

**CITY OF DECORAH
DECORAH, IOWA**

FINANCIAL REPORT

JUNE 30, 2017

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CITY OF DECORAH

OFFICIALS

Name	Title	Term Expires
Donald Arendt	Mayor	January 2, 2018
Randy Schissel	First Ward	January 2, 2018
Dan Bellrichard	Second Ward	January 2, 2019
Andy Carlson	Third Ward	January 2, 2018
Steve Luse	Fourth Ward	January 2, 2020
Charles Lore	Fifth Ward	January 2, 2018
Gary Rustad	At-Large	January 2, 2018
Kirk Johnson	At-Large	January 2, 2020
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, 2017, 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 City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis, the budgetary comparison information, the schedule of the city's proportionate share of the net pension liability, the schedule of city contributions and the schedule of funding progress for the retiree health plan on pages 4 through 4j and pages 45 through 54 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, 2017 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, 2016 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 4, and the schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance), 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, and the schedule of expenditures of federal awards 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 and the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the years ended June 30, 2008 through 2017 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 December 18, 2017, 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 solely 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 the effectiveness of the City of Decorah's 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
December 18, 2017

CITY OF DECORAH

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the City of Decorah provides this management's discussion and analysis of the City of Decorah's annual financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2017.

The intent of this discussion and analysis is to look at the 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.

2017 FINANCIAL HIGHLIGHTS

Revenues of the City's governmental activities increased approximately \$1,306,000 or 14.74% from fiscal year 2016 to fiscal year 2017. Property taxes for all purposes increased \$349,136. The City also received \$142,930 in commercial/industrial tax replacement which was a decrease of \$19,272 from fiscal year 2016. Capital grants increased approximately \$960,000 while operating grants increased approximately \$70,000 from fiscal year 2016 to fiscal year 2017. The majority of the increase in capital grants is a result of the Revitalize Iowa's Sound Economy (RISE) Grant of approximately \$350,000 along with the local match of approximately \$315,000 from Decorah Jobs. In addition, Federal Emergency Management Agency funds of approximately \$250,000 were received for flood repairs.

Program expenditures excluding debt service and capital projects increased \$1,096,750 or 15.01%. The majority of this increase was the purchase of a new fire truck for \$900,000.

The City's total net position is \$46,317,287. Of this amount, the governmental activities claim net position of \$34,472,367.

Net position in the business-type activities, which represents the City's water, sewer, storm sewer, and Metronet operations increased \$379,106.

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 present an overall view of the City's finances.

The fund financial statements tell how governmental services were financed in the short term as well as what remains for future spending. The fund financial statements report the City's operations in more detail than the government-wide financial statements by providing information about the most significant funds.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

USING THIS ANNUAL REPORT (Continued)

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 governmental funds. In addition, the schedule of expenditures of federal awards provides details of various federal programs benefiting the City.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better or worse off as a result of the year's activities?" The statement of net position and the statement of activities report information which helps answer 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 financial information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City 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 years.

The statement of net position and the statement of activities report three kinds of activities:

1. Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
2. Business-type activities 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), storm sewer (collection, treatment and disposal), and Metronet (transmission). These services are primarily characterized by their reliance on user charges as opposed to property or other general tax proceeds.
3. The only component unit of the City shown in the financial report is that of the Decorah 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.

REPORTING THE CITY'S FINANCIAL ACTIVITIES (Continued)

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.

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the general fund, 2) the special revenue funds, such as 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 government 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.

2. Proprietary (business-type) funds account for the City's enterprise funds, which are those for which ratepayers 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 the water, sewer, storm sewer, and Metronet funds. The City is responsible for ensuring the assets reported in these funds are used only for their intended purposes for the benefit of the ratepayers.

The financial statements required 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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		Business-type		Total		Percent Change
	Activities 2017	2016	Activities 2017	2016	2017	2016	
Current and other assets	\$ 9,417	\$ 9,105	\$ 1,037	\$ 981	\$ 10,454	\$ 10,086	3.65%
Capital assets	38,013	37,169	11,742	11,884	49,755	49,053	1.43%
Total assets	47,430	46,274	12,779	12,865	60,209	59,139	1.81%
Deferred outflows of resources	1,512	996	212	139	1,724	1,135	51.89%
Long-term debt outstanding	5,435	5,635	419	667	5,854	6,302	-7.11%
Other liabilities	3,913	3,292	648	771	4,561	4,063	12.26%
Total liabilities	9,348	8,927	1,067	1,438	10,415	10,365	0.48%
Deferred inflows of resources	5,122	5,187	79	100	5,201	5,287	-1.63%
Net position:							
Net investment in capital assets	32,666	31,632	11,324	11,217	43,990	42,849	2.66%
Restricted	1,786	1,759			1,786	1,759	1.53%
Unrestricted (deficit)	20	(235)	521	249	541	14	3764.29%
Total net position	\$ 34,472	\$ 33,156	\$ 11,845	\$ 11,466	\$ 46,317	\$ 44,622	3.80%

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following analysis shows the change in net position for the years ending June 30, 2017 and 2016:

	Changes in Net Position of Governmental Activities						
	(In Thousands)						
	Governmental Activities		Business-type Activities		Total		Percent Change
	2017	2016	2017	2016	2017	2016	
Revenues:							
Program revenue:							
Charges for service	\$ 811	\$ 783	\$ 2,190	\$ 1,769	\$ 3,001	\$ 2,552	17.59%
Operating grants	1,598	1,529	33	83	1,631	1,612	1.18%
Capital grants	1,486	526			1,486	526	182.51%
General revenue:							
Property taxes	4,594	4,264			4,594	4,264	7.74%
Tax increment financing collections		245			-	245	-100.00%
Other City taxes	478	425			478	425	12.47%
Local option sales tax	1,053	953			1,053	953	10.49%
Unrestricted investment earnings	22	38	1		23	38	-39.47%
Other revenue	128	101			128	101	26.73%
Total revenues	10,170	8,864	2,224	1,852	12,394	10,716	15.66%
Program expenses:							
Public safety	2,700	2,091			2,700	2,091	29.12%
Public works	2,618	2,628			2,618	2,628	-0.38%
Health and social services	15	21			15	21	-28.57%
Culture and recreation	1,967	1,707			1,967	1,707	15.23%
Community and economic development	353	209			353	209	68.90%
General government	752	652			752	652	15.34%
Interest on long-term debt	144	152			144	152	-5.26%
Other expenses			2,151	1,885	2,151	1,885	14.11%
Total expenses	8,549	7,460	2,151	1,885	10,700	9,345	14.50%
Increase (decrease) in net position before transfers	1,621	1,404	73	(33)	1,694	1,371	23.56%
Transfers	(306)	(24)	306	24	-	-	
Increase (decrease) in net position	1,315	1,380	379	(9)	1,694	1,371	23.56%
Net position beginning of year	33,157	31,776	11,466	11,475	44,623	43,251	3.17%
Net position end of year	\$ 34,472	\$ 33,156	\$ 11,845	\$ 11,466	\$ 46,317	\$ 44,622	3.80%

INDIVIDUAL MAJOR FUND ANALYSIS

Governmental Fund Highlights

At the end of fiscal year 2016-2017, the City reflected a combined fund balance for its governmental funds of \$4,442,895 (see Exhibit D for details). This compares to \$4,104,377 for the combined fund balance for governmental funds at the end of fiscal year 2015-2016. This is an increase of \$338,518. The general fund showed an increase of \$551,785 from the prior year to \$2,618,809. Revenues in the general fund increased 23.54% over the prior year to \$1,357,272. Proceeds from the issuance of debt of \$900,000 accounted for 15.61% of the increase in general fund revenues. Expenditures of the general fund increased 13.13% to \$6,556,700.

INDIVIDUAL MAJOR FUND ANALYSIS (Continued)

Governmental Fund Highlights (Continued)

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 year 2017 with a \$496,417 balance compared to the prior year ending fund balance of \$542,945. Revenues increased approximately \$23,000 while expenses increased approximately \$160,000. Overall property taxes in the employee benefits fund increased \$36,087 while the commercial/industrial tax replacement decreased \$7,371.

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 2017 with a fund balance of \$747,010 compared to the prior year ending balance of \$612,209. While the fund balance increased, it was a smaller increase than the prior year. The road use tax fund only saw a slight increase in revenues of approximately \$10,000 or .98% while expenses increased approximately \$164,000 or 22.43% due to various street projects.

The debt service fund ended fiscal year 2017 with a \$79,449 fund balance compared to the prior year ending fund balance of \$78,519. Property tax revenue increased \$240,741 while the commercial/industrial tax replacement increased \$5,182. Bond principal and interest payments increased \$4,167.

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, 2017 is \$19,638,638.

Proprietary Funds Highlights

The water fund, which accounts for the operation and maintenance of the City's water system, ended fiscal year 2017 with a net asset balance of \$4,002,470. This reflects an increase of \$129,974 from the end of fiscal year 2016 when the net asset balance was \$3,872,496. Operating revenues in the water fund increased \$57,293 from the prior year while operating expenses increased \$73,962.

The sewer fund, which accounts for the operation and maintenance of the sewer system and the wastewater treatment facility, ended fiscal year 2017 with a net asset balance of \$7,483,635. This reflects an increase of \$36,707 from the end of fiscal year 2016 when the net asset balance was \$7,446,928. Operating revenues in the sewer fund decreased \$13,981 while operating expenses increased \$30,312.

The storm sewer fund was created in fiscal year 2017. This fund which accounts for the operation and maintenance of the City's storm water system, ended fiscal year 2017 with a net asset balance of \$159,260.

The Metronet fund, which accounts for the operation of a fiber optic network that offers extensions to governments and businesses in the community, ended fiscal year 2017 with a net asset balance of \$198,071. This reflects an increase of \$51,681 from the end of fiscal year 2016 when the net asset balance was \$146,390. Revenues increased \$89,792 while operating expenses increased \$43,378.

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 \$2,551,050. The amendment was done in May 2017. The City's receipts were \$528,240 less than budgeted while total disbursements were \$1,749,483 less than budgeted.

BUDGETARY HIGHLIGHTS (Continued)

The following chart shows the original and amended budget for fiscal year 2017 as well as the actual revenue and expenditures for the year:

	Budgetary Comparison Schedule (Expressed in Thousands)			
	Budget Basis	Budget Amounts		Variance
		Original	Final	
RECEIPTS:				
Property taxes	\$ 4,426	\$ 4,406	\$ 4,406	\$ 20
Other City taxes	1,531	1,332	1,352	179
Licenses and permits	38	30	31	7
Use of money and property	32	24	73	(41)
Intergovernmental revenues	2,711	3,394	3,468	(757)
Charges for services	2,382	2,209	2,318	64
Miscellaneous	1,404	734	1,404	-
Total receipts	\$ 12,524	\$ 12,129	\$ 13,052	\$ (528)
DISBURSEMENTS:				
Public safety	\$ 3,470	\$ 2,266	\$ 3,524	\$ 54
Public works	1,612	1,948	2,068	456
Health and social services	15	22	22	7
Culture and recreation	1,996	1,761	2,023	27
Community and economic development	356	236	377	21
General government	730	748	832	102
Debt service	1,150	1,151	1,151	1
Capital projects	1,195	2,170	2,170	975
Business-type	2,479	1,900	2,586	107
Total disbursements	\$ 13,003	\$ 12,202	\$ 14,753	\$ 1,750

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets include land, buildings and improvements, equipment, streets, bridges, storm sewer systems, water and wastewater systems, lighting systems, traffic signals, the swimming pool and other infrastructure. The capital assets for governmental activities totaled \$38,013,390 (net of accumulated depreciation). The capital assets for the business-type activities totaled \$11,742,696 (net of accumulated depreciation) as of June 30, 2017. 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 airport projects, the Sweet Parkway Road extension, and various other 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.

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Long-term Debt

The State Constitution limits the amount of general obligation debt that cities can issue to 5% of the assessed value of all taxable property within the City. As of June 30, 2017, the City's total outstanding G.O. debt of \$5,766,075 was well below the debt limit of \$25,404,713. 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

It appears that there have been steady financial gains in the national economy with some economic indicators at or above pre-recession levels. Locally, the community tends to be a bit more isolated from national extremes and one can still look at the same indicators, but with an eye on local analysis to determine the overall economic health of our community.

Employment and unemployment - Iowa's unemployment rate is currently 3.0% compared to 4.1% one year ago. (October 2017, US Bureau of Labor Statistics). This compares to a low of 3.7% in early 2008 and a high of 6.6% in mid-2009. The unemployment rate in Decorah remains right around 3% or lower. While this is a healthy number and those who want to work can find it, it does create hardships for the commercial, retail, and industrial sectors as the labor pool is currently not able to supply needed workers. Many business owners and leaders have expressed concern about the overall labor pool.

Consumer spending - Iowa's spending habits have remained relatively unchanged in the decade since the 2008 economic downturn and that is further reflected in an analysis of local spending habits. Iowans tend to spend less than our national counter-parts and we also see less fluctuations in our spending year over year. Decorah experienced an increase in consumer spending of \$8,843,984 in 2016 over 2015 topping out at \$184 million in retail sales for the year. This is a strong indicator that the local economy is healthy.

The US consumer price index remains steady and is almost two percentage points higher than one year ago.

The local municipal financial picture is strengthening on recent City Council policies aimed at diversifying City revenues and moving away from financial policies dependent on property tax revenues. Property taxes increased 7.74% in fiscal year 2017 and account for approximately 41.9% of City revenues.

The Council's housing policy has bolstered the housing market, growth is steady, and impacts may be seen in other sectors of the economy, especially retail. Many difficult budgetary and financial issues that have faced, and continue to plague, many cities throughout the country will remain issues for Decorah.

A brief review of pages 4c and 4d above will reveal that growth is steady and City revenues continue to be balanced with special project and bond revenues. Last year it was reported that there had been an increase in total revenues of 8.85% at the end of fiscal year 2016. Fiscal year 2017 overall revenues showed much higher due to charges for service, capital projects (fire truck bond revenue), and grants, resulting in an increase of approximately 15.66%.

Of this review of the City's revenue position, there is an increase of 7.74% in property taxes (\$330,000) and an increase of 26.73%, or \$27,000, in "other revenues." The increase in property tax revenue could be from several sources including new property assessments, an increase in valuations 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 the City has seen decreases in valuations for commercial property 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 2024. It is estimated that the City has approximately \$15,000,000 in multi-family classification valuation. Next fiscal year (fiscal year 2018) will show a decrease of 17.5% of taxable valuations in this new property class and a decrease of an additional 21.25% in fiscal year 2019. In fiscal year 2024, this new class of property will roll back to the prevailing residential rates.

Below is a summary of the City's tax levy rates per \$1,000 of taxable valuation for fiscal year 2017:

Purpose	Rate
General levy	\$8.10
Liability and property insurance	0.44897
Employee benefits	3.51364
Debt service	2.03158
Total	<u>\$14.09419</u>

It is interesting to note that the local option sales tax realized an increase in fiscal year 2017, increasing 10.49%, or \$100,000 over fiscal year 2016.

While growth had been climbing in the LOST revenue fund over the recent past and in fiscal year 2015 it had climbed to an almost ten-year high, revenues dipped and now show a significant rebound in fiscal year 2017. This maybe an indicator of improving economic retail conditions.

Fiscal year 2014	\$869,000
Fiscal year 2015	\$992,000
Fiscal year 2016	\$953,000
Fiscal year 2017	\$1,053,000

The LOST revenue fund is an important fund for the City for several reasons. 1) The revenue is used to offset the restricted road use tax fund for major street repairs and 2) more importantly, increases in LOST revenues are a strong indicator of the economic activity of the community. Increases in this fund may be attributed to strength in the recreational tourism, retail, and agricultural sectors including uses associated with the Trout Run Trail and the community's tourism and events industry to some extent. City officials will continue to monitor any correlation between local tourism oriented activities and LOST revenues.

With some of the overall economy's steady growth, the net position of the City at the end of the fiscal year for both the governmental and business-type activities increased over the previous year as shown on page 4d above. The total net position increased from that of the past year by 3.80%, slowly gaining back from a 5% loss in fiscal year 2015. In terms of dollars, this is an increase of \$1,695,000 in the City's net position at the end of the year.

It should also be pointed out that the business-type activities experienced a slight increase in its net position from fiscal year 2016, rebounding from a loss in that year. The City Council has adopted a policy of reviewing enterprise fund balances and fees for services to increase the cash position of these funds and will continue to work towards a stronger fund position.

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

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 took 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.

In relative terms, the City is seeing approximately \$160,000 more per year in the fuel tax revenues since the statewide increase in 2015. However, in fiscal year 2017 there was an increase of approximately \$4,500 above fiscal year 2016's revenue. Locally, these additional funds will be used to help with smaller road and street improvements, signage, and general maintenance.

The City did not certify tax increment financing (TIF) collections in fiscal year 2017 as the last debt payment had been made using that funding option.

As for the City's long-term debt obligations, the condensed statement of net position (on page 4c) indicates that there was a 7.11% decrease in the City's long-term obligations. This change in debt position is due to annual principal and interest payments as required by the terms of each debt issue. Details about each of the City's debt obligations including the pledged funding sources can be found under the auditor's notes to the financial statements within this financial report. The City's overall debt position remains strong at less than 22.7% issued debt of the City's overall debt capacity compared to 25.6% in fiscal year 2016.

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 first quarter of fiscal year 2018. 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 susceptible to failures and emergency repairs in the aging systems. For the period covered in this report, the two departments combined for a loss of \$111,974. This represents the sixth year of losses in the two departments. This position 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 year in May. The major reasons for the amendment include:

- a. Public safety exceeded the original budget amount by \$1,203,854 due to purchase of fire equipment – ladder truck and flooding expenses.
- b. Culture and recreation exceeded the original budget amount by \$259,756 largely due to park land purchase, Dunning's Spring Stone Arch Bridge project, pool equipment and building maintenance. Expense for park land purchase was offset by a private donation.
- c. Community and economic development program exceeded the original budget amount by \$120,420 due to a TIF/LMI contribution to the Northeast Iowa Regional Housing Agency and TIF reimbursement to County. The proceeds for the LMI contribution came from the Low-to-Moderate Income set aside fund prescribed for specific TIF projects and reimbursement to county from over collected TIF fund balance.
- d. Enterprise program exceeded the original budget amount by \$578,410 due to building repairs, flooding expenses, Hwy 9 water/sewer project, storm sewer imp, and MetroNet 911 project expenses. MetroNet 911 project expenses were reimbursed by 911 Board, flooding expenses partially reimbursed by FEMA and Hwy 9 water/sewer project expenses were covered by previously secured bond money.

Public works, health/social services, general government, debt service and capital project 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, 2017

	Governmental Activities	Business-type Activities	Total	Decorah Volunteer Fire Department
ASSETS				
Cash and pooled investments	\$ 4,114,098	\$ 595,648	\$ 4,709,746	\$ 128,869
Receivables:				
Accounts and unbilled usage, net	12,254	376,070	388,324	
Property tax:				
Current	45,278		45,278	
Succeeding year	4,504,237		4,504,237	
Special assessments:				
Current	8,817		8,817	
Deferred	99,371		99,371	
Accrued interest	1,410		1,410	
Due from other governments	219,710	40,511	260,221	
Inventories	3,981	15,000	18,981	
Prepaid expenses	34,726	9,487	44,213	
Restricted assets:				
Investments	372,735		372,735	
Nondepreciable capital assets	1,470,910	154,231	1,625,141	
Capital assets, net of accumulated depreciation	36,542,480	11,588,465	48,130,945	
Total assets	<u>47,430,007</u>	<u>12,779,412</u>	<u>60,209,419</u>	<u>128,869</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension related deferred outflows	1,511,791	211,789	1,723,580	-
Total assets and deferred outflows of resources	<u>\$ 48,941,798</u>	<u>\$ 12,991,201</u>	<u>\$ 61,932,999</u>	<u>\$ 128,869</u>
LIABILITIES				
Accounts payable	\$ 239,420	\$ 54,404	\$ 293,824	
Salaries and benefits payable	98,554	15,633	114,187	
Accrued interest payable	6,570	516	7,086	
Long-term liabilities:				
Portion due within one year:				
Bonds payable	1,089,625	197,700	1,287,325	
Loan payable		18,750	18,750	
Compensated absences	32,140	36,728	68,868	
Portion due after one year:				
Bonds payable	4,345,508	201,800	4,547,308	
Compensated absences	160,704		160,704	
Net pension liability	3,190,181	502,988	3,693,169	
Net OPEB liability	185,224	38,545	223,769	
Total liabilities	<u>9,347,926</u>	<u>1,067,064</u>	<u>10,414,990</u>	<u>\$ -</u>
DEFERRED INFLOWS OF RESOURCES				
Pension related deferred inflows	517,897	79,217	597,114	
Succeeding year property tax	4,504,237		4,504,237	
Special assessments	99,371		99,371	
Total deferred inflows of resources	<u>5,121,505</u>	<u>79,217</u>	<u>5,200,722</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	32,665,565	11,324,446	43,990,011	
Restricted for:				
Debt service	79,449		79,449	
Other special revenue purposes	1,706,791		1,706,791	
Other purposes				128,869
Unrestricted	20,562	520,474	541,036	
Total net position	<u>34,472,367</u>	<u>11,844,920</u>	<u>46,317,287</u>	<u>128,869</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 48,941,798</u>	<u>\$ 12,991,201</u>	<u>\$ 61,932,999</u>	<u>\$ 128,869</u>

See Notes to Financial Statements.

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CITY OF DECORAH
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

Functions and Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Primary Government:				
Governmental activities:				
Public safety	\$ 2,700,131		\$ 34,603	
Public works	2,618,699	\$ 62,774	1,008,916	\$ 629,484
Health and social services	15,250			
Culture and recreation	1,966,583	698,237	229,081	50,000
Community and economic development	352,791			554,934
General government	751,835	49,585	325,668	251,542
Interest on long-term debt	143,426			
Total governmental activities	8,548,715	810,596	1,598,268	1,485,960
Business-type activities:				
Water utilities	820,643	807,251		
Sewer utilities	1,077,928	934,539	32,997	
Storm sewer utilities	3,052	162,312		
Metronet	249,365	286,046		
Total business-type activities	2,150,988	2,190,148	32,997	-
Total primary government	\$ 10,699,703	\$ 3,000,744	\$ 1,631,265	\$ 1,485,960
Component Unit:				
Decorah Volunteer Fire Department	\$ 74,726		\$ 153,963	
General Revenues and Transfers:				
Property and other City taxes levied for:				
General purposes				
Debt service				
Other City taxes				
Local option sales tax				
Commercial/industrial tax replacement				
Unrestricted investment earnings				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position, beginning of year				
Net position, end of year				

See Notes to Financial Statements.

EXHIBIT B

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Decorah Volunteer Fire Department
\$ (2,665,528)		\$ (2,665,528)	
(917,525)		(917,525)	
(15,250)		(15,250)	
(989,265)		(989,265)	
202,143		202,143	
(125,040)		(125,040)	
(143,426)		(143,426)	
(4,653,891)		(4,653,891)	
	\$ (13,392)	(13,392)	
	(110,392)	(110,392)	
	159,260	159,260	
	36,681	36,681	
-	72,157	72,157	
\$ (4,653,891)	72,157	\$ (4,581,734)	
			\$ 79,237
3,818,251		3,818,251	
632,894		632,894	
478,023		478,023	
1,052,990		1,052,990	
142,930		142,930	
22,180	892	23,072	182
128,385		128,385	
(306,057)	306,057	-	
5,969,596	306,949	6,276,545	182
1,315,705	379,106	1,694,811	79,419
33,156,662	11,465,814	44,622,476	49,450
\$ 34,472,367	\$ 11,844,920	\$ 46,317,287	\$ 128,869

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CITY OF DECORAH
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	General	Special Revenue	
		Employee Benefits	State Road Use Tax
ASSETS			
Cash	\$ 2,517,730	\$ 138,449	\$ 785,308
Investments			
Receivables:			
Property taxes:			
Current	5,864	2,972	
Succeeding year	2,728,896	1,182,185	
Special assessments:			
Current	8,817		
Deferred	99,371		
Interest		1,178	
Other	12,254		
Due from other funds	104,348		
Due from other governments	219,710		
Inventories			3,981
Prepaid expenditures	34,726		
Restricted assets:			
Investments		372,735	
Total assets	\$ 5,731,716	\$ 1,697,519	\$ 789,289
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 186,412		\$ 28,730
Salaries and benefits payable	69,587	\$ 18,917	10,050
Due to other funds			
Compensated absences	28,641		3,499
Total liabilities	284,640	18,917	42,279
Deferred inflows of resources:			
Succeeding year property tax	2,728,896	1,182,185	
Special assessments	99,371		
Total deferred inflows of resources	2,828,267	1,182,185	-
Fund balances:			
Nonspendable	34,726		3,981
Restricted			743,029
Committed			
Assigned	412,432	496,417	
Unassigned	2,171,651		
Total fund balances	2,618,809	496,417	747,010
Total liabilities, deferred inflows of resources and fund balances	\$ 5,731,716	\$ 1,697,519	\$ 789,289

See Notes to Financial Statements.

EXHIBIT C

Debt Service	Other Governmental Funds	Total Governmental Funds
\$ 78,060	\$ 414,497 180,054	\$ 3,934,044 180,054
1,389	35,053	45,278
579,406	13,750	4,504,237
		8,817
		99,371
	232	1,410
		12,254
		104,348
		219,710
		3,981
		34,726
		372,735
<u>\$ 658,855</u>	<u>\$ 643,586</u>	<u>\$ 9,520,965</u>
	\$ 24,278	\$ 239,420
	104,348	98,554
		104,348
		32,140
<u>\$ -</u>	<u>128,626</u>	<u>474,462</u>
579,406	13,750	4,504,237
		99,371
<u>579,406</u>	<u>13,750</u>	<u>4,603,608</u>
		38,707
79,449	123,749	946,227
	339,615	339,615
	77,508	986,357
	(39,662)	2,131,989
<u>79,449</u>	<u>501,210</u>	<u>4,442,895</u>
<u>\$ 658,855</u>	<u>\$ 643,586</u>	<u>\$ 9,520,965</u>

CITY OF DECORAH
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

Reconciliation of governmental fund balances to net position:	
Total governmental fund balances	\$ 4,442,895
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds, net of accumulated depreciation of \$ 25,658,159	
	38,013,390
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	1,511,791
Deferred inflows of resources	(517,897)
Long-term liabilities, including bonds/notes payable, compensated absences payable, 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	(5,435,133)
Compensated absences	(160,704)
Net pension liability	(3,190,181)
Net OPEB liability	(185,224)
Accrued interest	(6,570)
	<hr/>
Net position of governmental activities (page 5)	<u>\$ 34,472,367</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, 2017

	General	Special Revenue	
		Employee Benefits	State Road Use Tax
REVENUES:			
Property taxes	\$ 2,714,513	\$ 1,103,738	
Other City taxes	1,257,099	20,350	
Licenses and permits	33,724		
Use of money and property	28,406	322	\$ 121
Intergovernmental	1,359,641	35,466	1,008,916
Charges for service	581,213		
Miscellaneous	248,889	38,735	22,416
Total revenues	6,223,485	1,198,611	1,031,453
EXPENDITURES:			
Current operating:			
Public safety	2,767,036	653,120	
Public works	549,898	181,129	785,282
Health and social services	15,250		
Culture and recreation	1,583,270	284,239	
Community and economic development	37,662	164	26,361
General government	586,074	126,487	
Capital projects	523,097		
Debt service:			
Principal	466,000		81,300
Interest and other charges	28,413		3,709
Total expenditures	6,556,700	1,245,139	896,652
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	(333,215)	(46,528)	134,801
OTHER FINANCING SOURCES (USES):			
Proceeds from issuance of debt	900,000		
Transfers in/(out)	(15,000)		
Total other financing sources (uses)	885,000	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	551,785	(46,528)	134,801
FUND BALANCES, beginning of year	2,067,024	542,945	612,209
FUND BALANCES, end of year	\$ 2,618,809	\$ 496,417	\$ 747,010

See Notes to Financial Statements.

EXHIBIT D

Debt Service	Other Governmental Funds	Total Governmental Funds
\$ 632,894		\$ 4,451,145
11,766	\$ 241,798	1,531,013
		33,724
	1,437	30,286
20,506	351,607	2,776,136
		581,213
	456,920	766,960
<u>665,166</u>	<u>1,051,762</u>	<u>10,170,477</u>
	2,433	3,422,589
		1,516,309
		15,250
	98,759	1,966,268
	288,604	352,791
		712,561
	673,379	1,196,476
542,000		1,089,300
122,236		154,358
<u>664,236</u>	<u>1,063,175</u>	<u>10,425,902</u>
930	(11,413)	(255,425)
		900,000
	(291,057)	(306,057)
-	(291,057)	593,943
930	(302,470)	338,518
78,519	803,680	4,104,377
<u>\$ 79,449</u>	<u>\$ 501,210</u>	<u>\$ 4,442,895</u>

CITY OF DECORAH
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2017

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	\$	338,518
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlay exceeds depreciation in the period:

Depreciation	\$ (1,784,174)	
Capital outlays	2,628,296	844,122

Proceeds from issuing long-term liabilities are included in the governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Current year issuances exceeded repayments, as follows:

Issued	(900,000)	
Repaid	1,089,300	189,300

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.

715

The current year City IPERS contributions are reported as expenditures in the governmental funds, but are reported as deferred outflows of resources in the statement of net position.

155,080

The current year City MFPSI contributions are reported as expenditures in the governmental funds, but are reported as deferred outflows of resources in the statement of net position.

234,395

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 the governmental funds, as follows:

Compensated absences	(4,098)	
Net OPEB liability	(44,020)	
Pension expense	(408,524)	
Interest on long-term debt	10,217	(446,425)

Change in net position of governmental activities (page 6)

\$ 1,315,705

CITY OF DECORAH
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2017

	Water Utilities	Sewer Utilities	Storm Sewer	Metronet	Total
ASSETS					
Cash	\$ 82,659	\$ 433,121	\$ 44,242	\$ 35,626	\$ 595,648
Receivables:					
Accounts and unbilled usage, net	151,592	203,593	751	20,134	376,070
Due from other funds		139,021			139,021
Due from other governments		40,511			40,511
Inventory	15,000				15,000
Prepaid expenses	5,256	4,231			9,487
Total current assets	254,507	820,477	44,993	55,760	1,175,737
Noncurrent assets:					
Land		123,553			123,553
Net capital assets	4,272,882	7,077,442	114,267	154,552	11,619,143
Total noncurrent assets	4,272,882	7,200,995	114,267	154,552	11,742,696
Total assets	4,527,389	8,021,472	159,260	210,312	12,918,433
DEFERRED OUTFLOWS OF RESOURCES					
Pension related deferred outflows	100,510	111,279			211,789
Total assets and deferred outflows of resources	\$ 4,627,899	\$ 8,132,751	\$ 159,260	\$ 210,312	\$ 13,130,222
LIABILITIES AND NET POSITION					
Liabilities:					
Accounts payable	\$ 17,668	\$ 24,495		\$ 12,241	\$ 54,404
Salaries and benefits payable	7,971	7,662			15,633
Accrued interest payable	161	355			516
Due to other funds	139,021				139,021
Long-term liabilities:					
Loan payable	18,750				18,750
Bonds payable	62,500	135,200			197,700
Compensated absences	19,295	17,433			36,728
Total current liabilities	265,366	185,145	\$ -	12,241	462,752
Noncurrent liabilities:					
Long-term liabilities:					
Bonds payable	64,800	137,000			201,800
Net pension liability	238,376	264,612			502,988
Net OPEB liability	19,719	18,826			38,545
Total long-term liabilities	322,895	420,438	-	-	743,333
Total liabilities	588,261	605,583	-	12,241	1,206,085
DEFERRED INFLOWS OF RESOURCES					
Pension related deferred inflows	37,168	42,049			79,217
Total liabilities and deferred inflows of resources	625,429	647,632	-	12,241	1,285,302
Net position:					
Net investment in capital assets	4,126,832	6,928,795	114,267	154,552	11,324,446
Unrestricted (deficit)	(124,362)	556,324	44,993	43,519	520,474
Total net position	4,002,470	7,485,119	159,260	198,071	11,844,920
Total liabilities, deferred inflows of resources and net position	\$ 4,627,899	\$ 8,132,751	\$ 159,260	\$ 210,312	\$ 13,130,222

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, 2017

	Water Utilities	Sewer Utilities	Storm Sewer	Metronet	Total
OPERATING REVENUES:					
Charges for service:					
Sewer rental fees		\$ 908,227			\$ 908,227
Sale of utilities	\$ 747,752		\$ 76,545		824,297
Internet services				\$ 12,246	12,246
Miscellaneous	49,079	18,266		273,800	341,145
Intergovernmental:					
Freeport share		32,997			32,997
Miscellaneous	10,420	8,046	85,767		104,233
Total operating revenues	807,251	967,536	162,312	286,046	2,223,145
OPERATING EXPENSES:					
Salaries	299,782	286,206			585,988
Payroll taxes and fringe benefits	131,376	187,349			318,725
Insurance	16,301	10,962			27,263
Training	5,018	8,812			13,830
Vehicle repair and maintenance	2,728	27,295			30,023
Office supplies	2,580	5,891			8,471
Sales tax	41,480	15,192			56,672
Building maintenance and utilities	115,833	142,903		20,716	279,452
Emergency expense	32,456	8,127			40,583
Vehicle gas and oil	5,488	7,634			13,122
Engineering expense	669	2,761	1,568		4,998
Operating supplies and maintenance	19,808	47,948		194,500	262,256
Chemicals and testing	17,033				17,033
Hydrants, meters and other parts	7,836	36,205		17,103	61,144
Depreciation	117,831	283,257	1,484	17,046	419,618
Total operating expenses	816,219	1,070,542	3,052	249,365	2,139,178
Total operating (loss) income	(8,968)	(103,006)	159,260	36,681	83,967
NONOPERATING REVENUES (EXPENSES):					
Interest income	166	726			892
Interest and other charges	(4,424)	(7,386)			(11,810)
Net nonoperating revenues (expenses)	(4,258)	(6,660)	-	-	(10,918)
(Loss) income before contributions and transfers	(13,226)	(109,666)	159,260	36,681	73,049
CAPITAL CONTRIBUTIONS AND TRANSFERS:					
Transfers in	143,200	147,857		15,000	306,057
Change in net position	129,974	38,191	159,260	51,681	379,106
NET POSITION, beginning of year	3,872,496	7,446,928	-	146,390	11,465,814
NET POSITION, end of year	\$ 4,002,470	\$ 7,485,119	\$ 159,260	\$ 198,071	\$ 11,844,920

See Notes to Financial Statements.

CITY OF DECORAH
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2017

	Water Utilities	Sewer Utilities	Storm Sewer	Metronet	Total
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from rent		\$ 911,522			\$ 911,522
Cash received from charges for services	\$ 804,371	18,266	\$ 75,794	\$ 275,168	1,173,599
Cash received from other revenues		41,043	85,767		126,810
Cash payments to employees for services	(455,023)	(489,707)			(944,730)
Cash payments to suppliers for services	(265,996)	(488,531)	(1,568)	(235,139)	(991,234)
Net cash provided by (used in) operating activities	83,352	(7,407)	159,993	40,029	275,967
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Operating transfers in	143,200	147,857		15,000	306,057
Net cash provided by noncapital financing activities	143,200	147,857	-	15,000	306,057
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Principal payments on bond	(40,000)	(152,200)			(192,200)
Principal payments on loan payable	(56,250)				(56,250)
(Payments) proceeds of interfund borrowing	(119,630)	119,630			-
Interest paid on long-term borrowing	(4,512)	(7,587)			(12,099)
Acquisition of capital assets	(6,160)	(106,163)	(115,751)	(50,693)	(278,767)
Net cash used in capital and related financing activities	(226,552)	(146,320)	(115,751)	(50,693)	(539,316)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest on investments	166	726			892
Net increase (decrease) in cash and cash equivalents	166	(5,144)	44,242	4,336	43,600
CASH and CASH EQUIVALENTS, beginning of year	82,493	438,265	-	31,290	552,048
CASH and CASH EQUIVALENTS, end of year	<u>\$ 82,659</u>	<u>\$ 433,121</u>	<u>\$ 44,242</u>	<u>\$ 35,626</u>	<u>\$ 595,648</u>
Reconciliation of operating (loss) income to net cash provided by (used in) operating activities:					
Operating (loss) income	\$ (8,968)	\$ (103,006)	\$ 159,260	\$ 36,681	\$ 83,967
Adjustments to reconcile operating (loss) income to net cash provided by (used in) operating activities:					
Depreciation and depletion	117,831	283,257	1,484	17,046	419,618
Increase in accounts receivable	(2,880)	3,295	(751)	(10,878)	(11,214)
Increase in prepaid expense	(663)	(163)			(826)
Decrease in accounts payable	(15,824)	(185,564)		(2,820)	(204,208)
Decrease in salaries and benefits payable	(10,849)	(8,990)			(19,839)
Decrease in accrued compensated absences	(898)	(868)			(1,766)
Increase in net pension liability	45,756	49,079			94,835
Increase in deferred outflows of resources	(34,194)	(38,236)			(72,430)
Decrease in deferred inflows of resources	(10,142)	(10,879)			(21,021)
Increase in other postemployment benefits	4,183	4,668			8,851
Net cash provided by (used in) operating activities	<u>\$ 83,352</u>	<u>\$ (7,407)</u>	<u>\$ 159,993</u>	<u>\$ 40,029</u>	<u>\$ 275,967</u>

See Notes to Financial Statements.

CITY OF DECORAH

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Significant Accounting Policies

a. Nature of Operations

The City of Decorah (City) 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.

These financial statements present the City of Decorah (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Unit

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. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Decorah Volunteer Fire Department meets the definition of a component unit which should be discretely presented.

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
- Metronet

Government-wide Financial Statements

The statement of net position and the statement of activities report information on all of the nonfiduciary 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 nonfiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following 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 results 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 consists 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 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 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 from general 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. The City's major enterprise funds are water utilities, sewer utilities, storm sewer, and Metronet.

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

b. Significant Accounting Policies (Continued)

Measurement Focus and 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 reported 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 revenue in the year for which it is 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

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 are 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.

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

b. Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

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 is charges to customers for sales and services. Operating expenses for 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.

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 Fund Equity

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

Cash, Cash Equivalents and Pooled Investments

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.

All of the investments, which consist of United States government securities and agencies, bank certificates and corporate bonds are stated at fair value, which approximates cost for investments at June 30, 2017. 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.

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 Fund Equity (Continued)

Property Tax Receivable, 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 represent taxes collected by the County but not remitted to the City at June 30, 2017 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 receivable 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, 2015 assessed property valuations; is for the tax accrual period July 1, 2016 through June 30, 2017 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March 2016.

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 certain transactions between funds had not been paid or received as of June 30, 2017, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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.

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 Fund Equity (Continued)

Restricted Assets

The City previously maintained two pension funds for City employees and 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, infrastructure (e.g. roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government) and intangibles acquired after July 1, 1980 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 acquisition value. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the City as assets with an initial, individual cost 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

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

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 Fund Equity (Continued)

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position applicable to a future year(s) which 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 City after the measurement date but before the end of the City'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, 2017 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 absences liability payable from expendable available financial resources, while the proprietary funds and government-wide statements report the liability as it is incurred.

The City's approximate maximum liability for accrued compensated absences at June 30, 2017 is as follows:

Governmental	\$ 192,844
Enterprise	36,728
Total	<u>\$ 229,572</u>

These liabilities have been computed based on rates of pay as of June 30, 2017. The compensated absences liability attributable to the governmental activities will be paid primarily by the general fund.

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 Fund Equity (Continued)

Long-term Liabilities

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

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. The net pension liability attributable to the governmental activities will be paid primarily by the general fund.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position applicable to a future year(s) which 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 60 days after year end.

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 for which they are levied and the unamortized portion of the net difference between projected and actual earnings on the Systems' investments.

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 Fund Equity (Continued)

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 are imposed by law through constitutional provisions or enabling legislation.

Committed

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

Assigned

Amounts the City Council intend to use for specific purposes.

Unassigned

All amounts not included in the preceding classifications.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as 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.

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.

NOTES TO FINANCIAL STATEMENTS

2. Cash, Cash Equivalents and Pooled Investments

The City's deposits in banks at June 30, 2017 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 ensure there will be no loss of public funds.

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

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

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, 2017 the City had the following investments:

Type	Fair Value	Quoted Prices in Active Market for Identical Assets (Level 1)
Federal Home Loan Banks	\$ 149,234	\$ 149,234
United States Treasury Notes	15,163	15,163
Franklin US Government Securities Fund Class C	56,593	56,593
HSBC Bank USA	99,225	99,225
Bank of the West insured cash	52,520	52,520
	\$ 372,735	\$ 372,735

Interest Rate Risk

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

Credit Risk

The City's Federal Home Loan Banks and United States Treasury Notes investment at June 30, 2017 is rated AAA by Standard & Poor's Investor service.

At June 30, 2017, the City's Franklin US Government Securities Fund Class C, HSBC Bank USA, Bank of the West insured cash, and certificates of deposit are unrated.

NOTES TO FINANCIAL STATEMENTS

3. Capital Assets

Capital assets activity for the year ended June 30, 2017 was as follows:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,095,602	\$ 60,000		\$ 1,155,602
Infrastructure in progress	997,552	139,308	\$ 821,552	315,308
Total capital assets not being depreciated	2,093,154	199,308	821,552	1,470,910
Capital assets being depreciated:				
Buildings and improvements	7,171,279	805,803		7,977,082
Improvements other than buildings	2,716,846	51,508		2,768,354
Equipment	4,070,683	25,400	75,587	4,020,496
Vehicles	1,935,223	900,000	13,860	2,821,363
Infrastructure	43,145,515	1,467,829		44,613,344
Total capital assets being depreciated	59,039,546	3,250,540	89,447	62,200,639
Less accumulated depreciation:				
Buildings and improvements	3,303,203	213,106		3,516,309
Improvements other than buildings	1,474,933	51,916		1,526,849
Equipment	3,378,459	169,484	75,587	3,472,356
Vehicles	1,660,531	109,234	13,860	1,755,905
Infrastructure	14,146,306	1,240,434		15,386,740
Total accumulated depreciation	23,963,432	1,784,174	89,447	25,658,159
Total capital assets being depreciated, net	35,076,114	1,466,366	None	36,542,480
Governmental activities capital assets, net	\$ 37,169,268	\$ 1,665,674	\$ 821,552	\$ 38,013,390

NOTES TO FINANCIAL STATEMENTS

3. Capital Assets (Continued)

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 123,553			\$ 123,553
Infrastructure in progress	3,411,272	\$ 30,678	\$ 3,411,272	30,678
Total capital assets not being depreciated	3,534,825	30,678	3,411,272	154,231
Capital assets being depreciated:				
Buildings and improvements	3,574,038			3,574,038
Improvements other than buildings	2,920,138			2,920,138
Equipment	5,113,240	86,024		5,199,264
Vehicles	183,493			183,493
Infrastructure, water and sewer network	5,860,659	3,573,337		9,433,996
Total capital assets being depreciated	17,651,568	3,659,361	None	21,310,929
Less accumulated depreciation:				
Buildings and improvements	1,903,913	84,303		1,988,216
Improvements other than buildings	1,959,907	80,485		2,040,392
Equipment	2,672,558	114,261		2,786,819
Vehicles	166,083	4,974		171,057
Infrastructure, water and sewer network	2,600,385	135,595		2,735,980
Total accumulated depreciation	9,302,846	419,618	None	9,722,464
Total capital assets being depreciated, net	8,348,722	3,239,743	None	11,588,465
Business-type activities capital assets, net	\$ 11,883,547	\$ 3,270,421	\$ 3,411,272	\$ 11,742,696

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

Governmental activities:				
Public safety	\$ 144,266			
Public works	1,447,735			
Culture and recreation	133,610			
General government	58,563			
Total depreciation expense	\$ 1,784,174			
Business-type activities:				
Water		\$ 117,831		
Metronet		17,046		
Storm sewer		1,484		
Sewer:				
Sanitary sewer	\$ 69,442			
Sewer utility	34,996			
Wastewater	178,819	283,257		
Total depreciation expense		\$ 419,618		

NOTES TO FINANCIAL STATEMENTS

4. Leases

The City has agreed to lease space to the Winneshiek County Sheriff's office for a one year period starting July 1, 2017. The lease requires a \$187,851 payment for the year to the City. The City also has other nominal leases with various parties and terms. At June 30, 2017 future minimum lease receipts were as follows:

Year ending June 30,	
2018	\$ 212,872
2019	19,563
2020	13,986
2021	6,000
2022	6,000
	<u>\$ 258,421</u>

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, 2017:

Year ending June 30,	
2018	\$ 7,464
2019	7,464
2020	6,000
2021	6,000
2022	500
	<u>\$ 27,428</u>

5. Long-term Debt

Bonded Debt, General Obligation Bonds/Notes

As of June 30, 2017, one general obligation corporate purpose and refunding note originally totaling \$5,200,000 is outstanding, and as of June 30, 2017, \$1,065,000 is outstanding. The general obligation corporate purpose note bears interest at 1.59% and matures in semiannual installments with the final payment of \$455,000 in the year ending June 30, 2019.

As of June 30, 2017, one general obligation corporate purpose note originally totaling \$4,962,959 is outstanding. As of June 30, 2017, \$3,802,308, net of unamortized premium and discount of \$87,308 is outstanding. The general obligation corporate purpose note bears interest ranging from 2.0% to 3.5% and matures in semiannual installments with the final payment of \$335,000 in the year ending June 30, 2029.

As of June 30, 2017, one general obligation vehicle acquisition note originally totaling \$193,325 is outstanding. As of June 30, 2017, \$67,325 is outstanding. The general obligation vehicle acquisition note bears interest at 1.75% and matures in semiannual installments with the final payment of \$67,325 in the year ending June 30, 2018.

As of June 30, 2017, one general obligation fire truck acquisition note originally totaling \$900,000 is outstanding, and as of June 30, 2017, \$900,000 is outstanding. The general obligation fire truck acquisition note bears interest at 1.5% and matures in semiannual installments with the final payment of \$225,000 in the year ending June 30, 2021.

NOTES TO FINANCIAL STATEMENTS

5. Long-term Debt (Continued)

Notes Payable

The City has the following notes payable at June 30, 2017:

Hawkeye Tri-County Electric Cooperative, Rural Economic Development Loan 0.0% note payable due \$3,750 monthly beginning June 1, 2011 through February 2018.	\$ 18,750
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A summary of the changes in debt, by type, for the year ended June 30, 2017 is as follows:

	Balance June 30, 2016	Borrowed	Paid	Balance June 30, 2017	Amounts Due Within One Year
General Obligation:					
Corporate Purpose Notes:					
2013 Bond	\$ 1,925,000		\$ (860,000)	\$ 1,065,000	\$ 610,000
2014 Bond	4,095,000		(380,000)	3,715,000	385,000
Vehicle Acquisition Note	131,325		(64,000)	67,325	67,325
Fire Truck Acquisition Note		\$ 900,000		900,000	225,000
	6,151,325	900,000	(1,304,000)	5,747,325	1,287,325
Plus unamortized premium	131,572		(13,785)	117,787	
Less unamortized discount	(34,047)		3,568	(30,479)	
	97,525	None	(10,217)	87,308	None
Total bonded debt	\$ 6,248,850	\$ 900,000	\$ (1,314,217)	\$ 5,834,633	\$ 1,287,325
Notes Payable:					
Rural Economic Development Loan	\$ 52,500	\$ None	\$ (33,750)	\$ 18,750	\$ 18,750

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

Year Ending June 30,	Bonded Indebtedness			
	General Obligation		Notes Payable	
	Principal	Interest	Principal	Interest
2018	\$ 1,287,325	\$ 148,699	\$ 18,750	
2019	1,080,000	122,897		
2020	480,000	100,288		
2021	490,000	89,262		
2022	270,000	77,938		
2023-2027	1,480,000	262,325		
2028-2029	660,000	34,825		
	\$ 5,747,325	\$ 836,234	\$ 18,750	\$ None

NOTES TO FINANCIAL STATEMENTS

5. Long-term Debt (Continued)

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 fund and the road use fund. This debt is backed by the full faith and credit of the City. At June 30, 2017, the outstanding bond payable for the water fund, sewer fund, and road use fund are:

Governmental funds	\$ 3,585,500
Water fund	77,300
Sewer fund	52,200
	\$ 3,715,000

The 2013 general obligation bond payable is partially payable by the water and sewer funds, and the remaining balance has been recorded in the tax increment financing, special revenue fund, the debt service fund, and the 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, 2017, the outstanding note payable for the governmental funds, water fund and sewer fund are:

Governmental funds	\$ 795,000
Water fund	50,000
Sewer fund	220,000
	\$ 1,065,000

At June 30, 2017, the debt issued by the City did not exceed its legal debt margin compiled as follows:

Total assessed valuation	\$ 508,094,253
Debt limit – 5% of total assessed valuation	\$ 25,404,713
Debt applicable to debt limit:	
Bank notes and bonded debt outstanding	5,766,075
Legal debt margin	\$ 19,638,638

The City currently has Low-to-Moderate (LMI) set aside of \$101,653.

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, 2017 and the total liability of the City as of that date as reported on the government-wide statement of net position:

	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017	Amounts Payable Within One Year
Governmental activities	\$ 187,927	\$ 36,238	\$ (31,321)	\$ 192,844	\$ 32,140
Business-type activities	\$ 38,494	\$ 36,728	\$ (38,494)	\$ 36,728	\$ 36,728

NOTES TO FINANCIAL STATEMENTS

7. **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2017 is as follows:

	Transfer In	Transfer Out
General fund		\$ 15,000
Hwy 9 WA/SE St Imp		291,057
Water utilities	\$ 143,200	
Sewer utilities	147,857	
Metronet	15,000	
	\$ 306,057	\$ 306,057

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, 2017, interfund receivables and payables that resulted from various interfund transactions were as follows:

Receivable Fund	Payable Fund	Amount
General	Special revenue:	
	Tax increment financing	\$ 29,657
General	Capital projects:	
	Sweet Parkway Road	74,691
		\$ 104,348
Sewer	Water	\$ 139,021

Repayments will be made from future revenues.

9. **Iowa Public Employees' Retirement System (IPERS)**

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 the 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.

9. Iowa Public Employees' Retirement System (IPERS) (Continued)*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, any time 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, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

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

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

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

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

Disability and Death Benefits

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

Contributions

Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires 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.

NOTES TO FINANCIAL STATEMENTS

9. Iowa Public Employees' Retirement System (IPERS) (Continued)

Contributions (Continued)

In fiscal year 2017, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%. Protective occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%.

The City's contributions to IPERS for the year ended June 30, 2017 totaled \$213,636.

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

At June 30, 2017, the City reported a liability of \$1,886,215 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 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 IPERS relative to the contributions of all IPERS participating employers. At June 30, 2016, the City's collective proportion was 0.030246%, which was a decrease of 0.000689% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City recognized pension expense of \$220,128. At June 30, 2017, 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	\$ 16,670	\$ 22,511
Changes of assumptions	28,778	
Net difference between projected and actual earnings on IPERS' investments	502,140	233,414
Changes in proportion and differences between City contributions and the City's proportionate share of contributions	20,239	48,001
City contributions subsequent to the measurement date	213,636	
Total	\$ 781,463	\$ 303,926

\$213,636 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 ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,		
2018	\$	32,786
2019		32,786
2020		131,779
2021		70,467
2022		(3,917)
Total	\$	263,901

There were no non-employer contributing entities to IPERS.

9. Iowa Public Employees' Retirement System (IPERS) (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement, as follows:

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.
Wage growth (Effective June 30, 1990)	4.00% per annum based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2016 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 IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-term Expected Real Rate of Return
Core plus fixed income	28%	1.90%
Domestic equity	24	5.85
International equity	16	6.32
Private equity/debt	11	10.31
Real estate	8	3.87
Credit opportunities	5	4.48
U.S. TIPS	5	1.36
Other real assets	2	6.42
Cash	1	(0.26)
Total	100%	

9. Iowa Public Employees' Retirement System (IPERS) (Continued)

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 employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' 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 IPERS' 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 1% lower (6.50%) or 1% 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	\$ 3,051,640	\$ 1,886,215	\$ 902,580

IPERS' Fiduciary Net Position

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

Payables to IPERS

All legally required City contributions and legally required employee contributions which had been withheld from employee wages were remitted by the City to IPERS by June 30, 2017.

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.

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

Pension Benefits (Continued)

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% of the member's average final compensation. Members who perform more than 22 years of service receive an additional 2% of the member's average final compensation 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% 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. When electing to participate in DROP, the member signs a contract stating 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 benefits may be either accidental or ordinary. Accidental disability is defined as a permanent disability incurred in the line of duty, with benefits equivalent to the greater of 60% 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% 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% of average final compensation for those with less than 5 years of service.

Death benefits are similar to disability benefits. Benefits for accidental death are 50% 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% 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% 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 annually in accordance with Chapter 411.6 of the Code of Iowa, which provides 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, the contribution rate was 9.40% of earnable compensation for the year ended June 30, 2017.

NOTES TO FINANCIAL STATEMENTS

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

Contributions (Continued)

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% 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 City's contribution rate cannot be less than 17.00% of earnable compensation. The contribution rate was 25.92% for the year ended June 30, 2017.

The City's contributions to MFPRSI for the year ended June 30, 2017 totaled \$234,395.

If approved by the State Legislature, state appropriation may further reduce the City'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 Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans*.

There were no state appropriations to MFPRSI during the year ended June 30, 2017.

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

At June 30, 2017, the City reported a liability of \$1,806,954 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 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 MFPRSI relative to the contributions of all MFPRSI participating employers. At June 30, 2016, the City's proportion was 0.288992%, which was a decrease of 0.00533% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City recognized pension expense of \$248,336. At June 30, 2017, 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	\$ 46,635	\$ 1,676
Changes of assumptions	76,291	24,750
Net difference between projected and actual earnings on MFPRSI investments	565,733	246,222
Changes in proportion and differences between City contributions and the City's proportionate share of contributions	19,063	20,540
City contributions subsequent to the measurement date	234,395	
Total	\$ 942,117	\$ 293,188

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

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

\$234,395 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 ending June 30, 2018. 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 Ending June 30,</u>		
2018	\$	65,403
2019		65,403
2020		181,567
2021		105,188
2022		<u>(3,027)</u>
Total	\$	<u>414,534</u>

Actuarial Assumptions

The total pension liability in the June 30, 2016 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 15.00%, including inflation.
Investment rate of return	7.50%, net of investment expense, including inflation.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2002 to June 30, 2012.

Postretirement mortality rates were based on the RP-2000 Blue Collar Combined Healthy Mortality Table with males set-back two years, females set-forward one year and disabled individuals set-forward one year (male only rates), with no projection of future mortality improvement.

The long-term expected rate of return on MFPRSI investments was determined using a building-block method in which best-estimate ranges of expected future real rates (i.e., expected returns, net of 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.

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

Actuarial Assumptions (Continued)

The best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
Large cap	6.0%
Small cap	5.8
International large cap	7.0
Emerging markets	8.8
Emerging market debt	6.5
Private non-core real estate	9.3
Master limited partnerships	8.5
Private equity	9.8
Core plus fixed income	3.8
Private core real estate	6.8
Treasury inflation protected securities	2.8
Tactical asset allocation	6.0

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 contributions will be made at 9.40% of covered payroll and the City's contributions will be made at rates equal to the difference between actuarially determined rates and the member rate. Based on those assumptions, the MFPRSI'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 MFPRSI's 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 1% lower (6.50%) or 1% 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	\$ 2,835,921	\$ 1,806,954	\$ 950,042

MFPRSI's Fiduciary Net Position

Detailed information about MFPRSI'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 MFPRSI

All legally required City contributions and legally required employee contributions which had been withheld from employee wages were remitted by the City to MFPRSI by June 30, 2017.

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 63 active and 4 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.

The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2017, the amount actually contributed to the plan and changes in the City's net OPEB obligation:

Annual required contribution	\$	77,547
Interest on net OPEB obligation		6,836
Adjustment to annual required contribution		<u>(6,791)</u>
Annual OPEB cost		77,592
Contributions made		<u>(24,721)</u>
Increase in net OPEB obligation		52,871
Net OPEB obligation beginning of year		<u>170,898</u>
Net OPEB obligation end of year	\$	<u><u>223,769</u></u>

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, 2017.

For the year ended June 30, 2017, the City contributed \$24,721 to the medical plan for the OPEB obligation. Plan members eligible for benefits contributed \$79,916, or 76.4% of the premium costs for the OPEB obligation.

11. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

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 June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	\$ 72,016	66.9%	\$ 120,307
2016	73,271	31.0%	170,898
2017	77,592	31.9%	223,769

Funded Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date for the period July 1, 2016 through June 30, 2017, the actuarial accrued liability was \$731,589, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$731,589. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2,931,986 and the ratio of the UAAL to covered payroll was 25.0%. As of June 30, 2017, there were no trust fund assets.

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, 2016 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 the 5% ultimate trend rate. An inflation rate of 0% is assumed for purpose of this computation.

Mortality rates are from the SOA RPH-2015 Total Dataset Mortality Table fully generational using Scale MP-2015; the RPH-2015 table is developed from RPH-2014 table with 8 years of mortality improvement based on MP-2014 scale removed, projected to 2014 using MP-2015 scale.

NOTES TO FINANCIAL STATEMENTS

12. Net Position and Fund Balances

The government-wide statement of net position reports \$1,786,240 of restricted net position, of which \$747,010 is restricted by enabling legislation at June 30, 2017.

The amounts restricted are as follows:

Restricted net position:	
Special revenue funds:	
Employee benefits	\$ 496,417
State road use tax	747,010
Self-supported municipal improvement city	47,516
Tax increment financing	71,995
Emergency	196
Police forfeitures	3,725
Memorial	317
Park Commission special gifts	160,338
Library Board special gifts	179,277
Debt service fund	79,449
	\$ 1,786,240

The governmental fund balances as of June 30, 2017 are as follows:

Nonspendable:	
General fund:	
Prepaid insurance	\$ 34,726
Special revenue funds:	
State road use tax:	
Inventory	3,981
	\$ 38,707
Restricted:	
Special revenue funds:	
Tax increment financing	\$ 71,995
State road use tax	743,029
Self-supported municipal improvement city	47,516
Emergency	196
Police forfeitures	3,725
Memorial	317
Debt service fund	79,449
	\$ 946,227
Committed:	
Special revenue funds:	
Park Commission special gifts	\$ 160,338
Library Board special gifts	179,277
	\$ 339,615

12. Net Position and Fund Balances (Continued)

Assigned:	
General fund:	
Visioning committee	\$ 1,131
City Hall equipment	10,718
Skate park	105
Airport equipment	20,354
Swimming pool equipment	35,731
Recreation equipment	4,981
New shelter	5,640
Softball/tennis improvement	214,723
Park equipment	20,899
Police equipment	21,066
Park land acquisition	20,844
Sidewalk	350
Fire Department equipment	51,321
Franchise fee	4,569
Special revenue funds:	
Employee benefits	496,417
Capital projects fund:	
Dry Run Trail	77,508
	\$ 986,357

13. Fund Balance Deficit

The Sweet Parkway Road capital project fund has a deficit balance as of June 30, 2017 of \$39,662. The deficit will be eliminated by future grant revenues.

14. Related Party Transactions

For the year ended June 30, 2017, the City had business transactions between the City and City officials, Randy Schissel, Member of City Council; and Brett Willie, Member of the Airport Commission, totaling \$22,741.

- The transaction with Randy Schissel consisted of retail purchases with total payments to Storey Kenworthy of \$19,967. 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 \$2,774. Mr. Willie is the Manager of Sherwin Williams.

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 \$4,000 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 \$5,600 per employee and \$11,200 per family. The City has incurred costs totaling \$123,312 for the 2017 fiscal year. At June 30, 2017, the maximum potential additional City liability because of this plan was \$489,760.

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, 2017, 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 (Agency). The City has agreed to guarantee revenue to the Agency from City residents. The guarantee equals base year usage by City residents as a percentage of all base year usage sufficient to fund \$2,000,000 of bonded indebtedness amortized over 12 years. The guarantee was in effect until 2003. The City appoints a member to the Agency Board and is guaranteed access to the landfill so long as it is a member. The Agency Board sets tonnage fee rates which are charged to contracted haulers who are responsible for garbage collection and billing and collecting from local residents. Audited financial statements of Winneshiek County Area Solid Waste Agency are available from the Agency at 2000 140th Avenue, Decorah, Iowa.

The City participates in the Metronet, a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa. Financial transactions of this organization are included in the City's financial statements.

18. Commitments

The City has entered into construction contracts totaling \$548,445 for the Park Street/Short Street lighting and street projects, and a telecommunications and fiber network feasibility study.

19. Tax Abatements

Governmental Accounting Standards Board Statement No. 77 defines tax abatements as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

City Tax Abatements

The City provides tax abatements for urban renewal and economic development projects with tax increment financing as provided for in Chapter 15A of the Code of Iowa. For these types of projects, the City enters into agreements with developers which require the City, after developers meet the terms of the agreements, to rebate a portion of the property tax paid by the developers, to pay the developers an economic development grant or to pay the developers a predetermined dollar amount. No other commitments were made by the City as part of these agreements.

For the year ended June 30, 2017, the City abated no property tax under the urban renewal and economic development projects.

20. New Accounting Pronouncement

The City adopted the tax abatement disclosure guidance set forth in Governmental Accounting Standards Board Statement No. 77, *Tax Abatement Disclosures*. The Statement sets forth guidance for the disclosure of information about the nature and magnitude of tax abatements which will make these transactions more transparent to financial statement users. Adoption of the guidance did not have an impact on amounts reported in the financial statements. The notes to financial statements include information about the City's tax abatements and tax abatements of other entities which impact the City.

21. New Governmental Accounting Standards Board (GASB) Standards

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

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued June 2015, will be effective for the fiscal year ended June 30, 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with postemployment benefits other than pensions, including additional note disclosures and required supplementary information. In addition, the statement of net position is expected to include a significant liability for the government's other postemployment benefits.

GASB Statement No. 87, *Leases*, issued June 2017, will be effective for the fiscal year ended June 30, 2020. The Statement increases the usefulness of governments' financial statement by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

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

22. Subsequent Events

Management has evaluated subsequent events through December 18, 2017, the date on which the financial statements were available to be issued.

Required Supplementary Information

CITY OF DECORAH
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS)
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
Year Ended June 30, 2017

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual
RECEIPTS:			
Property taxes	\$ 4,425,806		\$ 4,425,806
Other City taxes	1,530,797		1,530,797
Licenses and permits	38,043		38,043
Use of money and property	30,544	\$ 892	31,436
Intergovernmental revenues	2,670,319	40,875	2,711,194
Charges for services	577,158	1,805,229	2,382,387
Miscellaneous	1,035,363	369,051	1,404,414
Total receipts	10,308,030	2,216,047	12,524,077
DISBURSEMENTS:			
Public safety	3,469,646		3,469,646
Public works	1,611,507		1,611,507
Health and social services	15,250		15,250
Culture and recreation	1,995,729		1,995,729
Community and economic development	356,569		356,569
General government	730,283		730,283
Debt service	1,150,286		1,150,286
Capital projects	1,195,369		1,195,369
Total governmental activities disbursements	10,524,639	-	10,524,639
Business-type enterprises	-	2,478,504	2,478,504
Total disbursements	10,524,639	2,478,504	13,003,143
(DEFICIENCY) EXCESS OF RECEIPTS (UNDER) OVER DISBURSEMENTS	(216,609)	(262,457)	(479,066)
OTHER FINANCING SOURCES (USES):			
Proceeds from issuance of debt	900,000		900,000
Operating transfers in	25,000	306,057	331,057
Operating transfers out	(331,057)		(331,057)
OTHER FINANCING SOURCES (USES), NET	593,943	306,057	900,000
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	377,334	43,600	420,934
FUND BALANCE/RETAINED EARNINGS, June 30, 2016	4,109,499	552,048	4,661,547
FUND BALANCE/RETAINED EARNINGS, June 30, 2017	\$ 4,486,833	\$ 595,648	\$ 5,082,481

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

Budget Amounts		Variance -
Original	Final	Favorable (Unfavorable)
\$ 4,405,697	\$ 4,405,697	\$ 20,109
1,332,241	1,352,241	178,556
29,600	31,600	6,443
24,514	73,014	(41,578)
3,394,050	3,468,150	(756,956)
2,209,056	2,317,946	64,441
733,899	1,403,669	745
12,129,057	13,052,317	(528,240)
2,265,790	3,524,040	54,394
1,947,942	2,067,442	455,935
22,345	22,345	7,095
1,760,964	2,023,164	27,435
236,149	377,149	20,580
747,459	832,059	101,776
1,150,486	1,150,486	200
2,170,347	2,170,347	974,978
10,301,482	12,167,032	1,642,393
1,900,094	2,585,594	107,090
12,201,576	14,752,626	1,749,483
(72,519)	(1,700,309)	1,221,243
	900,000	-
47,095	47,095	283,962
(47,095)	(47,095)	(283,962)
-	900,000	-
(72,519)	(800,309)	\$ 1,221,243
4,661,544	4,661,544	
\$ 4,589,025	\$ 3,861,235	

CITY OF DECORAH
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 BUDGET TO GAAP RECONCILIATION
 Year Ended June 30, 2017

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 10,308,030	\$ (137,553)	\$ 10,170,477
Expenditures	10,524,639	(98,737)	10,425,902
Net	(216,609)	(38,816)	(255,425)
Other financing sources, net	593,943	-	593,943
Beginning fund balance (deficit)	4,109,499	(5,122)	4,104,377
Ending fund balance (deficit)	<u>\$ 4,486,833</u>	<u>\$ (43,938)</u>	<u>\$ 4,442,895</u>
	Proprietary Funds		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 2,216,047	\$ 7,990	\$ 2,224,037
Expenditures	2,478,504	(327,516)	2,150,988
Net	(262,457)	335,506	73,049
Other financing sources, net	306,057	-	306,057
Beginning fund balance	552,048	10,913,766	11,465,814
Ending fund balance	<u>\$ 595,648</u>	<u>\$ 11,249,272</u>	<u>\$ 11,844,920</u>

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

CITY OF DECORAH

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
Year Ended June 30, 2017

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 \$2,551,050. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2017, 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)
 For the Last Three Years*
 (In Thousands)

	2017	2016	2015
City's proportion of the net pension liability	0.030246%	0.030935%	0.031474%
City's proportionate share of the net pension liability	\$ 1,886	\$ 1,538	\$ 1,274
City's covered-employee payroll	\$ 2,150	\$ 2,128	\$ 2,072
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	87.72%	72.27%	61.49%
Plan fiduciary net position as a percentage of the total pension liability	81.82%	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

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

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

	2017	2016	2015	2014
Statutorily required contribution	\$ 214	\$ 192	\$ 190	\$ 185
Contributions in relation to the statutorily required contribution	(214)	(192)	(190)	(185)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 2,396	\$ 2,150	\$ 2,128	\$ 2,072
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.93%

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

2013	2012	2011	2010	2009	2008
\$ 172	\$ 155	\$ 134	\$ 128	\$ 118	\$ 110
(172)	(155)	(134)	(128)	(118)	(110)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 1,984	\$ 1,921	\$ 1,928	\$ 1,925	\$ 1,858	\$ 1,818
8.67%	8.07%	6.95%	6.65%	6.35%	6.05%

CITY OF DECORAH

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (IPERS)
Year Ended June 30, 2017

Changes of Benefit Terms:

Legislation enacted in 2010 modified benefit terms for 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.

Legislative action in 2008 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.

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 (unfunded actuarial liability) 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.

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)
 For the Last Three Years*
 (In Thousands)

	2017	2016	2015
City's proportion of the net pension liability	0.288992%	0.294322%	0.289414%
City's proportionate share of the net pension liability	\$ 1,807	\$ 1,383	\$ 1,049
City's covered-employee payroll	\$ 781	\$ 763	\$ 737
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	231.37%	181.26%	142.33%
Plan fiduciary net position as a percentage of the total pension liability	78.20%	83.04%	86.27%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

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

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

	2017	2016	2015	2014
Statutorily required contribution	\$ 234	\$ 217	\$ 232	\$ 222
Contributions in relation to the statutorily required contribution	(234)	(217)	(232)	(222)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 903	\$ 781	\$ 763	\$ 737
Contributions as a percentage of covered-employee payroll	25.92%	27.77%	30.41%	30.12%

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

2013	2012	2011	2010	2009	2008
\$ 187	\$ 177	\$ 133	\$ 116	\$ 129	\$ 160
(187)	(177)	(133)	(116)	(129)	(160)
<u>\$ -</u>					
\$ 716	\$ 715	\$ 668	\$ 682	\$ 688	\$ 628
26.12%	24.76%	19.9%	17.0%	18.75%	25.48%

CITY OF DECORAH

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION LIABILITY
MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA (MFPRSI)
Year Ended June 30, 2017

Changes of Benefit Terms:

There were no significant changes of benefit terms.

Changes of Assumptions:

Postretirement mortality changed to the RP-2000 Blue Collar Combined Healthy Mortality Table with males set-back two years, females set-forward one year and disabled's set-forward one year (male only rates), with no projection of future mortality improvement.

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%
2016	July 1, 2015	-	\$ 681	\$ 681	0.0%	\$ 2,847	23.9%
2017	July 1, 2016	-	\$ 732	\$ 732	0.0%	\$ 3,163	23.1%

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.

See Independent Auditor's Report.

Other Supplementary Information

CITY OF DECORAH
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2017

		Special Revenue Funds					
		Tax Increment Financing	Self-supported Municipal Improvement District	Emergency	Police Forfeitures	Memorial	Park Commission Special Gifts
ASSETS							
Cash		\$ 101,652	\$ 47,492	\$ 196	\$ 3,725	\$ 317	\$ 128,449
Investments							34,054
Receivables:							
Taxes:							
Current			24				
Succeeding year			13,750				
Interest							14
Total assets		\$ 101,652	\$ 61,266	\$ 196	\$ 3,725	\$ 317	\$ 162,517
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES							
Liabilities:							
Accounts payable							\$ 2,179
Due to other funds		\$ 29,657					
Total liabilities		29,657	\$ -	\$ -	\$ -	\$ -	2,179
Deferred inflows of resources:							
Succeeding year property taxes			13,750				
Total deferred inflows of resources		-	13,750	-	-	-	-
Fund balances:							
Restricted		71,995	47,516	196	3,725	317	
Committed							160,338
Assigned							
Unassigned (deficit)							
Total fund balances (deficit)		71,995	47,516	196	3,725	317	160,338
Total liabilities, deferred inflows of resources and fund balances		\$ 101,652	\$ 61,266	\$ 196	\$ 3,725	\$ 317	\$ 162,517

See Independent Auditor's Report.

SCHEDULE 1

Special Revenue Funds		Capital Projects Fund				Total Nonmajor Governmental Funds
Library Board Special Gifts	Total	Sweet Parkway Road	Dry Run Trail	Hwy 9 WA/ SE/ST Imp	Total	
\$ 48,149	\$ 329,980		\$ 77,508	\$ 7,009	\$ 84,517	\$ 414,497
146,000	180,054				-	180,054
	24	\$ 35,029			35,029	35,053
	13,750				-	13,750
218	232				-	232
<u>\$ 194,367</u>	<u>\$ 524,040</u>	<u>\$ 35,029</u>	<u>\$ 77,508</u>	<u>\$ 7,009</u>	<u>\$ 119,546</u>	<u>\$ 643,586</u>
\$ 15,090	\$ 17,269			\$ 7,009	\$ 7,009	\$ 24,278
	29,657	\$ 74,691			74,691	104,348
15,090	46,926	74,691	\$ -	7,009	81,700	128,626
	13,750				-	13,750
-	13,750	-	-	-	-	13,750
	123,749				-	123,749
179,277	339,615				-	339,615
	-		77,508		77,508	77,508
	-	(39,662)			(39,662)	(39,662)
179,277	463,364	(39,662)	77,508	-	37,846	501,210
<u>\$ 194,367</u>	<u>\$ 524,040</u>	<u>\$ 35,029</u>	<u>\$ 77,508</u>	<u>\$ 7,009</u>	<u>\$ 119,546</u>	<u>\$ 643,586</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, 2017

	Special Revenue Funds					
	Tax Increment Financing	Self-supported Municipal Improvement District	Hotel/Motel Tax	Emergency	Police Forfeitures	Memorial
REVENUES:						
Other City taxes		\$ 14,097	\$ 170,575			
Use of money and property						
Intergovernmental		666				
Miscellaneous					\$ 3,725	
Total revenues	\$ -	14,763	170,575	\$ -	3,725	\$ -
EXPENDITURES:						
Current:						
Public safety					2,433	
Culture and recreation						
Community and economic development	114,008	4,021	170,575			
Capital projects						
Total expenditures	114,008	4,021	170,575	-	2,433	-
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	(114,008)	10,742	-	-	1,292	-
OTHER FINANCING SOURCES (USES):						
Transfers out						
Total other financing sources (uses)	-	-	-	-	-	-
(DEFICIENCY) EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) OVER EXPENDITURES AND OTHER FINANCING USES	(114,008)	10,742	-	-	1,292	-
FUND BALANCES (deficit), beginning of year	186,003	36,774		196	2,433	317
FUND BALANCES (deficit), end of year	\$ 71,995	\$ 47,516	\$ -	\$ 196	\$ 3,725	\$ 317

See Independent Auditor's Report.

Special Revenue Funds			Capital Projects Fund					Total Nonmajor Governmental Funds
Park Commission Special Gifts	Library Board Special Gifts	Total	Sweet Parkway Road	Local Trail Development	Dry Run Trail	Hwy 9 WA/ SE/ST Imp	Total	
		\$ 184,672		\$ 57,126			\$ 57,126	\$ 241,798
\$ 583	\$ 808	1,391				\$ 46	46	1,437
125,217	12,067	141,009	\$ 350,941				350,941	351,607
			315,911				315,911	456,920
125,800	12,875	327,738	666,852	57,126	\$ -	46	724,024	1,051,762
		2,433					-	2,433
77,784	20,975	98,759					-	98,759
		288,604					-	288,604
		-	665,997			7,382	673,379	673,379
77,784	20,975	389,796	665,997	-	-	7,382	673,379	1,063,175
48,016	(8,100)	(62,058)	855	57,126		(7,336)	50,645	(11,413)
						(291,057)	(291,057)	(291,057)
-	-	-	-	-	-	(291,057)	(291,057)	(291,057)
48,016	(8,100)	(62,058)	855	57,126		(298,393)	(240,412)	(302,470)
112,322	187,377	525,422	(40,517)	(57,126)	77,508	298,393	278,258	803,680
\$ 160,338	\$ 179,277	\$ 463,364	\$ (39,662)	\$ -	\$ 77,508	\$ -	\$ 37,846	\$ 501,210

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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			
	2017	2016	2015	2014
REVENUES:				
Property tax	\$ 4,451,145	\$ 4,102,009	\$ 4,167,690	\$ 3,671,263
Tax increment financing revenue		245,325	244,337	250,073
Other City taxes	1,531,013	1,377,480	1,395,832	1,248,719
Licenses and permits	33,724	33,743	32,559	33,464
Use of money and property	30,286	46,561	34,014	36,784
Intergovernmental	2,776,136	2,199,165	1,542,822	1,274,775
Charges for service	581,213	560,246	525,261	538,131
Miscellaneous	766,960	299,628	284,649	329,739
Total	\$ 10,170,477	\$ 8,864,157	\$ 8,227,164	\$ 7,382,948
EXPENDITURES:				
Operating:				
Public safety	\$ 3,422,589	\$ 2,171,665	\$ 2,500,630	\$ 2,139,906
Public works	1,516,309	1,897,155	1,677,795	1,500,807
Health and social services	15,250	21,345	31,138	46,595
Culture and recreation	1,966,268	1,877,866	1,752,524	1,732,063
Community and economic development	352,791	208,947	212,350	208,963
General government	712,561	655,649	612,354	553,594
Debt service	1,243,658	1,231,574	1,245,387	759,734
Capital projects	1,196,476	914,409	301,446	310,303
Total	\$ 10,425,902	\$ 8,978,610	\$ 8,333,624	\$ 7,251,965

SCHEDULE 3

Modified Accrual Basis						
2013	2012	2011	2010	2009	2008	
\$ 3,539,181	\$ 3,415,785	\$ 3,374,547	\$ 2,983,326	\$ 3,055,199	\$ 2,766,021	
264,852	320,138	311,411	586,153	351,092	412,913	
1,260,962	1,212,521	1,190,353	1,128,426	1,176,038	1,091,758	
28,988	29,669	29,852	27,511	27,876	29,527	
13,833	52,022	51,485	69,068	90,233	154,927	
1,620,094	3,952,427	2,720,047	1,702,044	2,127,342	1,918,414	
491,210	538,520	496,138	437,368	445,392	410,662	
204,398	763,160	644,349	725,574	998,901	602,745	
<u>\$ 7,423,518</u>	<u>\$ 10,284,242</u>	<u>\$ 8,818,182</u>	<u>\$ 7,659,470</u>	<u>\$ 8,272,073</u>	<u>\$ 7,386,967</u>	
\$ 1,942,864	\$ 1,873,558	\$ 1,834,165	\$ 2,002,994	\$ 1,966,056	\$ 1,627,775	
2,259,413	2,243,801	1,788,587	1,108,378	1,345,113	1,176,561	
81,224	41,414	30,284	21,209	21,129	17,129	
1,584,249	1,774,404	1,692,389	1,481,633	1,511,608	1,477,976	
193,981	318,886	264,179	1,436,641	1,223,052	1,582,343	
654,777	1,064,782	823,867	462,811	417,998	400,494	
2,057,834	483,369	482,125	483,205	467,575	454,742	
3,344,387	2,847,613	1,824,392	481,161	1,043,181	2,034,181	
<u>\$ 12,118,729</u>	<u>\$ 10,647,827</u>	<u>\$ 8,739,988</u>	<u>\$ 7,478,032</u>	<u>\$ 7,995,712</u>	<u>\$ 8,771,201</u>	

CITY OF DECORAH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

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

- (a) Unmodified opinions were issued on the financial statements prepared in accordance with U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements. No material weaknesses noted.
- (c) No instances of noncompliance material to the financial statements of the City of Decorah, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- (d) Significant deficiencies in internal control over the major program were disclosed by the audit of the financial statements. No material weaknesses noted.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with the Uniform Guidance, Section 200.515.
- (g) Major program was as follows:
 - CFDA Number 20.106-Airport Improvement Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) City of Decorah did not qualify as a low-risk auditee.

CITY OF DECORAH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

Part II: Findings Related to the Financial Statements:

Instances of noncompliance: no matters were noted.

Internal control deficiencies:

Finding 2017-001 Overlapping Duties

Condition: The City's offices are not large enough to permit an adequate segregation of duties for effective internal controls. Management has not separated incompatible activities of personnel, thereby creating risks related to the safeguarding of cash and the accuracy of the financial statements.

Criteria: Proper controls over financial reporting include adequate segregation of duties.

Cause: 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.

Effect: This deficiency results in a reasonable possibility that the City would not be able to detect misstatements that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

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 City Council be aware that this condition does exist.

Views of Responsible
Officials and Planned

Correction Actions: Management is cognizant of this limitation and will implement controls where possible.

Part III: Findings and Questioned Costs for Federal Awards:

Instances of noncompliance: no matters were noted.

Internal control deficiencies:

CFDA Number 20.106, Airport Improvement Program
Federal Award Year: 2017
U.S. Department of Transportation
Passed through the Iowa Department of Transportation
See 2017-001 above.

CITY OF DECORAH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

Part IV: Other Findings Related to Required Statutory Reporting:

See management letter dated December 18, 2017

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

Comment Reference	Comment Title	Status	Explanation
13-1	Overlapping duties	Not corrected	The City has limited staff and segregates duties to the best of their abilities.

CITY OF DECORAH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2017

Grantor/Program	CFDA Number	Grant Number/Description	Program Expenditures
Direct:			
Corporation for National and Community Service:			
Retired and Senior Volunteer Program	94.002	14SRNIA004	\$ 41,843
Indirect:			
U.S. Department of Justice:			
Passed-through Governor's Office of Drug Control Policy:			
Public Safety Partnership and Community Policing Grants	16.710	15-CAMP-14	2,541
Edward Byrne Memorial Justice Assistance Grant Program	16.738	14-JAG-155610	11,000
Total U.S. Department of Justice			13,541
U.S. Department of Transportation:			
Passed-through Iowa Department of Transportation:			
Airport Improvement Program	20.106	3-19-0025-010	10,858
Airport Improvement Program	20.106	3-19-0025-011	486,576
Total U.S. Department of Transportation			497,434
U.S. Department of Homeland Security:			
Passed-through Iowa Department of Homeland Security and Emergency Management:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4281-DR1A	222,831
Total Federal Financial Assistance			\$ 775,649

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the City of Decorah under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City of Decorah, it is not intended to and does not present the financial position, changes in net position or cash flows of the City of Decorah.

Summary of Significant Accounting Policies

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

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

Indirect Cost Rate

City of Decorah has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Loans Outstanding

The City of Decorah has outstanding notes payable to the Iowa Finance Authority totaling \$100,000 as of June 30, 2017. The proceeds from this note was advanced under the Capitalization Grants for Clean Water State Revolving Funds.

Subrecipients

There were no awards passed through to subrecipients.

See Independent Auditor's Report.

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

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

We have audited, in accordance with the U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Decorah, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Decorah's basic financial statements, and have issued our report thereon dated December 18, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the City of Decorah's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 City'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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a significant deficiency.

Compliance and Other Matters

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

City of Decorah's Response to Finding

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
December 18, 2017

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR THE MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for the Major Federal Program

We have audited City of Decorah's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on City of Decorah's major federal program for the year ended June 30, 2017. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Decorah's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Decorah's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on the Major Federal Program

In our opinion, City of Decorah complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a significant deficiency.

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

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

Hacker, Nelson & Co., P.C.

Decorah, Iowa
December 18, 2017

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, 2017, we considered the City's internal control to determine our auditing procedures for the purpose of expressing opinions on the financial statements and not to provide assurance on internal control or state statutory compliance matters, accordingly, we provide no such assurance.

In accordance with Chapter 11 of the Code of Iowa, we are required to report on the City's compliance with certain sections of the Iowa Code, Attorney General's Opinions and other matters. Items 1 through 9 below are compliance comments required by the Iowa Auditor of State. A separate report dated December 18, 2017, contains our report on the City's internal control over financial reporting. This letter does not affect our report dated December 18, 2017, on the basic financial statements of the 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, 2017 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
Expenditures for the year ended June 30, 2017 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 the 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	\$ 19,967
Brett Willie, Airport Commission Member Manager Sherwin Williams	Retail purchases	\$ 2,774

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 Council 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.

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

10. Fund Balance Deficit

The Sweet Parkway Road 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 City Council develop a plan to alleviate these deficits.

Response

This project was initiated by Winneshiek County Economic Development with the costs to be equally shared by RISE Grant Funds and Winneshiek County Economic Development. The City of Decorah was required to be the fiscal agent for the RISE Grant.

The project was completed in fiscal year 2017. Upon acceptance, the City submitted the appropriate paperwork needed to request reimbursement through the RISE Grant and Winneshiek County Economic Development. RISE Grant Funds were received August 31, 2017 and Winneshiek County Economic Development funds were received September 19, 2017 putting the fund at a zero balance.

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 to whom the City may report. The report is not intended to be, and should not be, used by anyone other than these specified parties.

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

Hacker, Nelson & Co., P.C.

Decorah, Iowa
December 18, 2017