

CITY OF WOODWARD, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

- Prepared By -

Larry Pump, CPA
117 North Jackson Street
Charles City, IA 50616-2036
Phone (641)257-4222

CITY OF WOODWARD, IOWA

TABLE OF CONTENTS

	<u>PAGE</u>
<u>OFFICIALS</u>	1
<u>INDEPENDENT AUDITOR'S REPORT</u>	2-3
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS</u>	4-9
<u>BASIC FINANCIAL STATEMENTS:</u>	
	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets - Cash Basis	A 10-13
Governmental Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and	
Changes in Cash Balances	B 14-15
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and	
Changes in Cash Balances	C 16
Notes to Financial Statements	17-23
<u>REQUIRED SUPPLEMENTARY INFORMATION:</u>	
Budgetary Comparison Schedule of Receipts, Disbursements and	
Changes in Balances - Budget and Actual (Cash Basis) - All	
Governmental Funds and Proprietary Funds	24-25
Notes to Required Supplementary Information	
- Budgetary Reporting	26
<u>OTHER SUPPLEMENTARY INFORMATION:</u>	
	<u>Schedule</u>
Statement of Cash Receipts, Disbursements and Changes in	
Cash Balances - Nonmajor Governmental Funds	1 27-28
Schedule of Indebtedness	2 29-30
Bond Maturities	3 31
Schedule of Expenditures of Federal Awards	4 32
<u>INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON</u>	
<u>INTERNAL CONTROL OVER FINANCIAL REPORTING</u>	33-34
<u>INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS</u>	
<u>APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL</u>	
<u>OVER COMPLIANCE</u>	35-36
<u>SCHEDULE OF FINDINGS</u>	37-42

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
(Before January 2004)		
Dan Lee	Mayor (Appointed)	January 2004
Ron Chock	Mayor Pro Tem	January 2006
Randall Bertrand	Council Member (Appointed)	January 2004
Brian Devick	Council Member	January 2006
Dave Wheeler	Council Member	January 2004
Mike Ramsey	Council Member	January 2006
Tina Gilbert	City Clerk	Resigned
Christina Perkins	City Clerk	Indefinite
Robin Buthman	Treasurer	Indefinite
Everett Albers	Attorney	Indefinite
(After January 2004)		
Joseph Karge	Mayor	January 2008
Brian Devick	Mayor Pro Tem	January 2006
Ron Chock	Council Member	January 2006
Mike Ramsey	Council Member	January 2006
Ken Cavanaugh	Council Member	January 2008
Ashvin Patel	Council Member	January 2008
Christina Perkins	City Clerk	Indefinite
Robin Buthman	Treasurer	Resigned
Janae Boyer	Treasurer (Appointed)	Indefinite
Everett Albers	Attorney	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Woodward, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Woodward's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, I was unable to satisfy myself as to the distribution of the total fund balance at July 1, 2003.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the distribution by fund of the total fund balance at July 1, 2003, as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Woodward as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 9, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences.

In accordance with Government Auditing Standards, I have also issued my reports dated November 10, 2004 on my consideration of the City of Woodward's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 24 through 26 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Woodward's basic financial statements. Other supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

November 10, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Woodward provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

Revenues of the City's governmental activities increased 290%, or approximately \$1,229,000 from fiscal 2003 to fiscal 2004. Intergovernmental revenues increased approximately \$673,000 and bond proceeds increased \$500,000.

Disbursements increased 137%, or approximately \$753,000, in fiscal 2004 from fiscal 2003. Community and economic development and debt service disbursements increased approximately \$678,000, and \$196,000, respectively.

The City's total cash basis net assets increased 72%, or approximately \$372,000, from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased approximately \$346,000 and the assets of the business type activities increased by approximately \$26,000.

USING THIS ANNUAL REPORT

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

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents 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. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

- 4 -

Other 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.

Basis of Accounting

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the city as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

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.

Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, 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 Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, and 4) the Capital Projects Fund. 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.

- 5 -

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

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year

ago, increasing from \$122,101 to \$468,152. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

(Expressed in Thousands)

	<u>Year ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 176	\$ 74
Operating grants, contributions and restricted interest	3	25
Capital grants, contributions and restricted interest	682	98
General receipts:		
Property tax	267	191
Grants and contributions not restricted to specific purposes	2	5
Unrestricted investment earnings	8	3
Bond proceeds	500	-
Other general receipts	9	22
Total receipts and transfers	<u>\$1,647</u>	<u>\$ 418</u>
Disbursements:		
Public safety	\$ 102	\$ 107
Public works	196	318
Health and social services	6	1
Culture and recreation	56	65
Community and economic development	695	17
General government	50	40
Debt service	196	-
Total disbursements	<u>\$1,301</u>	<u>\$ 548</u>
 Increase in cash basis net assets	 \$ 346	 \$ (130)
Cash basis net assets beginning of year	<u>122</u>	<u>252</u>
 Cash basis net assets end of year	 <u>\$ 468</u>	 <u>\$ 122</u>

The City's total receipts for governmental activities increased by 294%, or \$1,229,000. The total cost of all programs and services increased by approximately \$753,000, or 137%, with no new programs added this year. The significant increase in receipts was primarily the result of grant and bond proceeds received in 2004.

The cost of all governmental activities this year was \$1,301,000 compared to \$548,000 last year. However, as shown in the Statement of Activities and Net Assets on pages 10-13, the amount taxpayers ultimately financed for these activities was only \$440,000 because some of the cost was paid by those directly benefited from the programs \$176,000 or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest \$685,000. Overall, the City's governmental activities receipts, including governmental aid and fees for service, increased in 2004 from approximately \$418,000 to approximately \$1,647,000, principally due to receiving grant and bond proceeds in 2004. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$267,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

	Year ended June 30,	
	2004	2003
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 164	\$ 199
Sewer	154	168
Miscellaneous	4	1
Capital grants, contributions and restricted interest	-	129
General receipts:		
Unrestricted interest on investments	7	-
Other general receipts	6	-
Total receipts	\$ 335	\$ 497
Disbursements and transfers:		
Water	\$ 167	\$ 154
Sewer	141	203
Miscellaneous	1	36
Total disbursements and transfers	\$ 309	\$ 393
Increase in cash balances	\$ 26	\$ 104
Cash basis net assets beginning of year	393	289
Cash basis net assets end of year	\$ 419	\$ 393

Total business type activities receipts for the fiscal year were \$334,733 compared to \$497,280 last year. This significant decrease was due primarily to the receipt of \$129,384 in sewer construction general revenue bond proceeds in 2003. The cash balance increased by approximately \$26,000 from the prior year. Total disbursements for the fiscal year decreased by 215% to a total of \$84,609 because of the sewer project in 2003.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Woodward completed the year, its governmental funds reported a combined fund balance of \$468,152, an increase of more than \$346,051 above last year's total of \$122,101. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$132,729 from the prior year to \$184,341.

The CDBG cash balance decreased by \$11,005 to negative \$11,005, due primarily to the sewer project.

The DOT cash balance increased by \$240,077 to \$240,077, due primarily to bond proceeds received.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance increased by \$6,000 to \$218,000, due primarily to a decrease in operating expenses.

The Sewer Fund cash balance increased by \$17,000 to \$179,000, due primarily to the increase in sewer revenues.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$1,109,000 in bonds and other long-term debt, compared to approximately \$476,000 last year, as shown below.

Outstanding Debt at Year-End
(Expressed in Thousands)

	June 30,	
	2004	2003
General obligation bonds	\$ 445	\$ -
Revenue note	416	105
Other	248	371
Total	<u>\$ 1,109</u>	<u>\$ 476</u>

The City incurred new debt during 2004 for the sewer project. Principal and interest payments were made as scheduled. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$445,000 is significantly below its constitutional debt limit of \$970,051.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Woodward elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. Two of the three retail businesses closed during the 2004 fiscal year have since been sold and reopened.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact, Christina Perkins, City Clerk, City of Woodward.

CITY OF WOODWARD, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public Safety	\$ 102,141	\$ 6,951	\$ -	\$ -
Public works	196,022	158,308	-	-
Health and social services	6,434	2,799	-	-
Culture and recreation	56,266	6,810	2,525	-
Community and economic development	694,625	-	-	682,451
General government	49,649	1,537	-	-
Debt service	<u>196,406</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental Activities	<u>\$1,301,543</u>	<u>\$ 176,405</u>	<u>\$ 2,525</u>	<u>\$ 682,451</u>
Business type activities:				
Water	\$ 167,290	\$ 164,018	\$ -	\$ -
Sewer	140,397	153,615	-	-
Miscellaneous	<u>1,137</u>	<u>4,215</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>\$ 308,824</u>	<u>\$ 321,848</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u>\$1,610,367</u>	<u>\$ 498,253</u>	<u>\$ 2,525</u>	<u>\$ 682,451</u>

(continued)

Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (95,190)	\$ -	\$ (95,190)
(37,714)	-	(37,714)
(3,635)	-	(3,635)
(46,931)	-	(46,931)
(12,174)	-	(12,174)
(48,112)	-	(48,112)
<u>(196,406)</u>	<u>-</u>	<u>(196,406)</u>
\$ <u>(440,162)</u>	\$ <u>-</u>	\$ <u>(440,162)</u>
\$ -	\$ (3,272)	\$ (3,272)
-	13,218	13,218
<u>-</u>	<u>3,078</u>	<u>3,078</u>
\$ <u>-</u>	\$ <u>13,024</u>	\$ <u>13,024</u>
\$ <u>(440,162)</u>	\$ <u>13,024</u>	\$ <u>(427,138)</u>

Program Receipts

<u>Disbursements</u>	<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
----------------------	------------------------------------	--	--

General Receipts:

Property tax levied for:

 General purposes

 Debt service

Grants and contributions not restricted to specific purpose

Unrestricted interest on investments

Bond proceeds

Miscellaneous

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Unrestricted

See Notes to Financial Statements.

**Net (Disbursements) Receipts and
 Changes in Cash Basis Net Assets**

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ 201,253	\$ -	\$ 201,253
65,662	-	65,662
2,000	-	2,000
7,651	7,036	14,687
500,000	-	500,000
<u>9,647</u>	<u>5,849</u>	<u>15,496</u>
<u>\$ 786,213</u>	<u>\$ 12,885</u>	<u>\$ 799,098</u>
\$ 346,051	\$ 25,909	\$ 371,960
<u>122,101</u>	<u>393,040</u>	<u>515,141</u>
<u>\$ 468,152</u>	<u>\$ 418,949</u>	<u>\$ 887,101</u>
<u>\$ 468,152</u>	<u>\$ 418,949</u>	<u>\$ 887,101</u>

CITY OF WOODWARD, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Special Revenue CDBG</u>	<u>Capital Projects DOT</u>
RECEIPTS:			
Property tax	\$ 166,419	\$ -	\$ -
Other city tax	722	-	-
Licenses and permits	2,380	-	-
Use of money and property	9,551	-	-
Intergovernmental	7,045	682,451	-
Charges for service	57,027	-	-
Miscellaneous	21,558	-	-
Total receipts	<u>\$ 264,702</u>	<u>\$ 682,451</u>	<u>\$ -</u>
DISBURSEMENTS:			
Operating:			
Public safety	\$ 87,093	\$ -	\$ -
Public works	74,770	-	-
Health and social services	6,347	-	-
Culture and recreation	53,008	-	-
Community and economic development	1,169	693,456	-
General government	39,586	-	6,149
Debt service	-	-	123,774
Total disbursements	<u>\$ 261,973</u>	<u>\$ 693,456</u>	<u>\$ 129,923</u>
Excess (deficiency) of receipts over (under) disbursements	\$ 2,729	\$ (11,005)	\$ (129,923)
Other financing sources:			
Bond proceeds	130,000	333,751	370,000
Less: Bond proceeds reported elsewhere	<u>-</u>	<u>(333,751)</u>	<u>-</u>
Net change in cash balances	\$ 132,729	\$ (11,005)	\$ 240,077
Cash balances beginning of year	<u>51,612</u>	<u>-</u>	<u>-</u>
Cash balances end of year	<u>\$ 184,341</u>	<u>\$ (11,005)</u>	<u>\$ 240,077</u>
Cash Basis Fund Balances:			
Reserved:			
Debt service	\$ -	\$ -	\$ -
Unreserved:			
General fund	184,341	-	-
Special revenue funds	-	(11,005)	-
Capital project funds	<u>-</u>	<u>-</u>	<u>240,077</u>
Total cash basis fund balances	<u>\$ 184,341</u>	<u>\$ (11,005)</u>	<u>\$ 240,077</u>

See Notes to Financial Statements.

Other Nonmajor Governmental Funds	Total
\$ 100,496	\$ 266,915
-	722
-	2,380
-	9,551
99,945	789,441
-	57,027
-	21,558
<u>\$ 200,441</u>	<u>\$ 1,147,594</u>

\$ 15,048	\$ 102,141
121,252	196,022
87	6,434
3,258	56,266
-	694,625
3,914	49,649
72,632	196,406
<u>\$ 216,191</u>	<u>\$ 1,301,543</u>

\$ (15,750) \$ (153,949)

- 833,751
- (333,751)

\$ (15,750) \$ 346,051

70,489 122,101

\$ 54,739 **\$ 468,152**

\$ (6,970) \$ (6,970)

- 184,341
61,709 50,704
- 240,077

\$ 54,739 \$ 468,152

CITY OF WOODWARD, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	<u>Enterprise Funds</u>		Other Nonmajor Proprietary	<u>Total</u>
	<u>Water</u>	<u>Sewer</u>	<u>Fund</u>	
Operating receipts:				
Use of money and property	\$ 3,519	\$ 3,517	\$ -	\$ 7,036
Charges for service	164,018	153,615	4,215	321,848
Miscellaneous	<u>5,849</u>	<u>-</u>	<u>-</u>	<u>5,849</u>
Total operating receipts	\$ 173,386	\$ 157,132	\$ 4,215	\$ 334,733
Operating disbursements:				
Business type activities	<u>167,290</u>	<u>110,532</u>	<u>1,137</u>	<u>278,959</u>
Excess of operating receipts over operating disbursements	\$ 6,096	\$ 46,600	\$ 3,078	\$ 55,774
Non-operating receipts (disbursements):				
Debt service	<u>-</u>	<u>(29,865)</u>	<u>-</u>	<u>(29,865)</u>
Net change in cash balances	\$ 6,096	\$ 16,735	\$ 3,078	\$ 25,909
Cash balances beginning of year	<u>212,013</u>	<u>162,990</u>	<u>18,037</u>	<u>393,040</u>
Cash balances end of year	<u>\$ 218,109</u>	<u>\$ 179,725</u>	<u>\$ 21,115</u>	<u>\$ 418,949</u>
Cash Basis Fund Balances				
Unreserved	<u>\$ 218,109</u>	<u>\$ 179,725</u>	<u>\$ 21,115</u>	<u>\$ 418,949</u>

See Notes to Financial Statements.

CITY OF WOODWARD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

For financial reporting purposes, the City of Woodward 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. The city has no component unit which meet the Governmental Accounting Standards Board Criteria.

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 Dallas County Assessor's Conference Board, Dallas County Joint E-911 Service Board, Woodward Community Fire Department and Dallas County Emergency Management Commission.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

CITY OF WOODWARD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(1) Summary of Significant Accounting Policies - continued

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

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

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

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

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise 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:

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

Special Revenue:

The CDBG Fund is used to account for intergovernmental revenues for the sewer improvement project.

Capital Project:

The DOT Fund is utilized to account for the payment of a street repair project.

CITY OF WOODWARD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(1) Summary of Significant Accounting Policies - continued

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded amounts budgeted in several functions.

(2) Cash and Investments

The City's deposits in banks at June 30, 2004 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

CITY OF WOODWARD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(3) Long-Term Debt

Bonds

Annual debt service requirements to maturity for general obligations bonds and Revenue bonds are as follows:

Year Ending June 30,	<u>General Obligation Bonds</u>		<u>Revenue Bonds</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 55,000	\$ 9,345	\$ 23,000	\$ 17,340	\$ 78,000	\$ 26,685
2006	55,000	9,555	24,000	16,650	79,000	26,205
2007	55,000	9,548	24,000	15,930	79,000	25,478
2008	55,000	8,960	25,000	15,210	80,000	24,170
2009	55,000	7,763	26,000	14,460	81,000	22,223
2010-2014	170,000	13,323	141,000	60,180	311,000	73,503
2015-2019	-	-	153,349	37,650	153,349	37,650
Total	<u>\$445,000</u>	<u>\$ 58,494</u>	<u>\$416,349</u>	<u>\$177,420</u>	<u>\$861,349</u>	<u>\$235,914</u>

The resolutions providing for the issuance of the revenue bonds include the following provision:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activities and bond holders hold a lien on the future earnings of the funds.

(4) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2004 was \$14,477, which was equal to the required contribution for the year.

CITY OF WOODWARD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(5) **Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, comp time and sick leave hours for subsequent use. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable, comp time payable, and sick leave payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 6,026
Comp time	1,146
Sick leave	26,077
Total	<u>\$ 33,249</u>

This liability has been computed based on rates of pay as of June 30, 2004.

(6) **Related Party Transactions**

The City had business transactions between the City and City officials totaling \$181 during the year ended June 30, 2004.

(7) **Risk Management**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 490 members include various governmental entities throughout the State of Iowa. The Pool was formed in August, 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current member's basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

CITY OF WOODWARD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(7) Risk Management - continued

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2004 were \$12,300.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$50,000 each accident, each location, with excess coverage reinsured on an individual-member basis. All property risks are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon such withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions, however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

(7) **Risk Management** - continued

The City also carries commercial insurance purchased from other insurers for coverage associated with public employee dishonesty coverage and workers compensation coverage. The City assumes liability for any deductibles, and claims in excess of coverage limitations.

(8) **Deficit Fund Balances**

The Special Revenue Fund, Community Development Bock Grant and the Debt Service Fund had deficit balances at June 30, 2004 of \$11,005 and \$6,969, respectively. The deficit balances were a result of project costs incurred prior to availability of funds. The deficits will be eliminated upon receipt of property taxes.

(9) **Accounting Change and Restatements**

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended June 30, 2004.

The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statement reports the City's governmental and business type activities.

Required Supplementary Information

CITY OF WOODWARD, IOWA
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS) - ALL
GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2004

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>
RECEIPTS:		
Property tax	\$ 266,915	\$ -
Other city tax	722	-
Licenses and permits	2,380	-
Use of money and property	9,551	7,036

Intergovernmental	789,441	-
Charges for service	57,027	321,848
Miscellaneous	21,558	5,849
Total receipts	<u>\$ 1,147,594</u>	<u>\$ 334,733</u>
DISBURSEMENTS:		
Public safety	\$ 102,141	\$ -
Public works	196,022	-
Health and social services	6,434	-
Culture and recreation	56,266	-
Community and economic development	694,625	-
General government	49,649	-
Debt service	196,406	29,865
Capital projects	-	-
Business activities	-	278,959
Total disbursements	<u>\$ 1,301,543</u>	<u>\$ 308,824</u>
Excess (deficiency) of receipts over (under) disbursements	\$ (153,949)	\$ 25,909
Other financing sources, net	<u>500,000</u>	<u>-</u>
Excess of receipts and other financing sources over disbursements	\$ 346,051	\$ 25,909
Balance beginning of year	<u>122,101</u>	<u>393,040</u>
Balance end of year	<u>\$ 468,152</u>	<u>\$ 418,949</u>

See Accompanying Independent Auditor's Report.

<u>Net</u>	<u>Budgeted Amounts</u>		<u>Final to Net Variance</u>
	<u>Original</u>	<u>Final</u>	
\$ 266,915	\$ 261,044	\$ 261,044	\$ 5,871
722	8,970	8,970	(8,248)
2,380	1,703	1,703	677
16,587	122,537	122,537	(105,950)
789,441	1,095,789	1,095,789	(306,348)
378,875	437,096	437,096	(58,221)
27,407	7,600	7,600	19,807
<u>\$1,482,327</u>	<u>\$1,934,739</u>	<u>\$1,934,739</u>	<u>\$ (452,412)</u>
\$ 102,141	\$ 125,344	\$ 125,344	\$ 23,203
196,022	179,683	179,683	(16,339)
6,434	3,662	3,662	(2,772)
56,266	57,216	57,216	950
694,625	4,800	4,800	(689,825)
49,649	40,691	40,691	(8,958)
226,271	67,000	67,000	(159,271)
-	117,537	117,537	117,537
278,959	1,326,174	1,326,174	1,047,215
<u>\$1,610,367</u>	<u>\$1,922,107</u>	<u>\$1,922,107</u>	<u>\$ 311,740</u>
\$ (128,040)	\$ 12,632	\$ 12,632	\$ (140,672)
<u>500,000</u>	<u>-</u>	<u>-</u>	<u>500,000</u>
\$ 371,960	\$ 12,632	\$ 12,632	\$ 359,328
515,141	567,263	567,263	(52,122)
<u>\$ 887,101</u>	<u>\$ 579,895</u>	<u>\$ 579,895</u>	<u>\$ 307,206</u>

CITY OF WOODWARD, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
JUNE 30, 2004

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and nonprogram. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, there were no budget amendments.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public works, health and social services, community and economic development, general government, and debt service functions.

Other Supplementary Information

CITY OF WOODWARD, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	<u>Special Revenue</u>		
	<u>Road Use Tax</u>	<u>Employee Benefits</u>	<u>Emergency Levy</u>
RECEIPTS:			
Property tax	\$ -	\$ 29,624	\$ 5,210
Intergovernmental	99,945	-	-
Total receipts	<u>\$ 99,945</u>	<u>\$ 29,624</u>	<u>\$ 5,210</u>
DISBURSEMENTS:			
Operating:			
Public safety	\$ -	\$ 15,048	\$ -
Public works	114,998	6,254	-
Health and social service	-	87	-
Culture and recreation	-	3,258	-
General government	-	3,914	-
Debt service	-	-	-
Total disbursements	<u>\$ 114,998</u>	<u>\$ 28,561</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ (15,053)	\$ 1,063	\$ 5,210
Cash balances beginning of year	<u>56,998</u>	<u>(175)</u>	<u>-</u>
Cash balances end of year	<u>\$ 41,945</u>	<u>\$ 888</u>	<u>\$ 5,210</u>
Cash Basis Fund Balances:			
Unreserved:			
Special revenue funds	\$ 41,945	\$ 888	\$ 5,210
Debt service	<u>-</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 41,945</u>	<u>\$ 888</u>	<u>\$ 5,210</u>

See Accompanying Independent Auditor's Report.

<u>Centennial</u>	<u>Debt Service</u>	<u>Total</u>
\$ -	\$ 65,662	\$ 100,496
-	-	99,945
<u>\$ -</u>	<u>\$ 65,662</u>	<u>\$ 200,441</u>
\$ -	\$ -	\$ 15,048
-	-	121,252
-	-	87
-	-	3,258
-	-	3,914
-	72,632	72,632
<u>\$ -</u>	<u>\$ 72,632</u>	<u>\$ 216,191</u>
\$ -	\$ (6,970)	\$ (15,750)
13,666	-	70,489
<u>\$ 13,666</u>	<u>\$ (6,970)</u>	<u>\$ 54,739</u>
\$ 13,666	\$ -	\$ 61,709
-	(6,970)	(6,970)
<u>\$ 13,666</u>	<u>\$ (6,970)</u>	<u>\$ 54,739</u>

CITY OF WOODWARD, IOWA
 SCHEDULE OF INDEBTEDNESS
 YEAR ENDED JUNE 30, 2004

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Bonds:			
Street	09/01/03	1.75 - 4.15%	\$ 500,000
Revenue Bonds:			
Sewer	05/19/03	3.00	600,000
IDOT Loan:			
Street Loan	11/02/02	0	371,322
Total indebtedness			

See Accompanying Independent Auditor's Report.

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ -	\$500,000	\$ 55,000	\$ 445,000	\$ 11,541	\$ -
104,598	333,751	22,000	416,349	6,315	-
<u>371,322</u>	<u>-</u>	<u>123,774</u>	<u>247,548</u>	<u>-</u>	<u>-</u>
<u>\$ 475,920</u>	<u>\$833,751</u>	<u>\$200,774</u>	<u>\$1,108,897</u>	<u>\$ 17,856</u>	<u>\$ -</u>

CITY OF WOODWARD, IOWA
BOND MATURITIES
JUNE 30, 2004

Year Ending June 30,	<u>GENERAL OBLIGATION BOND</u>	
	<u>STREET IMPROVEMENT</u>	
	<u>Issued September 1, 2003</u>	
	Interest	
	<u>Rates</u>	<u>Amount</u>
2005	2.10%	\$ 55,000
2006	2.45	55,000
2007	2.85	55,000
2008	3.20	55,000
2009	3.45	55,000
2010	3.70	55,000
2011	3.95	55,000
2012	4.15	60,000
Total		<u>\$445,000</u>

Year Ending June 30,	<u>REVENUE BONDS</u>	
	<u>SEWER</u>	
	<u>Issued May 19, 2003</u>	
	Interest	
	<u>Rates</u>	<u>Amount</u>
2005	3.00%	\$ 23,000
2006	3.00	24,000
2007	3.00	24,000
2008	3.00	25,000
2009	3.00	26,000
2010	3.00	27,000
2011	3.00	27,000
2012	3.00	28,000
2013	3.00	29,000
2014	3.00	30,000
2015	3.00	31,000
2016	3.00	32,000
2017	3.00	33,000
2018	3.00	34,000
2019	3.00	23,349
Total		<u>\$416,349</u>

See Accompanying Independent Auditor's Report.

CITY OF WOODWARD, IOWA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2004

<u>GRANTOR/PROGRAM</u>	<u>CFDA Number</u>	<u>Agency Pass- through Number</u>	<u>Program Expenditures</u>
Indirect:			
Environmental Protection Agency:			
Iowa Department of Natural Resources:			
State Revolving Funds	66.458	MC17R	\$328,071
Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grant Program	14.228	01-WS-056	<u>305,269</u>
Total			<u>\$633,340</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Woodward and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See Accompanying Independent Auditor's Report.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Honorable Mayor and
Members of the City Council:

I have audited the financial statements of the City of Woodward, Iowa, as of and for the year ended June 30, 2004, and have issued my report thereon dated November 10, 2004. My report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2003. I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Woodward's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004, are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my 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. Prior audit statutory comments have all been resolved except for items IV-B-04, IV-E-04 and IV-G-04.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Woodward's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City of Woodward's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe item II-A-04 is a material weakness. Prior audit reportable conditions have been resolved except for items II-A-04, II-B-04, II-C-04, II-D-04, II-E-04 and II-F-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Woodward and other parties to whom the City of Woodward may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Woodward during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

November 10, 2004

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE

To the Honorable Mayor and
Members of the City Council:

Compliance

I have audited the compliance of the City of Woodward, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2004. The City's major federal programs are identified in Part I of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the City's management. My responsibility is to express an opinion on the City's compliance based on my audit.

I conducted my audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that I 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 major federal programs occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the City's compliance with those requirements.

In my opinion the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2004.

Internal Control Over compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the City's internal control over compliance with requirements that could have a direct and material effect on major federal programs in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

I noted a matter involving the internal control over compliance and its operating that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect the City's ability to administer a major federal program in

accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described as item III-A-04 in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions that are also considered to be material weaknesses. However, I believe the reportable condition described above, item III-A-04, is a material weakness.

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

November 10, 2004

CITY OF WOODWARD, IOWA
Schedule of Findings
Year Ended June 30, 2004

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

- (a) My report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2003.
- (b) Reportable conditions in the internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A reportable condition in internal control over the major programs was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit did not disclose any audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510 (a).
- (g) The major programs were: CFDA Number 66.458 State Revolving Funds and CFDA Number 14.228 Community Development Block Grant Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Woodward did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-04 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that certain accounting functions are not properly segregated

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Part II: Findings Related to the Financial Statements: - continued

Response - We will review procedures and make changes to improve internal control where possible.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

II-B-04 Reconciliation of Utility Billings, Collections, and Delinquencies - Utility billings, collections and delinquent accounts were not reconciled.

Recommendation - Procedures should be established to reconcile utility billings, collections, and delinquencies. The Council should review the reconciliation and monitor delinquencies.

Response - We are implementing reconciliation procedures for utility funds.

Conclusion - Response accepted.

II-C-04 Receipts - Receipts were not always deposited timely.

Recommendation - To safeguard cash and increase funds available for investment, receipts should be recorded and deposited intact timely.

Response - We will implement this.

Conclusion - Response accepted.

II-D-04 Disbursements - Invoices and supporting documentation were not always marked paid or canceled to help prevent possible duplicate payment.

Recommendation - All invoices and supporting documentation should be canceled to prevent possible duplicate payments.

Response - We will implement this.

Conclusion - Response accepted.

II-E-04 Payroll - Timesheets were not always approved and initialed by the employee's supervisor or other responsible official.

Recommendation - Timesheets should be retained and should be approved and initialed by the employee's supervisor or by an independent official who is not involved with payroll.

Response - We will do this.

CITY OF WOODWARD, IOWA
Schedule of Findings
Year Ended June 30, 2004

Part II: Findings Related to the Financial Statements: - continued

Conclusion - Response accepted.

II-F-04 Electronic Data Processing Systems - During our review of internal control, the existing control activities in the City's computer-based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the City's computer-based systems were noted.

The City does not have written policies for:

- Requiring a time out and/or log off function or a screen saver password to protect a terminal if left unattended.
- Requiring password changes every 60 to 90 days or to maintain password history to prevent an employee from using the same password.
- Storage backup tapes/disks off site.
- Internet usage.
- Disaster recovery plan.

Also, the City does not keep permanent records in fireproof safekeeping.

Recommendation - The City should develop written policies addressing the above items in order to improve the City's control over computer-based systems.

Response - The personnel committee is reviewing and writing a policy.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

Part III: Findings and Questioned Costs for Federal Awards: - continued

REPORTABLE CONDITION:

CFDA Number 66.458: State Revolving Fund Program
Federal Award Year: 2004
Environmental Protection Agency
Passed through the Iowa Department of Natural Resources

CFDA Number 14.228: Community Development Block Grant Program
Federal Award Year: 2004
USDA
Passed through the Iowa Department of Economic Development

III-A-04 The City did not properly segregate custody, recordkeeping and reconciling functions for receipts and disbursements, including those related to Federal programs. See audit finding II-A-04.

Part IV: Other Findings Related to Statutory Reporting:

IV-A-04 Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

IV-B-04 Certified Budget - Disbursements during the year ended June 30, 2004, exceeded the amounts budgeted in several functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.14 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will do this in the future.

Conclusion - Response accepted.

IV-C-04 Questionable Disbursements - No disbursements were noted that I believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-04 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted. No travel advances to City officials or employees were noted.

IV-E-04 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

- 40 -

CITY OF WOODWARD, IOWA
Schedule of Findings
Year Ended June 30, 2004

Part IV: Other Findings Related to Statutory Reporting: - continued

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Ashvin Patel, Council Member, Owner of AJ's Grocery	Supplies	\$ 181

In accordance with Chapter 362.5(11) of the code of Iowa, the transactions with Ashvin Patel do not appear to represent a conflict of interest since total transactions were less than \$2,500 during the fiscal year.

Recommendation - The City should consult legal counsel to determine the disposition of this matter.

Response - City will consult legal council to determine the disposition.

Conclusion - Response accepted.

IV-F-04 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-G-04 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not, except as follows:

The City did not always publish minutes within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

The minutes were not all signed as required by Chapter 380.7(3) of the Code of Iowa.

Recommendation - The City should publish minutes and sign as required.

Response - We will publish according to State code. The minutes have all been signed as a result of the audit.

Conclusion - Response accepted.

IV-H-04 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-I-04 Financial Condition - The Special Revenue Fund, CDBG Account and Debt Service Fund had deficit balances at June 30, 2004 of \$11,005 and \$6,970, respectively.

CITY OF WOODWARD, IOWA
Schedule of Findings
Year Ended June 30, 2004

Part IV: Other Findings Related to Statutory Reporting: - continued

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return the accounts to a sound financial position.

Response - The deficits will be eliminated.

Conclusion - Response accepted.

IV-J-04

City Code - The City Code was last re-codified in 1992. Chapter 380.8 of the Code of Iowa states in part, "At least once every five years, a City shall compile a code of ordinances containing all of the City ordinances in effect, except grade ordinances, bond ordinances, zoning ordinances, and ordinances vacating street and alleys."

Recommendation - The City should review this for compliance.

Response - We are in the process of recodification.

Conclusion - Response accepted.

Northeast Dallas County Record
Adel, IA 50003

N E W S R E L E A S E

FOR RELEASE January 11, 2005

Larry Pump, CPA, Charles City, Iowa, today released an audit report on the City of Woodward for the year ended June 30, 2004.

The City has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

Larry Pump, CPA reported that the City's receipts totaled \$1,982,327 for the year ended June 30, 2004. The receipts included \$266,915 in property taxes, \$498,253 from charges for service, \$2,525 from operating grants, contributions and restricted interest, \$7,651 from unrestricted investment earnings, \$500,000 from bond proceeds and \$706,983 from other general receipts.

Disbursements for the year totaled \$1,610,367. The disbursements included \$196,022 for public works, \$694,625 for community and economic development, \$196,406 for debt service and \$308,824 for business type activities.

A copy of the audit report is available for review in the office of the Auditor of State and the City Clerk's office.

#

January 5, 2005

Christina Perkins, City Clerk
City of Woodward
108 1st Street East
Woodward, IA 50276

Dear Chris:

Enclosed you will find the City's copies of the audit report, along with my invoice to the City. I will see you at the Council meeting Monday night.

Please call if you have any questions.

Sincerely,

Larry Pump, CPA

jlp
Enclosures

January 11, 2005

Office of Auditor of State
State of Iowa
State Capitol Building
Des Moines, IA 50319-0004

RE: Audit of the City of Woodward for the fiscal year ended June 30, 2004

Gentlemen:

I have enclosed a copy of the news release, a copy of my bill to the City, and two copies of the Audit Report. I will appreciate your comments and suggestions.

Sincerely yours,

Larry Pump, CPA

jlp
Enclosures

January 11, 2005

Iowa Department of Natural Resources
Attn: Shirley Christoffersen
Wallace State Office Building
502 East 9th Street
Des Moines, IA 50319

Re: City of Woodward, Iowa

Ms. Christoffersen:

I am submitting one copy of the audited financial statements of the above-referenced governmental unit for the year ended June 30, 2004.

Please call if you have any questions.

Sincerely yours,

Larry Pump, CPA

jlp
enclosures

January 11, 2005

Iowa Department of Economic Development
200 East Grand Avenue
Des Moines, IA 50309

Re: City of Woodward, Iowa

Gentlemen:

I am submitting one copy of the audited financial statements of the above-referenced governmental unit for the year ended June 30, 2004.

Please call if you have any questions.

Sincerely yours,

Larry Pump, CPA

jlp
enclosures

January 11, 2005

Federal Audit Clearinghouse
U.S. Bureau of the Census
1201 East 10th Street
Jeffersonville, IN 47132

Gentlemen:

I have enclosed the following audit report in accordance with Office of Management and Budget Circular A-133:

City of Woodward, Iowa:
Audit Period: Year ended June 30, 2004

The reporting package can be located starting on page 37 of the audit report.

Please call if you have any questions.

Sincerely yours,

Larry Pump, CPA

jlp
enclosures

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