000	280,610	14,783	482,393
Increase in salaries and benefits payable	3,139	2,311		5,450
Increase in accrued compensated absences	1,696	1,336		3,032
Decrease in net pension liability	(57,563)	(64,406)		(121,969)
Increase in deferred outflows of resources	(14,307)	(16,017)		(30,324)
Increase in deferred inflows of resources	60,635	67,843		128,478
Increase in other postemployment benefits	2,312	1,890		4,202
Net cash provided by operating activities	\$ 205,346	\$ 453,709	\$ 14,243	\$ 673,298

See Notes to Financial Statements.

CITY OF DECORAH

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Significant Accounting Policies

a. Nature of Operations

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

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

b. Significant Accounting Policies

Reporting Entity

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

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

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

b. Significant Accounting Policies (Continued)

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions:

- Winneshiek County Area Solid Waste Agency,
- Upper Explorerland Regional Planning Commission,
- Northeast Iowa Behavioral Health, Inc.,
- Winneshiek County E-911,
- Northeast Iowa Task Force, and
- Metronet.

Financial transactions of these organizations are included in the City's financial statements as an agency fund since the City maintains a fiduciary relationship with these organizations and, as such, are reported in the agency fund of the City.

Government-wide Financial Statements

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

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

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

Restricted net position result when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consist of net position not meeting the definition of the two preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

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

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

b. Significant Accounting Policies (Continued)

Fund Financial Statements

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

The City reports the following major governmental funds:

Governmental

General Fund

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

Special Revenue Funds

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

Employee Benefits

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

State Road Use Tax

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

Debt Service Fund

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

The City reports the following major proprietary funds:

Enterprise Funds

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

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

b. Significant Accounting Policies (Continued)

Measurement Focus

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

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

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

- a. All governmental fund financial statements are accounted for on current financial resources measurement focus. This means that only current assets and liabilities are generally included on their balance sheets. Their reported fund balance is considered a measure of “available spendable resources.” Governmental fund operating statements present increases, revenues and other financing sources, and decreases, expenditures and other financing uses in fund balances. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.
- b. The proprietary funds are accounted for on economic resources measurement focus. This means that all assets and liabilities, whether current or non-current, associated with their activity are included on their statements of net position. In reporting the financial activity on the government-wide statements, the City applies all applicable GASB pronouncements.

Basis of Accounting

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

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

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

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

b. Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

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

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

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

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

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

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Equity

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

Cash, Pooled Investments and Cash Equivalents

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

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

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

b. Significant Accounting Policies (Continued)

*Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Equity (Continued)
Cash, Pooled Investments and Cash Equivalents (Continued)*

All of the investments, which consist of U.S. Government securities and agencies, bank certificates, and corporate bonds, are stated at fair value, which approximates cost for investments at June 30, 2015. The deposits and investments of the police and firemen retirement which are recorded in the employee benefit fund are held separately from other City funds.

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

Property Tax Receivables, Including Tax Increment Financing

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking, is certified by the City to the County Board of Supervisors. Current year property tax receivable represents taxes collected by the County but not remitted to the City at June 30, 2015 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivables have been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2013 assessed property valuations; is for the tax accrual period July 1, 2014 through June 30, 2015 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March 2014.

Customer Accounts and Unbilled Usage

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

Due from and Due to Other Funds

During the course of its operations, the City has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2015, balances of interfund amounts receivable or payable have been recorded. Interfund payables and receivables are reported on the fund financial statements.

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

b. Significant Accounting Policies (Continued)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Equity (Continued)
Due from Other Governments

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

Inventories

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

Restricted Assets

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

Capital Assets

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

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

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

b. Significant Accounting Policies (Continued)

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

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

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

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

Compensated Absences

City employees earn vacation leave at the following rates:

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

Employees may carryover up to 10 days' vacation each year at their anniversary date however, the carryover must be used within 6 months. Employees who retire may use one half of their accumulated sick leave to pay for continuing health insurance coverage under City Code. Consequently, no liability for accumulated sick leave at June 30, 2015 has been determined or presented. In accordance with GASB Statement 16, the City has accrued the liability for accrued vacation leave in the accompanying financial statements. All full time City employees accumulate vacation, holiday and personal hours for subsequent use or for payment upon termination, retirement, or death. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds and government-wide statements report the liability as it is incurred.

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

b. Significant Accounting Policies (Continued)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Equity (Continued)
Compensated Absences (Continued)

The City's approximate maximum liability for accrued compensated absences at June 30, 2015 is as follows:

Governmental	\$ 202,380
Enterprise	31,600
Total	\$ 233,980

These liabilities have been computed based on rates of pay as of June 30, 2015.

Long-term Liabilities

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

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and the Municipal Fire and Police Retirement System (MFPRSI), collectively referred to as Systems and additions to/deductions from the Systems' fiduciary net position have been determined on the same basis as they are reported by the Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of property tax receivable and other receivables not collected within sixty days after year end.

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

b. Significant Accounting Policies (Continued)

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

Deferred inflows of resources in the statement of net position consist of succeeding year property tax and special assessment receivables that will not be recognized as revenue until the year they are levied and due and the unamortized portion of the net difference between projected and actual earnings of pension plan investments.

Fund Equity

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

Nonspendable

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

Restricted

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

Committed

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

Assigned

Amounts the City Council intend to use for specific purposes.

Unassigned

All amounts not included in other spendable classifications.

Budgets and Budgetary Accounting

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

Revenues

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

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

NOTES TO FINANCIAL STATEMENTS

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

b. Significant Accounting Policies (Continued)

*Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Equity (Continued)
Management Estimates*

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

2. Cash and Pooled Investments

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

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

At June 30, 2015 the City had the following investments:

Type	Fair Value	Quoted Prices in Active Market for Identical Assets (Level 1)
Federal Home Loan Mortgage Corporation	\$ 2	\$ 2
Federal Home Loan Banks	152,159	152,159
United States Treasury Notes	37,247	37,247
Franklin US Government Securities Fund Class C	56,235	56,235
HSBC Bank USA	95,220	95,220
Bank of the West insured cash	15,223	15,223
	\$ 356,086	\$ 356,086

Interest Rate Risk

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

NOTES TO FINANCIAL STATEMENTS

2. Cash and Pooled Investments (Continued)

Credit Risk

The City's Federal Home Loan Banks and United States Treasury Notes investment at June 30, 2015 is rated AAA by Standard & Poor's Investor service.

At June 30, 2015, the City's Federal Home Loan Mortgage Corporation, Franklin US Government Securities Fund Class C, HSBC Bank USA, Bank of the West insured cash, and certificates of deposit are unrated.

3. Capital Assets

Capital assets activity for the year ended June 30, 2015 was as follows:

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 1,067,659	\$ 27,943		\$ 1,095,602
Infrastructure in progress	70,454	338,957	\$ 47,812	361,599
Total capital assets not being depreciated	1,138,113	366,900	47,812	1,457,201
Capital assets being depreciated				
Buildings and improvements	6,794,867			6,794,867
Improvements other than buildings	2,461,433			2,461,433
Equipment	3,520,864	406,217	19,724	3,907,357
Vehicles	1,835,597	48,459	22,000	1,862,056
Infrastructure	42,200,351	482,882		42,683,233
Total capital assets being depreciated	56,813,112	937,558	41,724	57,708,946
Less accumulated depreciation				
Buildings and improvements	2,921,474	188,210		3,109,684
Improvements other than buildings	1,391,493	39,073		1,430,566
Equipment	3,104,958	145,505	14,416	3,236,047
Vehicles	1,579,544	61,542	22,000	1,619,086
Infrastructure	11,721,097	1,205,326		12,926,423
Total accumulated depreciation	20,718,566	1,639,656	36,416	22,321,806
Total capital assets being depreciated, net	36,094,546	(702,098)	5,308	35,387,140
Governmental activities capital assets, net	\$ 37,232,659	\$ (335,198)	\$ 53,120	\$ 36,844,341

NOTES TO FINANCIAL STATEMENTS

3. Capital Assets (Continued)

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 79,775	\$ 43,778		\$ 123,553
Infrastructure in progress	262,897	1,951,063		2,213,960
Total capital assets not being depreciated	342,672	1,994,841	\$ None	2,337,513
Capital assets being depreciated				
Buildings and improvements	3,574,038			3,574,038
Improvements other than buildings	2,890,960			2,890,960
Equipment	5,014,175	72,757	28,420	5,058,512
Vehicles	173,732	24,872	15,111	183,493
Infrastructure, water and sewer network	5,853,243	30,841	23,425	5,860,659
Total capital assets being depreciated	17,506,148	128,470	66,956	17,567,662
Less accumulated depreciation				
Buildings and improvements	1,734,729	84,631		1,819,360
Improvements other than buildings	1,803,307	77,571		1,880,878
Equipment	2,550,131	114,918	28,420	2,636,629
Vehicles	171,822	4,397	15,111	161,108
Infrastructure, water and sewer network	2,443,651	89,720	23,425	2,509,946
Total accumulated depreciation	8,703,640	371,237	66,956	9,007,921
Total capital assets being depreciated, net	8,802,508	(242,767)	None	8,559,741
Business-type activities capital assets, net	\$ 9,145,180	\$ 1,752,074	\$ None	\$ 10,897,254

NOTES TO FINANCIAL STATEMENTS

3. Capital Assets (Continued)

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

Governmental activities			
Public safety	\$	80,586	
Public works		1,398,559	
Culture and recreation		116,986	
General government		43,525	
		43,525	
Total depreciation expense	\$	1,639,656	
 Business-type activities			
Water	\$	89,170	
Metronet		10,423	
Sewer			
Sanitary sewer	\$	69,460	
Sewer utility		28,258	
Wastewater		173,926	271,644
		173,926	271,644
Total depreciation expense	\$	371,237	

4. Leases

The City has agreed to lease space to the Winneshiek County Sheriff's office for a one year period starting July 1, 2015. The lease requires a \$184,315 payment for the year to the City. The City also has other nominal leases with various parties and terms.

At June 30, 2015 future minimum lease receipts were as follows:

Year ending June 30,		
2016	\$	193,476
2017		120
2018		120
2019		120
2020		120
		193,956

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

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2015:

Year ending June 30,		
2016	\$	6,264
2017		1,864
2018		1,464
2019		1,464
		11,056

NOTES TO FINANCIAL STATEMENTS

5. **Long-term Debt**

Bonded Debt

General Obligation Bonds/Notes

As of June 30, 2015, one general obligation corporate purpose and refunding note originally totaling \$5,200,000 is outstanding. As of June 30, 2015, \$2,775,000 is outstanding. The general obligation corporate purpose note bears interest at 1.59% and matures in semi-annual installments with the final payment of \$455,000 in the year ending June 30, 2019.

As of June 30, 2015, one general obligation corporate purpose note originally totaling \$4,962,959 is outstanding. As of June 30, 2015, \$4,572,742, net of unamortized premium and discount of \$107,742 is outstanding. The general obligation corporate purpose note bears interest ranging from 2.0% to 3.5% and matures in semi-annual installments with the final payment of \$335,000 in the year ending June 30, 2029.

Notes Payable

The City has the following notes payable at June 30, 2015:

Hawkeye Tri-County Electric Cooperative

Rural Economic Development Loan

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

\$ 108,750

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					
Corporate Purpose Notes					
2008 Bond	\$ 415,000		\$ (415,000)	\$ None	
2013 Bond	3,610,000		(835,000)	2,775,000	\$ 850,000
2014 Bond		\$ 4,845,000	(380,000)	4,465,000	370,000
	<u>4,025,000</u>	<u>4,845,000</u>	<u>(1,630,000)</u>	<u>7,240,000</u>	<u>1,220,000</u>
Plus unamortized premium		159,142	(13,785)	145,357	
Less unamortized discount		(41,183)	3,568	(37,615)	
	<u>None</u>	<u>117,959</u>	<u>(10,217)</u>	<u>107,742</u>	<u>None</u>
Total bonded debt	<u>\$ 4,025,000</u>	<u>\$ 4,962,959</u>	<u>\$ (1,640,217)</u>	<u>\$ 7,347,742</u>	<u>\$ 1,220,000</u>
Notes Payable					
Rural Economic Development Loan	<u>\$ 153,750</u>	<u>\$ None</u>	<u>\$ (45,000)</u>	<u>\$ 108,750</u>	<u>\$ 45,000</u>

NOTES TO FINANCIAL STATEMENTS

5. **Long-term Debt (Continued)**

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

Year Ending June 30,	Bonded Indebtedness		Notes Payable	
	Principal	Interest	Principal	Interest
2016	\$ 1,220,000	\$ 176,210	\$ 45,000	
2017	1,240,000	155,295	45,000	
2018	995,000	134,021	18,750	
2019	855,000	112,772		
2020	255,000	93,538		
2021-2025	1,395,000	347,987		
2026-2029	1,280,000	112,988		
	<u>\$ 7,240,000</u>	<u>\$ 1,132,811</u>	<u>\$ 108,750</u>	<u>\$ None</u>

The 2014 general obligation bond payable is partially payable by the water and sewer funds and the remaining balance has been recorded in the debt service and road use fund. This debt is backed by the full faith and credit of the City. At June 30, 2015, the outstanding bond payable for the water fund, sewer fund and road use fund are:

Governmental funds	\$ 4,210,100
Water fund	152,300
Sewer fund	102,600
	<u>\$ 4,465,000</u>

The 2013 general obligation bond payable is partially payable by the water and sewer funds and the remaining balance has been recorded in the tax increment financing, debt service, and general fund. The bank notes are partially funded by the assessment of various Decorah residents and businesses located in the defined assessed areas. This debt is backed by the full faith and credit of the City. At June 30, 2015 the outstanding note payable for the governmental funds, water fund, and sewer fund are:

Governmental funds	\$ 2,202,000
Water fund	100,000
Sewer fund	473,000
	<u>\$ 2,775,000</u>

At June 30, 2015 the debt issued by the City did not exceed its legal debt margin compiled as follows:

Total assessed valuation	<u>\$ 480,205,359</u>
Debt limit – 5% of total assessed valuation	\$ 24,010,268
Debt applicable to debt limit	
Bank notes and bonded debt outstanding	<u>7,348,750</u>
Legal debt margin	<u>\$ 16,661,518</u>

The City currently has Low-to-Moderate (LMI) set aside of \$139,079.

NOTES TO FINANCIAL STATEMENTS

6. Long-term Liabilities

Accrued Compensated Absences

Following is a summary of the City's activity for accrued compensated absences for the year ended June 30, 2015, and the total liability of the City as of that date as reported on the government-wide statement of net position:

	Balance June 30, 2014	Increases	Decreases	Balance June 30, 2015	Amounts Payable Within One Year
Governmental activities	\$ 189,652	\$ 44,336	\$ (31,608)	\$ 202,380	\$ 33,730
Business-type activities	\$ 28,568	\$ 31,600	\$ (28,568)	\$ 31,600	\$ 31,600

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

7. Interfund Transfers

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

	Transfer In	Transfer Out
General fund	\$ 139,357	
Tax increment financing		\$ 244,337
Emergency fund		57,164
Debt service fund		3,161,979
Capital projects fund		38
Short Street improvement project		76,918
Water utilities	1,661,526	
Sewer utilities	1,739,553	
	\$ 3,540,436	\$ 3,540,436

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

8. Due From and Due to Other Funds

As of June 30, 2015 interfund receivables and payables that resulted from various interfund transactions were as follows:

Receivable Fund	Payable Fund	Amount
General	Special revenue	
	Tax incremental financing	\$ 29,657
General	Capital projects	
	Local trail development	137,126
		\$ 166,783

Repayments will be made from future revenues.

9. 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 member's 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 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.

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.

9. **Pension Plan (Continued)**

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 rate of 16.90%.

The City's contributions to IPERS for the year ended June 30, 2015 were \$190,445.

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

At June 30, 2015, the City reported a liability of \$1,273,798 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the 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 collective proportion was 0.314740%, which was an increase of 0.000831 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the City recognized pension expense of \$104,239. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 13,844	
Changes of assumptions	56,216	
Net difference between projected and actual earnings on pension plan investments		\$ 485,790
Changes in proportion and differences between City contributions and proportionate share of contributions	37,991	
City contributions subsequent to the measurement date	190,445	
Total	\$ 298,496	\$ 485,790

9. **Pension Plan (Continued)**

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

\$190,445 reported as deferred outflows of resources related to pensions resulting from the City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	
2016	\$ (96,202)
2017	(96,202)
2018	(96,202)
2019	(96,202)
2020	<u>7,069</u>
Total	<u>\$ (377,739)</u>

There were no non-employer contributing entities at IPERS.

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:

NOTES TO FINANCIAL STATEMENTS

9. **Pension Plan (Continued)**
Actuarial Assumptions (Continued)

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 7.50%. 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.

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 7.50%, 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 (6.50%) or 1-percentage-point higher (8.50%) 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	\$ 2,406,806	\$ 1,273,798	\$ 317,422

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.

Payables to the Pension Plan

At June 30, 2015, the City had no payables to report for the defined benefit pension plan for legally required employer contributions and legally required employee contributions, which had been withheld from employee wages but not yet remitted to IPERS.

10. Municipal Fire and Police Retirement System of Iowa (MFPRSI)*Plan Description*

MFPRSI membership is mandatory for fire fighters and police officers covered by the provisions of Chapter 411 of the Code of Iowa. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by MFPRSI. MFPRSI issues a stand-alone financial report which is available to the public by mail at 7155 Lake Drive, Suite #201, West Des Moines, Iowa 50266 or at www.mfprsi.org.

MFPRSI benefits are established under Chapter 411 of the Code of Iowa and the administrative rules thereunder. Chapter 411 of the Code of Iowa 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

Members with 4 or more years of service are entitled to pension benefits beginning at age 55. Full service retirement benefits are granted to members with 22 years of service, while partial benefits are available to those members with 4 to 22 years of service based on the ratio of years completed to years required (i.e., 22 years). Members with less than 4 years of service are entitled to a refund of their contribution only, with interest, for the period of employment.

Benefits are calculated based upon the member's highest 3 years of compensation. The average of these 3 years becomes the member's average final compensation. The base benefit is 66 percent of the member's average final compensation. Additional benefits are available to members who perform more than 22 years of service (2 percent for each additional year of service, up to a maximum of 8 years). Survivor benefits are available to the beneficiary of a retired member according to the provisions of the benefit option chosen plus an additional benefit for each child. Survivor benefits are subject to a minimum benefit for those members who chose the basic benefit with a 50 percent surviving spouse benefit.

Active members, at least 55 years of age, with 22 or more years of service have the option to participate in the Deferred Retirement Option Program (DROP). The DROP is an arrangement whereby a member who is otherwise eligible to retire and commence benefits opts to continue to work. A member can elect a 3, 4, or 5 year DROP period. By electing to participate in DROP the member is signing a contract indicating the member will retire at the end of the selected DROP period. During the DROP period the member's retirement benefit is frozen and a DROP benefit is credited to a DROP account established for the member. Assuming the member completes the DROP period, the DROP benefit is equal to 52% of the member's retirement benefit at the member's earliest date eligible and 100% if the member delays enrollment for 24 months. At the member's actual date of retirement, the member's DROP account will be distributed to the member in the form of a lump sum or rollover to an eligible plan.

Disability and Death Benefits

Disability coverage is broken down into two types, accidental and ordinary. Accidental disability is defined as permanent disability incurred in the line of duty, with benefits equivalent to the greater of 60 percent of the member's average final compensation or the member's service retirement benefit calculation amount. Ordinary disability occurs outside the call of duty and pays benefits equivalent to the greater of 50 percent of the member's average final compensation, for those with 5 or more years of service, or the member's service retirement benefit calculation amount, and 25 percent of average final compensation for those with less than 5 years of service.

10. Municipal Fire and Police Retirement System of Iowa (MFPRSI) (Continued)

Disability and Death Benefits (Continued)

Death benefits are similar to disability benefits. Benefits for accidental death are 50 percent of the average final compensation of the member plus an additional amount for each child, or the provisions for ordinary death. Ordinary death benefits consist of a pension equal to 40 percent of the average final compensation of the member plus an additional amount for each child, or a lump-sum distribution to the designated beneficiary equal to 50 percent of the previous year's earnable compensation of the member or equal to the amount of the member's total contributions plus interest.

Benefits are increased (escalated) annually in accordance with Chapter 411.6 of the Code of Iowa which states a standard formula for the increases.

The surviving spouse or dependents of an active member who dies due to a traumatic personal injury incurred in the line of duty receives a \$100,000 lump-sum payment.

Contributions

Member contribution rates are set by state statute. In accordance with Chapter 411 of the Code of Iowa as modified by act of the 1994 General Assembly, to establish compliance with the Federal Older Workers Benefit Protections Act, the contribution rate was 9.40% of earnable compensation for the year ended June 30, 2015.

Employer contribution rates are based upon an actuarially determined normal contribution rate and set by state statute. The required actuarially determined contributions are calculated on the basis of the entry age normal method as adopted by the Board of Trustees as permitted under Chapter 411 of the Code of Iowa. The normal contribution rate is provided by state statute to be the actuarial liabilities of the plan less current plan assets, with such total divided by 1 percent of the actuarially determined present value of prospective future compensation of all members, further reduced by member contributions and state appropriations. Under the Code of Iowa the employer's contribution rate cannot be less than 17.00% of earnable compensation. The contribution rate was 30.41% for the year ended June 30, 2015.

The City's contributions to MFPRSI for the year ended June 30, 2015 were \$234,080.

If approved by the state legislature, state appropriation may further reduce the employer's contribution rate, but not below the minimum statutory contribution rate of 17.00% of earnable compensation. The State of Iowa therefore is considered to be a nonemployer contributing entity in accordance with the provisions of the Governmental Accounting Standards Board Statement No. 67 – *Financial Reporting for Pension Plans*, (GASB 67).

There were no state appropriations to the MFPRSI during the fiscal year ended June 30, 2014.

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

At June 30, 2015, the City reported a liability of \$1,049,121 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all MFPRSI participating employers. At June 30, 2014, the City's proportion was 0.289414%, which was an increase of 0.001191 from its proportion measured as of June 30, 2013.

NOTES TO FINANCIAL STATEMENTS

10. **Municipal Fire and Police Retirement System of Iowa (MFPRSI) (Continued)**

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

For the year ended June 30, 2015, the City recognized pension expense of \$88,254. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		\$ 2,969
Changes of assumptions	\$ 77,540	
Net difference between projected and actual earnings on pension plan investments		493,163
Changes in proportion and differences between City contributions and proportionate share of contributions	5,418	
City contributions subsequent to the measurement date	234,080	
Total	\$ 317,038	\$ 496,132

\$234,080 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	
2016	\$ (104,650)
2017	(104,650)
2018	(104,650)
2019	(104,650)
2020	5,426
Total	\$ (413,174)

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	3.00%
Salary increases	4.50% to 15.11%, including inflation.
Investment rate of return	7.50%, net of pension plan investment expense, including inflation.

NOTES TO FINANCIAL STATEMENTS

10. Municipal Fire and Police Retirement System of Iowa (MFPRSI) (Continued)
Actuarial Assumptions (Continued)

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2002 to June 30, 2012.

Mortality rates were based weighing equal to 2/12 of the 1971 GAM table and 10/12 of the 1994 GAM table with no projection of future mortality improvement.

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 (i.e., 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 geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Core Plus Fixed Income	7%	3.8%
Emerging Markets Debt	3	6.5
Domestic Equities	12.5	6.0
Master Limited Partnerships (MLP)	5	8.5
International Equities	12.5	7.0
Core Investments	40%	
Tactical Asset Allocation	35	6.0
Private Equity	15	9.8
Private Non-Core Real Estate	5	9.3
Private Core Real Estate	5	6.8
Real Estate	10	
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at 9.40% of covered payroll and the City contributions will be made at rates equal to the difference between actuarially determined rates and the member rate. 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 plan members. 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.

10. **Municipal Fire and Police Retirement System of Iowa (MFPRSI) (Continued)**

Sensitivity of 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 7.50%, 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-percent lower (6.50%) or 1-percent higher (8.50%) 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	\$ 2,011,606	\$ 1,049,121	\$ 249,383

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

At June 30, 2015, the City had no payables to report for the defined benefit pension plan for legally required employer contributions and legally required employee contributions, which had been withheld from employee wages but not yet remitted to MFPRSI.

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

Plan Description

The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 61 active and 5 retired members in the plan. Retired participants must be age 55 or older at retirement.

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

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

NOTES TO FINANCIAL STATEMENTS

11. **Other Postemployment Benefits (OPEB) (Continued)**

Annual OPEB Cost and Net OPEB Obligation (Continued)

The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2015, the amount actually contributed to the plan and changes in the City's net OPEB obligation:

Annual required contribution	\$	71,843
Interest on net OPEB obligation		3,860
Adjustment to annual required contribution		(3,687)
Annual OPEB cost		72,016
Contributions made		(48,198)
Increase in net OPEB obligation		23,818
Net OPEB obligation beginning of year		96,489
Net OPEB obligation end of year	\$	120,307

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2015.

For the year ended June 30, 2015, the City contributed \$25,386 to the medical plan. Plan members eligible for benefits contributed \$10,966 or 30.17% of the premium costs.

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

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 47,091	46.0%	\$ 25,426
June 30, 2011	47,136	68.1%	40,459
June 30, 2012	59,613	59.5%	73,661
June 30, 2013	71,991	60.8%	82,797
June 30, 2014	71,991	53.6%	96,489
June 30, 2015	72,016	66.9%	120,307

Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2014 through June 30, 2015, the actuarial accrued liability was \$718,466, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$718,466. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2,703,285 and the ratio of the UAAL to covered payroll was 26.6%. As of June 30, 2015, there were no trust fund assets.

11. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

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

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

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

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

12. Net Position and Fund Balances

The government-wide statement of net position reports \$1,352,423 of restricted net position, of which \$322,695 is restricted by enabling legislation at June 30, 2015.

The amounts restricted are as follows:

Restricted net position	
Special revenue funds	
Employee benefits	\$ 452,065
State road use tax	322,695
Self-supported municipal improvement city	30,414
Tax increment financing	189,629
Emergency	238
Police forfeitures	2,433
Memorial	317
Park commission special gifts	96,923
Library board special gifts	179,132
Debt service fund	78,577
	\$ 1,352,423

NOTES TO FINANCIAL STATEMENTS

12. Net Position and Fund Balances (Continued)

The governmental fund balances as of June 30, 2015 are as follows:

Nonspendable	
General fund	
Prepaid insurance	\$ 35,476
Special revenue funds	
State road use tax	
Inventory	6,254
	<u>\$ 41,730</u>
Restricted	
Special revenue funds	
Tax increment financing	\$ 189,629
State road use tax	316,441
Self-supported municipal improvement city	30,414
Emergency	238
Police forfeitures	2,433
Memorial	317
Debt service fund	78,577
	<u>\$ 618,049</u>
Committed	
Special revenue funds	
Park commission special gifts	\$ 96,923
Library board special gifts	179,132
	<u>\$ 276,055</u>
Assigned	
General fund	
Visioning committee	\$ 1,156
City Hall equipment	26,665
Skate park	105
Airport equipment	10,280
Swimming pool equipment	174,691
Recreation equipment	4,963
New shelter	5,619
Library technology	913
Softball/tennis improvement	95,294
Park equipment	20,822
Police equipment	10,989
Park land acquisition	20,768
Sidewalk	2,229
Fire department equipment	41,133
Special revenue funds	
Employee benefits	452,065
Capital projects fund	
Dry Run Trail	58,015
Hwy 9 WA/SE/ST Imp	738,636
	<u>\$ 1,664,343</u>

13. Fund Balance Deficits

The local trail development fund has a deficit balance as of June 30, 2015 of \$137,126. This deficit will be eliminated with the City's portion of the hotel/motel tax.

14. Related Party Transactions

The City had business transactions between the City and City officials, Randy Schissel, member of City Council; Brett Willie, member of the airport commission; and Paul Wanless, member of City Council, totaling \$22,927 during the year ended June 30, 2015.

- The transaction with Randy Schissel consisted of retail purchases with total payments to Storey Kenworthy of \$17,778. Mr. Schissel is an account executive at Storey Kenworthy.
- The transaction with Brett Willie consisted of retail purchases with total payments to Sherwin Williams of \$3,088. Mr. Willie is the manager of Sherwin Williams.
- The transaction with Paul Wanless (who resigned during the year ended June 30, 2015) consisted of retail purchases with total payments to the Sports Shop of \$2,061, prior to his resignation. Mr. Wanless is an owner of the Sports Shop.

15. Risk Management

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

The City is partially self-insured for health care insurance of employees. The City purchases insurance with a \$2,000 deductible and self-insures to provide employees with deductibles of \$250 per person and \$500 per family per year. The City's maximum annual cost per employee of this coverage is \$3,250 per employee and \$6,500 per family. The City has incurred costs totaling \$89,337 for the 2015 fiscal year. At June 30, 2015, the maximum potential additional City liability because of this plan was \$264,013.

16. Contingent Liabilities

The City participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of June 30, 2015 significant amounts of grant expenditures have not been audited by granting authorities but the City believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the City.

17. Joint Ventures

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

NOTES TO FINANCIAL STATEMENTS

17. Joint Ventures (Continued)

The City participates in the Metronet, a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa. Financial transactions of this organization are included in the City's financial statements as the agency fund because of the City's fiduciary relationship with the organization. The following financial data is for the year ended June 30, 2015:

Additions	
Miscellaneous	\$ 2,709
Total additions	2,709
Deductions	
Equipment	97,430
Net	(94,721)
Balance, beginning of year	94,721
Balance, end of year	\$ None

18. New Governmental Accounting Standards Board (GASB) Standards

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

GASB Statement 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.

19. Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB No. 27* was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments, which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and for changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Beginning net position for governmental and business-type activities were restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

NOTES TO FINANCIAL STATEMENTS

19. Accounting Change/Restatement (Continued)

	Governmental Activities	Business-type Activities		Total Business-type Activities
		Water Utilities	Sewer Utilities	
Net position June 30, 2014, as previously reported	\$ 36,903,445	\$ 2,470,449	\$ 6,079,628	\$ 8,550,077
Net pension liability at June 30, 2014	(2,872,774)	(216,555)	(242,300)	(458,855)
Change in outflows of resources related to contributions made after the June 30, 2013 measurement date	360,656	23,426	26,211	49,637
Net position July 1, 2014, as restated	\$ 34,391,327	\$ 2,277,320	\$ 5,863,539	\$ 8,140,859

20. Commitments

The City has entered into construction contracts totaling \$2,855,450 for the Highway 9 East sewer and water main improvement project and airport projects. The costs for the Highway 9 East sewer and water main improvement project will be paid with proceeds from the 2014 bond issuance.

21. Subsequent Events

The City is currently contemplating assisting a hotel redevelopment project through a grant and TIF rebates.

Management has evaluated subsequent events through November 4, 2015, the date on which the financial statements were available to be issued.

Required Supplementary Information

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

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual
RECEIPTS			
Property taxes	\$ 4,118,210		\$ 4,118,210
Tax increment financing collections	244,337		244,337
Other City taxes	1,365,196		1,365,196
Licenses and permits	34,443		34,443
Use of money and property	34,182	\$ 553	34,735
Intergovernmental revenues	1,547,666	39,013	1,586,679
Charges for services	528,238	1,529,734	2,057,972
Special assessments		2,732	2,732
Miscellaneous	338,111	41,601	379,712
Total receipts	8,210,383	1,613,633	9,824,016
DISBURSEMENTS			
Public safety	2,494,921		2,494,921
Public works	1,795,244		1,795,244
Health and social services	31,138		31,138
Culture and recreation	1,753,157		1,753,157
Community and economic development	214,805		214,805
General government	584,265		584,265
Debt service	1,136,976		1,136,976
Capital projects	175,919		175,919
Total governmental activities disbursements	8,186,425	-	8,186,425
Business-type enterprises		3,667,654	3,667,654
Total disbursements	8,186,425	3,667,654	11,854,079
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	23,958	(2,054,021)	(2,030,063)
OTHER FINANCING SOURCES (USES)			
Proceeds from fixed assets sold	7,290		7,290
Proceeds from issuance of debt	1,239,044	3,723,916	4,962,960
Operating transfers in	480,849	42,500	523,349
Operating transfers out	(474,709)	(48,640)	(523,349)
OTHER FINANCING SOURCES (USES), NET	1,252,474	3,717,776	4,970,250
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	1,276,432	1,663,755	2,940,187
FUND BALANCE/RETAINED EARNINGS, June 30, 2014	3,008,983	534,723	3,543,706
FUND BALANCE/RETAINED EARNINGS, June 30, 2015	\$ 4,285,415	\$ 2,198,478	\$ 6,483,893

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

Budget Amounts		Variance -
Original	Final	Favorable (Unfavorable)
\$ 4,082,271	\$ 4,082,271	\$ 35,939
244,337	244,337	-
1,240,642	1,240,642	124,554
25,075	27,880	6,563
26,952	40,562	(5,827)
1,391,563	1,622,877	(36,198)
2,210,094	2,211,794	(153,822)
	1,424	1,308
245,420	345,970	33,742
9,466,354	9,817,757	6,259
2,441,572	2,589,737	94,816
1,870,430	2,249,030	453,786
21,095	31,139	1
1,779,723	1,947,520	194,363
217,388	225,388	10,583
573,396	622,098	37,833
1,138,126	1,138,126	1,150
1,007,000	1,289,600	1,113,681
9,048,730	10,092,638	1,906,213
4,546,591	5,030,371	1,362,717
13,595,321	15,123,009	3,268,930
(4,128,967)	(5,305,252)	3,275,189
		7,290
4,105,000	4,972,735	(9,775)
130,000	130,000	393,349
(130,000)	(130,000)	(393,349)
4,105,000	4,972,735	(2,485)
(23,967)	(332,517)	\$ 3,272,704
3,543,705	3,543,705	
\$ 3,519,738	\$ 3,211,188	

CITY OF DECORAH
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 BUDGET TO GAAP RECONCILIATION
 Year Ended June 30, 2015

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 8,210,383	\$ 16,781	\$ 8,227,164
Expenditures	8,186,425	147,199	8,333,624
Net	23,958	(130,418)	(106,460)
Other financing sources, net	1,252,474	(904)	1,251,570
Beginning fund balance	3,008,983	(121,088)	2,887,895
Ending fund balance	<u>\$ 4,285,415</u>	<u>\$ (252,410)</u>	<u>\$ 4,033,005</u>
	Proprietary Funds Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 1,613,633	\$ 1,571	\$ 1,615,204
Expenditures	3,667,654	(1,867,511)	1,800,143
Net	(2,054,021)	1,869,082	(184,939)
Other financing sources, net	3,717,776	(316,697)	3,401,079
Beginning fund balance	534,723	7,723,664	8,258,387
Ending fund balance	<u>\$ 2,198,478</u>	<u>\$ 9,276,049</u>	<u>\$ 11,474,527</u>

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

CITY OF DECORAH

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2015

The budgetary comparison is presented as required supplementary information 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. 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:

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

Function disbursements required to be budgeted include disbursements for the general fund, the special revenue funds, the debt service fund, the capital projects funds, and the enterprise 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 expenditures by \$1,527,688. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2015, disbursements did not exceed the amount budgeted.

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

	2015
City's proportion of the net pension liability	0.314740%
City's proportionate share of the net pension liability	\$ 1,274
City's covered-employee payroll	\$ 2,072
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	61.49%
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 Required Pension Liability Information (IPERS) and Independent Auditor's Report.

Required Supplementary Information

CITY OF DECORAH
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CITY CONTRIBUTIONS
 IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (IPERS)
 Last 10 Fiscal Years
 (In Thousands)

	2015	2014	2013	2012
Statutorily required contribution	\$ 190	\$ 185	\$ 172	\$ 155
Contributions in relation to the statutorily required contribution	(190)	(185)	(172)	(155)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 2,128	\$ 2,072	\$ 1,984	\$ 1,921
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.07%

See Notes to Required Pension Liability Information (IPERS) and Independent Auditor's Report.

2011	2010	2009	2008	2007	2006
\$ 134	\$ 128	\$ 118	\$ 110	\$ 101	\$ 98
(134)	(128)	(118)	(110)	(101)	(98)
<u>\$ -</u>					
\$ 1,928	\$ 1,925	\$ 1,858	\$ 1,818	\$ 1,757	\$ 1,704
6.95%	6.65%	6.35%	6.05%	5.75%	5.75%

CITY OF DECORAH

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY (IPERS)
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.

CITY OF DECORAH
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA (MFPRSI)
 Last Fiscal Year*
 (In Thousands)

	2015
City's proportion of the net pension liability	0.289414%
City's proportionate share of the net pension liability	\$ 1,049
City's covered-employee payroll	\$ 737
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	142.33%
Plan fiduciary net position as a percentage of the total pension liability	86.27%

* 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 Required Pension Liability Information (MFPRSI) and Independent Auditor's Report.

Required Supplementary Information

CITY OF DECORAH
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CITY CONTRIBUTIONS
 MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA (MFPRSI)
 Last 10 Fiscal Years
 (In Thousands)

	2015	2014	2013	2012
Statutorily required contribution	\$ 232	\$ 222	\$ 187	\$ 177
Contributions in relation to the statutorily required contribution	(232)	(222)	(187)	(177)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 763	\$ 737	\$ 716	\$ 715
Contributions as a percentage of covered-employee payroll	30.41%	30.12%	26.12%	24.76%

See Notes to Required Pension Liability Information (MFPRSI) and Independent Auditor's Report.

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 133	\$ 116	\$ 129	\$ 160	\$ 169	\$ 169
<u>(133)</u>	<u>(116)</u>	<u>(129)</u>	<u>(160)</u>	<u>(169)</u>	<u>(169)</u>
<u>\$ -</u>					
\$ 668	\$ 682	\$ 688	\$ 628	\$ 609	\$ 599
19.9%	17.0%	18.75%	25.48%	27.75%	28.21%

CITY OF DECORAH

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-PENSION LIABILITY
MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA (MFPRSI)
Year Ended June 30, 2015

Changes of Benefit Terms:

There were no significant changes of benefit terms.

Changes of Assumptions:

Effective July 1, 2014, two additional steps were taken to phase in the 1994 Group Annuity Mortality Table for post-retirement mortality. The two additional steps result in a weighting of 2/12 of the 1971 Group Annuity Mortality Table and 10/12 of the 1994 Group Annuity Mortality Table.

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

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	-	\$ 464	\$ 464	0.0%	\$ 2,469	18.8%
2011	July 1, 2010	-	\$ 590	\$ 590	0.0%	\$ 2,543	23.2%
2012	July 1, 2010	-	\$ 590	\$ 590	0.0%	\$ 2,575	22.9%
2013	July 1, 2012	-	\$ 718	\$ 718	0.0%	\$ 2,504	28.7%
2014	July 1, 2012	-	\$ 718	\$ 718	0.0%	\$ 2,703	26.6%
2015	July 1, 2012	-	\$ 718	\$ 718	0.0%	\$ 2,718	26.4%

See Note 11 in the accompanying notes to financial statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Other Supplementary Information

CITY OF DECORAH
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2015

		Special Revenue Funds					
		Tax Increment Financing	Self-supported Municipal Improvement District	Emergency	Police Forfeitures	Memorial	Park Commission Special Gifts
ASSETS							
Cash		\$ 219,286	\$ 30,320		\$ 2,433	\$ 317	\$ 15,267
Investments							83,585
Receivables							
Taxes							
Current			94	\$ 238			
Succeeding year				79,045			
Interest							136
Total assets		<u>\$ 219,286</u>	<u>\$ 30,414</u>	<u>\$ 79,283</u>	<u>\$ 2,433</u>	<u>\$ 317</u>	<u>\$ 98,988</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES							
Liabilities							
Accounts payable							\$ 2,065
Due to other funds		\$ 29,657					
Total liabilities		<u>29,657</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>2,065</u>
Deferred inflows of resources							
Succeeding year property taxes				79,045			
Total deferred inflows of resources		<u>-</u>	<u>-</u>	<u>79,045</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances							
Restricted		189,629	30,414	238	2,433	317	
Committed							96,923
Assigned							
Unassigned							
Total fund balances		<u>189,629</u>	<u>30,414</u>	<u>238</u>	<u>2,433</u>	<u>317</u>	<u>96,923</u>
Total liabilities, deferred inflows of resources and fund balances		<u>\$ 219,286</u>	<u>\$ 30,414</u>	<u>\$ 79,283</u>	<u>\$ 2,433</u>	<u>\$ 317</u>	<u>\$ 98,988</u>

See Independent Auditor's Report.

Special Revenue Funds		Capital Projects Fund							Total Nonmajor Governmental Funds
Library Board Special Gifts	Total	Capital Projects Interest	Short Street Improvement Project	Local Trail Development	Dry Run Trail	Freeport Trail	Hwy 9 WA/ SE/ST Imp	Total	
\$ 33,095	\$ 300,718				\$ 58,347	\$ 90,000	\$ 800,103	\$ 948,450	\$ 1,249,168
146,000	229,585								229,585
	332								332
	79,045								79,045
224	360								360
<u>\$ 179,319</u>	<u>\$ 610,040</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,347</u>	<u>\$ 90,000</u>	<u>\$ 800,103</u>	<u>\$ 948,450</u>	<u>\$ 1,558,490</u>
\$ 187	\$ 2,252				\$ 332	\$ 90,000	\$ 61,467	\$ 151,799	\$ 154,051
	29,657			\$ 137,126				137,126	166,783
187	31,909	\$ -	\$ -	137,126	332	90,000	61,467	288,925	320,834
	79,045								79,045
-	79,045	-	-	-	-	-	-	-	79,045
	223,031								223,031
179,132	276,055				58,015		738,636	796,651	276,055
				(137,126)				(137,126)	796,651
				(137,126)	58,015	-	738,636	659,525	(137,126)
179,132	499,086	-	-	(137,126)	58,015	-	738,636	659,525	1,158,611
<u>\$ 179,319</u>	<u>\$ 610,040</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,347</u>	<u>\$ 90,000</u>	<u>\$ 800,103</u>	<u>\$ 948,450</u>	<u>\$ 1,558,490</u>

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CITY OF DECORAH
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 Year Ended June 30, 2015

	Special Revenue Funds						
	Tax Increment Financing	Self-supported Municipal Improvement District	Hotel/Motel Tax	Emergency	Police Forfeitures	Memorial	Park Commission Special Gifts
REVENUES							
Property taxes				\$ 56,075			
Tax increment financing collections	\$ 244,337						
Other City tax		\$ 15,790	\$ 153,058	1,027			
Use of money and property							\$ 449
Intergovernmental							
Miscellaneous					\$ 1,600		23,172
Total revenues	244,337	15,790	153,058	57,102	1,600	\$ -	23,621
EXPENDITURES							
Current							
Public safety					2,055		
Health and social services	10,043						
Culture and recreation							113,516
Community and economic development		10,622	153,058				
Capital projects							
Total expenditures	10,043	10,622	153,058	-	2,055	-	113,516
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	234,294	5,168	-	57,102	(455)	-	(89,895)
OTHER FINANCING SOURCES (USES)							
Proceeds from issuance of debt							
Transfers out	(244,337)			(57,164)			
Total other financing sources (uses)	(244,337)	-	-	(57,164)	-	-	-
(DEFICIENCY) EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) OVER EXPENDITURES AND OTHER FINANCING USES	(10,043)	5,168	-	(62)	(455)	-	(89,895)
FUND BALANCES, beginning of year	199,672	25,246		300	2,888	317	186,818
FUND BALANCES, end of year	\$ 189,629	\$ 30,414	\$ -	\$ 238	\$ 2,433	\$ 317	\$ 96,923

See Independent Auditor's Report.

Special Revenue Funds		Capital Projects Fund								Total Nonmajor Governmental Funds
Library Board Special Gifts	Total	Capital Projects Interest	Short Street Improvement Project	Local Trail Development	Dry Run Trail	Freeport Trail	Hwy 9 WA/ SE/ST Imp	Total		
	\$ 56,075								\$ 56,075	
	244,337								244,337	
	169,875			\$ 80,000				\$ 80,000	249,875	
\$ 771	1,220	\$ 38					\$ 6,844	6,882	8,102	
					\$ 154,526	\$ 90,000		244,526	244,526	
17,913	42,685								42,685	
18,684	514,192	38	\$ -	80,000	154,526	90,000	6,844	331,408	845,600	
	2,055								2,055	
	10,043								10,043	
13,085	126,601								126,601	
	163,680								163,680	
				474	73,869	90,000	91,966	256,309	256,309	
13,085	302,379	-	-	474	73,869	90,000	91,966	256,309	558,688	
5,599	211,813	38	-	79,526	80,657	-	(85,122)	75,099	286,912	
	(301,501)	(38)	(76,918)				823,758	823,758	823,758	
								(76,956)	(378,457)	
-	(301,501)	(38)	(76,918)	-	-	-	823,758	746,802	445,301	
5,599	(89,688)	-	(76,918)	79,526	80,657	-	738,636	821,901	732,213	
173,533	588,774		76,918	(216,652)	(22,642)			(162,376)	426,398	
\$ 179,132	\$ 499,086	\$ -	\$ -	\$ (137,126)	\$ 58,015	\$ -	\$ 738,636	\$ 659,525	\$ 1,158,611	

CITY OF DECORAH
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUNDS
 For the Year Ended June 30, 2015

	Metronet
ASSETS AND LIABILITIES	
BALANCE, beginning of year	\$ 94,721
ADDITIONS	
Miscellaneous	2,709
Total additions	2,709
DEDUCTIONS	
Agency remittances	
Miscellaneous	97,430
Total deductions	97,430
BALANCE, end of year	\$ -

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

	Modified Accrual Basis			
	2015	2014	2013	2012
Revenues				
Property tax	\$ 4,167,690	\$ 3,671,263	\$ 3,539,181	\$ 3,415,785
Tax increment financing revenue	244,337	250,073	264,852	320,138
Other City tax	1,395,832	1,248,719	1,260,962	1,212,521
Licenses and permits	32,559	33,464	28,988	29,669
Use of money and property	34,014	36,784	13,833	52,022
Intergovernmental	1,542,822	1,274,775	1,620,094	3,952,427
Charges for service	525,261	538,131	491,210	538,520
Miscellaneous	284,649	329,739	204,398	763,160
Total	\$ 8,227,164	\$ 7,382,948	\$ 7,423,518	\$ 10,284,242
Expenditures				
Operating				
Public safety	\$ 2,500,630	\$ 2,139,906	\$ 1,942,864	\$ 1,873,558
Public works	1,677,795	1,500,807	2,259,413	2,243,801
Health and social services	31,138	46,595	81,224	41,414
Culture and recreation	1,752,524	1,732,063	1,584,249	1,774,404
Community and economic development	212,350	208,963	193,981	318,886
General government	612,354	553,594	654,777	1,064,782
Debt service	1,245,387	759,734	2,057,834	483,369
Capital projects	301,446	310,303	3,344,387	2,847,613
Total	\$ 8,333,624	\$ 7,251,965	\$ 12,118,729	\$ 10,647,827

See Independent Auditor's Report.

SCHEDULE 4

		Modified Accrual Basis					
	2011	2010	2009	2008	2007	2006	
\$	3,374,547	\$ 2,983,326	\$ 3,055,199	\$ 2,766,021	\$ 2,792,106	\$ 2,658,525	
	311,411	586,153	351,092	412,913	121,451	211,559	
	1,190,353	1,128,426	1,176,038	1,091,758	1,161,593	958,282	
	29,852	27,511	27,876	29,527	31,567	21,690	
	51,485	69,068	90,233	154,927	200,056	157,361	
	2,720,047	1,702,044	2,127,342	1,918,414	1,837,272	1,692,123	
	496,138	437,368	445,392	410,662	393,374	415,992	
	644,349	725,574	998,901	602,745	608,238	196,906	
\$	8,818,182	\$ 7,659,470	\$ 8,272,073	\$ 7,386,967	\$ 7,145,657	\$ 6,312,438	
\$	1,834,165	\$ 2,002,994	\$ 1,966,056	\$ 1,627,775	\$ 1,706,035	\$ 1,501,249	
	1,788,587	1,108,378	1,345,113	1,176,561	1,320,506	788,113	
	30,284	21,209	21,129	17,129	17,129	27,579	
	1,692,389	1,481,633	1,511,608	1,477,976	1,456,849	1,281,232	
	264,179	1,436,641	1,223,052	1,582,343	1,066,783	977,114	
	823,867	462,811	417,998	400,494	423,004	363,985	
	482,125	483,205	467,575	454,742	502,553	828,262	
	1,824,392	481,161	1,043,181	2,034,181	1,250,087	1,522,421	
\$	8,739,988	\$ 7,478,032	\$ 7,995,712	\$ 8,771,201	\$ 7,742,946	\$ 7,289,955	

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

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

We have audited, in accordance with the U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Decorah, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City of Decorah's basic financial statements and have issued our report thereon dated November 4, 2015.

Internal Control over Financial Reporting

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

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

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

Overlapping Duties

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

Recommendation

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

Response

Management is cognizant of this limitation.

Conclusion

Response accepted.

Compliance and Other Matters

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

City of Decorah's Response to Finding

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

Purpose of this Report

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

Hacker, Nelson & Co., P.C.

Decorah, Iowa
November 4, 2015

MANAGEMENT LETTER

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

In planning and performing our audit of the basic financial statements of the City of Decorah for the year ended June 30, 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 9 below are compliance comments required by the Iowa Auditor of State. A separate report dated November 4, 2015, contains our report on the City's internal control over financial reporting. This letter does not affect our report dated November 4, 2015 on the basic financial statements of City of Decorah. Comments 4 and 10 are unresolved comments from the prior year. All other prior year comments have been resolved. We did not audit the City's responses and, accordingly, we express no opinion on them.

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

4. **Business Transactions**

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Randy Schissel, City Council Account Executive, Storey Kenworthy	Retail purchases	\$ 17,778
Brett Willie, Airport Commission Member Manager Sherwin Williams	Retail purchases	\$ 3,088
Paul Wanless, City Council Member Owner Sports Shop	Retail purchases	\$ 2,061

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

Recommendation

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

Response

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

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

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

Conclusion

Response accepted.

5. **Bond Coverage**

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

6. **Council Minutes**

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

7. **Deposits and Investments**

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

8. Revenue Notes

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

9. Urban Renewal Annual Report

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

10. Fund Balance

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

Recommendation

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

Response

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

Conclusion

Response accepted.

11. Payroll

During our testing of payroll disbursements, it was noted that 2 out of the 25 checks tested did not have department head approval noted on the time cards. Both checks were in the administrative department.

Recommendation

All hours worked should be approved by department heads prior to payment.

Response

The City Clerk, Treasurer reviews time sheets each payroll. The City recognizes, that though all time sheets are reviewed each pay period, the documents were not officially signed. We began compliance when called to our attention and will continue in the future.

Conclusion

Response accepted.

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

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of the City of Decorah during the course of our audit. If you have any questions concerning these or other matters, we would be happy to discuss them with you at your convenience.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
November 4, 2015