

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

JUNE 30, 2005

- Prepared By -

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CITY OF NORTHWOOD, IOWA

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CITY OF NORTHWOOD, IOWA

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Robert Perry	Mayor	January 2006
Doug Helgeland	Mayor Pro tem	January 2006
Don Anderson	Council Member	January 2008
Jane Bloomingdale	Council Member	January 2008
Dennis Reeder	Council Member	January 2008
Kevin Petznick	Council Member	January 2006
Donna Tyrrell, MMC	Clerk/Treasurer	Indefinite
John Greve	Attorney	Indefinite



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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 Northwood, Iowa, as of and for the year ended June 30, 2005, 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 Northwood's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 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 my audit provides a reasonable basis for my opinions.

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.

In my opinion, the financial statements referred to above 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 Northwood as of June 30, 2005, 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.

In accordance with Government Auditing Standards, I have also issued my report dated October 13, 2005 on my consideration of the City of Northwood's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 28 through 30 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 required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Northwood's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 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.



October 13, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Northwood 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, 2005. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

Revenues of the City's governmental activities decreased 10%, or approximately \$142,000 from fiscal 2004 to fiscal 2005. Intergovernmental receipts decreased approximately \$240,000 and other city taxes increased \$16,000.

Disbursements decreased 32%, or approximately \$596,000, in fiscal 2005 from fiscal 2004. Community and economic development disbursements decreased approximately \$838,000, while debt service disbursements increased approximately \$146,000.

The City's total cash basis net assets decreased 1/2%, or approximately \$13,000, from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities decreased approximately \$18,000 and the assets of the business type activities increased by approximately \$5,000.

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.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

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, 4) the Capital Projects Fund and 5) the Permanent 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.

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

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 and for the Internal Service Fund. 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. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the city's various functions.

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 decreased from a year ago, decreasing from \$1,429,668 to \$1,411,667. 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>2005</u>	<u>2004</u>
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 59	\$ 87
Operating grants, contributions and restricted interest	278	441
General receipts:		
Property tax	778	747
Local option sales tax	103	88
Grants and contributions not restricted to specific purposes	18	25
Unrestricted investment earnings	29	17
Bond proceeds	-	500
Other general receipts	52	55
Transfers, net	(58)	36
Total receipts and transfers	<u>\$1,259</u>	<u>\$1,996</u>
Disbursements:		
Public safety	\$ 214	\$ 209
Public works	259	187
Health and social services	1	-
Culture and recreation	176	187
Community and economic development	145	984
General government	146	116
Debt service	336	190
Total disbursements	<u>\$1,277</u>	<u>\$1,873</u>
Increase in cash basis net assets	\$ (18)	\$ 123
Cash basis net assets beginning of year	<u>1,430</u>	<u>1,307</u>
Cash basis net assets end of year	<u>\$1,412</u>	<u>\$1,430</u>

The City's total receipts for governmental activities decreased by 37%, or \$737,000. The total cost of all programs and services decreased by approximately \$596,000, or 32%, with two new programs added this year. The significant decrease in receipts was primarily the result of decreased intergovernmental receipts.

The cost of all governmental activities this year was \$1,276,850 compared to \$1,872,783 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 \$939,877 because some of the cost was paid by those directly benefited from the programs (\$59,000) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$278,000). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$880,825 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)

	<u>Year ended June 30,</u>	
	<u>2005</u>	<u>2004</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 136	\$ 133
Sewer	123	170
Garbage	96	-
Other	26	123
Transfers	58	-
Capital grants, contributions	27	-
General receipts:		
Unrestricted interest on investments	7	7
Other general receipts	5	19
Total receipts	<u>\$ 478</u>	<u>\$ 452</u>
Disbursements and transfers:		
Water	\$ 156	\$ 123
Sewer	181	131
Garbage	90	137
Other	46	36
Total disbursements and transfers	<u>\$ 473</u>	<u>\$ 427</u>
Increase in cash balance	\$ 5	\$ 25
Cash basis net assets beginning of year	<u>651</u>	<u>626</u>
Cash basis net assets end of year	<u>\$ 656</u>	<u>\$ 651</u>

Total business type activities receipts for the fiscal year were \$478,000 compared to \$452,000 last year. The cash balance increased by approximately \$5,000 from the prior year. Total disbursements and transfers for the fiscal year increased by 11% to a total of \$46,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Northwood completed the year, its governmental funds reported a combined fund balance of \$1,366,115, a decrease of more than \$26,000 from last year's total of \$1,392,416. 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 decreased \$6,900 from the prior year to \$141,930. This decrease was due to decreased transfers in for the fiscal year.

The Road Use Tax Fund cash balance decreased by \$6,200 to \$186,688 during the fiscal year. This decrease was attributable to increased operating expenses.

The Urban Renewal Tax Increment Fund cash balance was \$258,277, a decrease of \$89,000 from the previous year. The decrease was the result of reduced tax increment financing revenues. These funds will be used for various construction and refurbishing projects within the urban renewal district. The bonds and interest will be redeemed with incremental property tax generated from the increased taxable valuation in the district.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance decreased by \$12,000 to \$296,313, due primarily to a increase in operating expenses from the prior year.

The Sewer Fund cash balance remained at \$151,523 due primarily to transfers into the fund.

The Sewer Replacement Fund cash balance increased by \$2,700 to \$109,006 due primarily to a transfer in.

The Garbage Fund cash balance increased by \$6,200 to \$49,896.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 24, 2005 and resulted in an increase in operating disbursements of \$97,454. The City had increased receipts to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2005, the City had approximately \$2,162,000 in bonds and other long-term debt, compared to approximately \$2,350,000 last year, as shown below.

Outstanding Debt at Year-End
(Expressed in Thousands)

	June 30,	
	2005	2004
General obligation bonds	\$ 1,640	\$ 1,828
Urban renewal tax increment financing revenue bonds	522	522
Total	<u>\$ 2,162</u>	<u>\$ 2,350</u>

No new debt was issued during the year ended June 30, 2005.

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 \$1,640,000 is significantly below its constitutional debt limit of \$2,863,259.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Northwood's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. Also, as a result of legislative action, there is a reduction in tax credits that have historically been funded from state revenues.

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 Donna Tyrrell, City Clerk, City of Northwood.

CITY OF NORTHWOOD, IOWA
 STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges for Service</u>	<u>Operating Contributions and Restricted Interest</u>	<u>Grants, Contributions and Restricted Interest</u>
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public Safety	\$ 213,785	\$ 1,744	\$ -	\$ -
Public works	259,220	2,298	183,986	-
Health and social services	366	859	-	-
Culture and recreation	175,964	54,185	10,975	-
Community and economic development	145,226	-	82,926	-
General government	146,082	-	-	-
Debt service	<u>336,207</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental Activities	<u>\$1,276,850</u>	<u>\$ 59,086</u>	<u>\$ 277,887</u>	<u>\$ -</u>
Business type activities:				
Water	\$ 155,569	\$ 135,639	\$ -	\$ -
Sewer	181,151	123,364	-	26,629
Garbage	90,045	95,839	-	-
Other	<u>45,983</u>	<u>26,428</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>\$ 472,748</u>	<u>\$ 381,270</u>	<u>\$ -</u>	<u>\$ 26,629</u>
Total	<u>\$1,749,598</u>	<u>\$ 440,356</u>	<u>\$ 277,887</u>	<u>\$ 26,629</u>

(Continued)

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

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (212,041)	\$ -	\$ (212,041)
(72,936)	-	(72,936)
493	-	493
(110,804)	-	(110,804)
(62,300)	-	(62,300)
(146,082)	-	(146,082)
<u>(336,207)</u>	<u>-</u>	<u>(336,207)</u>
<u>\$ (939,877)</u>	<u>\$ -</u>	<u>\$ (939,877)</u>
\$ -	\$ (19,930)	\$ (19,930)
-	(31,158)	(31,158)
-	5,794	5,794
<u>-</u>	<u>(19,555)</u>	<u>(19,555)</u>
<u>\$ -</u>	<u>\$ (64,849)</u>	<u>\$ (64,849)</u>
<u>\$ (939,877)</u>	<u>\$ (64,849)</u>	<u>\$ (1,004,726)</u>

CITY OF NORTHWOOD, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

General Receipts:

Property tax levied for:
 General purposes
 Tax increment financing
 Debt service
Local option sales tax
Grants and contributions not restricted to specific purpose
Unrestricted interest on investments
Miscellaneous
Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year, as restated

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:
 Streets
 Urban renewal purposes
 Debt service
 Other purposes
Unrestricted

Total cash basis net assets

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>
\$ 421,447	\$ -	\$ 421,447
331,514	-	331,514
24,560	-	24,560
103,304	-	103,304
18,270	-	18,270
29,271	6,973	36,244
51,920	4,597	56,517
<u>(58,410)</u>	<u>58,410</u>	<u>-</u>
<u>\$ 921,876</u>	<u>\$ 69,980</u>	<u>\$ 991,856</u>
\$ (18,001)	\$ 5,131	\$ (12,870)
<u>1,429,668</u>	<u>651,120</u>	<u>2,080,788</u>
<u>\$ 1,411,667</u>	<u>\$ 656,251</u>	<u>\$ 2,067,918</u>
\$ 186,688	\$ -	\$ 186,688
258,277	-	258,277
10,314	-	10,314
814,458	-	814,458
<u>141,930</u>	<u>656,251</u>	<u>798,181</u>
<u>\$ 1,411,667</u>	<u>\$ 656,251</u>	<u>\$ 2,067,918</u>

CITY OF NORTHWOOD, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Special Revenue</u>	
		<u>Road Use Tax</u>	<u>Urban Renewal Tax Increment</u>
RECEIPTS:			
Property tax	\$ 311,884	\$ -	\$ -
Tax increment financing collections	-	-	331,514
Other city tax	-	-	-
Use of money and property	30,698	-	-
Licenses and permits	7,800	-	-
Intergovernmental	13,553	183,986	-
Charges for service	67,011	-	-
Special assessments	-	-	-
Miscellaneous	24,509	-	-
Total receipts	<u>\$ 455,455</u>	<u>\$ 183,986</u>	<u>\$ 331,514</u>
DISBURSEMENTS:			
Public safety	\$ 161,697	\$ -	\$ -
Public works	50,019	190,228	-
Health and social services	366	-	-
Culture and recreation	152,863	-	-
Community and economic development	-	-	59,729
General government	130,373	-	-
Debt service	-	-	-
Total disbursements	<u>\$ 495,318</u>	<u>\$ 190,228</u>	<u>\$ 59,729</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (39,863)</u>	<u>\$ (6,242)</u>	<u>\$ 271,785</u>
Other financing sources (uses):			
Operating transfers in	\$ 56,482	\$ -	\$ 50,388
Operating transfers out	<u>(23,546)</u>	<u>-</u>	<u>(411,540)</u>
Total other financing sources (uses)	<u>\$ 32,936</u>	<u>\$ -</u>	<u>\$ (361,152)</u>
Net change in cash balances	\$ (6,927)	\$ (6,242)	\$ (89,367)
Cash balances beginning of year	<u>148,857</u>	<u>192,930</u>	<u>347,644</u>
Cash balances end of year	<u>\$ 141,930</u>	<u>\$ 186,688</u>	<u>\$ 258,277</u>

(Continued)

<u>General Obligation Bonds</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
\$ 24,560	\$ 109,563	\$ 446,007
-	-	331,514
-	103,304	103,304
-	928	31,626
-	-	7,800
-	3,285	200,824
-	-	67,011
-	2,298	2,298
-	94,066	118,575
<u>\$ 24,560</u>	<u>\$ 313,444</u>	<u>\$1,308,959</u>
\$ -	\$ 52,088	\$ 213,785
-	18,973	259,220
-	-	366
-	23,101	175,964
-	85,497	145,226
-	15,709	146,082
336,207	-	336,207
<u>\$ 336,207</u>	<u>\$ 195,368</u>	<u>\$1,276,850</u>
<u>\$ (311,647)</u>	<u>\$ 118,076</u>	<u>\$ 32,109</u>
\$ 311,935	\$ 50,358	\$ 469,163
-	(92,487)	(527,573)
<u>\$ 311,935</u>	<u>\$ (42,129)</u>	<u>\$ (58,410)</u>
\$ 288	\$ 75,947	\$ (26,301)
10,026	692,959	1,392,416
<u>\$ 10,314</u>	<u>\$ 768,906</u>	<u>\$1,366,115</u>

CITY OF NORTHWOOD, IOWA
 STATEMENTS OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Special Revenue</u>	
		<u>Road Use Tax</u>	<u>Urban Renewal Tax Increment</u>
Cash Basis Fund Balances:			
Reserved:			
Debt service	\$ -	\$ -	\$ -
Unreserved:			
General fund	141,930	-	-
Special revenue funds	-	186,688	258,277
Capital project funds	-	-	-
Permanent funds	-	-	-
Total cash basis fund balances	<u>\$ 141,930</u>	<u>\$ 186,688</u>	<u>\$ 258,277</u>

See Notes to Financial Statements.

<u>General Obligation Bonds</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
\$ 10,314	\$ -	\$ 10,314
-	-	141,930
-	484,446	929,411
-	2,629	2,629
<u>-</u>	<u>281,831</u>	<u>281,831</u>
<u>\$ 10,314</u>	<u>\$ 768,906</u>	<u>\$ 1,366,115</u>

CITY OF NORTHWOOD, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

	<u>Enterprise Funds</u>			
	<u>Water</u>	<u>Sewer</u>	<u>Sewer Replacement</u>	<u>Garbage</u>
Operating receipts:				
Charges for service	\$ 135,639	\$ 123,364	\$ -	\$ 95,839
Miscellaneous	397	-	-	-
Total operating receipts	<u>\$ 136,036</u>	<u>\$ 123,364</u>	<u>\$ -</u>	<u>\$ 95,839</u>
Operating disbursements:				
Business type activities:				
Personal services	\$ 76,088	\$ 92,810	\$ -	\$ 15,550
Services and commodities	65,753	74,613	-	74,495
Capital outlay	13,728	13,728	-	-
Total operating disbursements	<u>\$ 155,569</u>	<u>\$ 181,151</u>	<u>\$ -</u>	<u>\$ 90,045</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>\$ (19,533)</u>	<u>\$ (57,787)</u>	<u>\$ -</u>	<u>\$ 5,794</u>
Non-operating receipts (disbursements):				
Intergovernmental	\$ -	\$ 26,629	\$ -	\$ -
Interest on investments	3,892	1,016	1,682	383
Miscellaneous	-	-	-	-
Total non-operating receipts (disbursements)	<u>\$ 3,892</u>	<u>\$ 27,645</u>	<u>\$ 1,682</u>	<u>\$ 383</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (15,641)</u>	<u>\$ (30,142)</u>	<u>\$ 1,682</u>	<u>\$ 6,177</u>
Other financing sources (uses):				
Operating transfers in	\$ 3,724	\$ 31,140	\$ 1,000	\$ -
Operating transfers out	-	(1,000)	-	-
Total other financing Sources (uses)	<u>\$ 3,724</u>	<u>\$ 30,140</u>	<u>\$ 1,000</u>	<u>\$ -</u>
Net change in cash balances	\$ (11,917)	\$ (2)	\$ 2,682	\$ 6,177
Cash balances beginning of year	<u>308,230</u>	<u>151,525</u>	<u>106,324</u>	<u>43,719</u>
Cash balances end of year	<u>\$ 296,313</u>	<u>\$ 151,523</u>	<u>\$ 109,006</u>	<u>\$ 49,896</u>
Cash Basis Fund Balances				
Unreserved	<u>\$ 296,313</u>	<u>\$ 151,523</u>	<u>\$ 109,006</u>	<u>\$ 49,896</u>

See Notes to Financial Statements.

<u>Nonmajor Enterprise Funds</u>	<u>Total</u>	<u>Internal Service Fund Employee Health</u>
\$ 26,428	\$ 381,270	\$ -
4,200	4,597	9,300
<u>\$ 30,628</u>	<u>\$ 385,867</u>	<u>\$ 9,300</u>
\$ 41,975	\$ 226,423	\$ -
4,008	218,869	-
-	27,456	-
<u>\$ 45,983</u>	<u>\$ 472,748</u>	<u>\$ -</u>
\$ (15,355)	\$ (86,881)	\$ 9,300
\$ -	\$ 26,629	\$ -
-	6,973	-
-	-	(1,000)
<u>\$ -</u>	<u>\$ 33,602</u>	<u>\$ (1,000)</u>
\$ (15,355)	\$ (53,279)	\$ 8,300
\$ 23,546	\$ 59,410	\$ -
-	(1,000)	-
<u>\$ 23,546</u>	<u>\$ 58,410</u>	<u>\$ -</u>
\$ 8,191	\$ 5,131	\$ 8,300
41,322	651,120	37,252
<u>\$ 49,513</u>	<u>\$ 656,251</u>	<u>\$ 45,552</u>
<u>\$ 49,513</u>	<u>\$ 656,251</u>	<u>\$ 45,552</u>

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

(1) Summary of Significant Accounting Policies

The City of Northwood is a political subdivision of the State of Iowa located in Worth County. It was first incorporated in 1859 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 Northwood 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 Worth County Assessor's Conference Board.

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 NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

(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 Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

(1) **Summary of Significant Accounting Policies** - continued

The Debt Service Fund is utilized to account for the payment of interest and principal on the city's general long-term debt.

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.

The Sewer Replacement Fund accounts for funds reserved for future sewer repairs and replacements.

The Garbage Fund accounts for the operation of the City's garbage collection.

C. **Measurement Focus and Basis of Accounting**

The City of Northwood 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

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2005 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.

CITY OF NORTHWOOD, IOWA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2005

(2) Cash and Pooled Investments - continued

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.

(3) Long-Term Debt

Bonds and Notes

Annual debt service requirements to maturity for general obligation bonds and notes and urban renewal tax increment revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds & Notes		Urban Renewal Tax Increment Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 136,000	\$ 60,043	\$ 41,638	\$ 36,666	\$ 177,638	\$ 96,709
2007	138,000	54,774	39,217	33,434	177,217	88,208
2008	146,000	49,403	37,965	30,435	183,965	79,838
2009	149,000	43,676	41,063	27,337	190,063	71,013
2010	81,000	37,806	44,413	23,987	125,413	61,793
2011	84,000	34,948	48,038	20,362	132,038	55,310
2012	87,000	31,982	51,957	16,443	138,957	48,425
2013	90,000	28,910	56,198	12,202	146,198	41,112
2014	94,000	25,734	60,783	7,617	154,783	33,351
2015	97,000	22,416	49,328	2,657	146,328	25,073
2016	100,000	18,992	-	-	100,000	18,992
2017	104,000	15,462	-	-	104,000	15,462
2018	108,000	11,790	-	-	108,000	11,790
2019	111,000	7,978	-	-	111,000	7,978
2020	115,000	4,060	-	-	115,000	4,060
Total	\$1,640,000	\$447,974	\$470,600	\$211,140	\$2,110,600	\$659,114

The resolutions providing for the issuance of the general obligation notes include the following provisions:

- (a) At the option of the City, bonds due on the Central Avenue Improvement Bond issue of March 1, 1994, are subject to redemption and prepayment in inverse numerical order beginning June 1, 2001, and on any interest payment date thereafter, at a price of par plus accrued interest to call date, by giving proper notice.

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

(3) **Long-Term Debt**

Bonds and Notes - continued

- (b) At the option of the City, bonds due on the Pool and Refunding Bond issue of March 1, 1999, are subject to redemption and prepayment in inverse numerical order beginning June 1, 2005, and on any interest payment date thereafter, at a price of par plus accrued interest to call date, by giving proper notice.

Urban Renewal Tax Increment Revenue Bonds

The urban renewal tax increment revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The City may call and prepay any principal amount of each bond issue at any time, without notice. The bonds are payable solely from the income and proceeds of the Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for the purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However the debt is subject to the constitutional debt limitation of the City.

(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 statements 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 covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.907%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$29,534, \$26,823 and \$28,080, respectively, equal to the required contributions for each year.

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

(5) **Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and comp time 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 and comp time payable to employees at June 30, 2005, primarily relating to the General Fund, is \$22,430. This liability has been computed based on rates of pay as of June 30, 2005.

(6) **Industrial Development Revenue Bonds**

The City has issued a total of \$560,000 of multifamily elderly revenue bonds under the provision of Chapter 419 of the Code of Iowa, of which \$369,400 is outstanding at June 30, 2005. The bonds and related principal are payable solely by Lutheran Retirement Home, Inc., and the bond principal and interest do not constitute liabilities of the City.

(7) **Economic Development**

On December 15, 1999, the City loaned \$67,650 to ADA Enterprises, Inc. The loan proceeds were to be used for a business in Northwood. The loan bears interest at 1%. ADA Enterprises, Inc. is obligated to repay the City in monthly installments of \$1,000 beginning January 15, 2000. ADA Enterprises, Inc. is not current on payments, therefore, the interest rate is now 8% per the promissory agreement. The loan balance at June 30, 2005 was \$30,000.

On February 22, 2000, the City loaned \$60,000 to Northwood Foods, Inc. The loan proceeds were to be used to operate a business in Northwood. The loan is interest bearing at 2%. Northwood Foods, Inc. is obligated to repay the City in monthly installments of \$1,052 beginning February 22, 2001. The loan balance at June 30, 2005 was \$7,313.

On August 1, 2003, the City loaned \$20,000 to Grass Lake Furniture Co. The loan proceeds were to be used to operate a retail business in Northwood. The loan is a non-interest bearing loan. Grass Lake Furniture Co. is obligated to repay the City in monthly installments of \$238 beginning August 1, 2004. The loan balance at June 30, 2005 was \$17,381.

On September 1, 2003, the City loaned \$15,000 to Property Ventures, LLC. The loan proceeds were to be used to operate a retail business in Northwood. The loan bears interest at 3%. Property Ventures, LLC is obligated to repay the City in monthly installments of \$332 beginning October 1, 2004. The loan balance at June 30, 2005 was paid off.

CITY OF NORTHWOOD, IOWA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2005

(7) Economic Development - continued

On February 6, 2004, the City loaned \$120,000 to Woodharbor Molding and Millworks, Inc. The loan proceeds were to be used to operate a business in Northwood. The loan bears interest at 2%. Woodharbor Molding and Millworks, Inc. is obligated to repay the City in monthly installments of \$1,532 beginning April 1, 2004. The loan balance at June 30, 2005 was \$101,147.

The City has funds set aside for various housing assistance programs within the City. Applications are reviewed by the council. The amount expended by the City for the 2005 fiscal year was \$54,355.

The City allocated funds for business development within the City. Applications are considered by a separate business development committee. The amount expended by the City for the fiscal year was \$27,857.

(8) Risk Management

The City of Northwood 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 did not exceed commercial insurance coverage in the past three fiscal years.

(9) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	
General	Special Revenue:	
	Urban Renewal Tax Increment	\$ 15,076
	Local option sales tax -	
	Property tax relief	<u>41,406</u>
		\$ 56,482
Special Revenue:	Special Revenue:	
Urban Renewal Tax Increment	Business/Community Revitalization	50,388
Housing assistance	Urban Renewal Tax Increment	49,665
Debt Service:	Special Revenue:	
Debt service G.O. Bond	Urban Renewal Tax Increment	311,935

CITY OF NORTHWOOD, IOWA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2005

(9) Interfund Transfers - continued

<u>Transfer to</u>	<u>Transfer from</u>	
Enterprise:		
Sewer Utility	Special Revenue:	
	Urban Renewal Tax Increment	31,140
Water		
	Urban Renewal Tax Increment	3,724
Taxi	General	<u>23,546</u>
		<u>\$526,880</u>

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

(10) Commitments

On March 22, 2005 the City awarded a bid to Northland Construction & Supply Co. for the City Hall/Civic Center Project in the amount of \$68,709. At June 30, 2005 the City had paid \$30,665 for the project.

Required Supplementary Information

CITY OF NORTHWOOD, 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, 2005

	<u>Governmental Funds Actual</u>	<u>Proprietary Funds Actual</u>	<u>Less Funds Not Required To Be Budgeted</u>
RECEIPTS:			
Property tax	\$ 446,007	\$ -	\$ -
Tax increment financing collections	331,514	-	-
Other city tax	103,304	-	-
Licenses and permits	7,800	-	-
Use of money and property	31,626	6,973	-
Intergovernmental	200,824	26,629	-
Charges for service	67,011	381,270	-
Special assessments	2,298	-	-
Miscellaneous	118,575	13,897	9,300
Total receipts	<u>\$ 1,308,959</u>	<u>\$ 428,769</u>	<u>\$ 9,300</u>
DISBURSEMENTS:			
Public safety	\$ 213,785	\$ -	\$ -
Public works	259,220	-	-
Health and social services	366	-	-
Culture and recreation	175,964	-	-
Community and economic development	145,226	-	-
General government	146,082	-	-
Debt service	336,207	-	-
Capital projects	-	-	-
Business type activities	-	473,748	1,000
Total disbursements	<u>\$ 1,276,850</u>	<u>\$ 473,748</u>	<u>\$ 1,000</u>
Excess (deficiency) of receipts over (under) disbursements	\$ 32,109	\$ (44,979)	\$ 8,300
Other financing sources, net	<u>(58,410)</u>	<u>58,410</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements	\$ (26,301)	\$ 13,431	\$ 8,300
Balance beginning of year	<u>1,392,416</u>	<u>688,372</u>	<u>37,252</u>
Balance end of year	<u>\$ 1,366,115</u>	<u>\$ 701,803</u>	<u>\$ 45,552</u>

See Accompanying Independent Auditor's Report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$ 446,007	\$ 422,290	\$ 444,048	\$ 1,959
331,514	300,000	300,000	31,514
103,304	100,479	114,893	(11,589)
7,800	4,725	4,725	3,075
38,599	32,000	32,000	6,599
227,453	216,528	200,633	26,820
448,281	462,893	485,593	(37,312)
2,298	4,000	4,000	(1,702)
123,172	58,100	84,529	38,643
<u>\$1,728,428</u>	<u>\$1,601,015</u>	<u>\$1,670,421</u>	<u>\$ 58,007</u>
\$ 213,785	\$ 209,708	\$ 224,440	\$ 10,655
259,220	246,952	285,462	26,242
366	-	2,000	1,634
175,964	200,204	214,504	38,540
145,226	150,000	150,000	4,774
146,082	144,165	155,882	9,800
336,207	333,667	336,708	501
-	90,000	90,000	90,000
472,748	469,363	482,517	9,769
<u>\$1,749,598</u>	<u>\$1,844,059</u>	<u>\$1,941,513</u>	<u>\$ 191,915</u>
\$ (21,170)	\$ (243,044)	\$ (271,092)	\$ 249,922
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
\$ (21,170)	\$ (243,044)	\$ (271,092)	\$ 249,922
<u>2,043,536</u>	<u>1,783,353</u>	<u>1,990,710</u>	<u>52,826</u>
<u>\$2,022,366</u>	<u>\$1,540,309</u>	<u>\$1,719,618</u>	<u>\$ 302,748</u>

CITY OF NORTHWOOD, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
JUNE 30, 2005

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 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, a budget amendment increased budgeted disbursements by \$97,454. The budget amendment is reflected in the final budgeted amounts.

Other Supplementary Information

CITY OF NORTHWOOD, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	Special Revenue			
	Employee Benefits	Revolving Loan	Local Option Sales Tax Property Tax Relief	Local Option Sales Tax- Infrastructure
RECEIPTS:				
Property tax	\$ 109,563	\$ -	\$ -	\$ -
Other city tax	-	-	51,652	51,652
Use of money and property	-	-	-	-
Intergovernmental	-	-	-	-
Special assessments	-	-	-	-
Miscellaneous	-	62,926	-	-
Total receipts	\$ 109,563	\$ 62,926	\$ 51,652	\$ 51,652
DISBURSEMENTS:				
Public safety	\$ 52,088	\$ -	\$ -	\$ -
Public works	13,967	-	-	-
Culture and recreation	19,276	-	-	-
Community and economic development	-	-	-	-
General government	15,709	-	-	-
Total disbursements	\$ 101,040	\$ -	\$ -	\$ -
Excess (deficiency) of receipts over (under) disbursements	\$ 8,523	\$ 62,926	\$ 51,652	\$ 51,652
Other financing sources (uses):				
Operating transfers in	\$ -	\$ -	\$ -	\$ -
Operating transfers out	-	-	(41,406)	-
Total other financing sources (uses)	\$ -	\$ -	\$ (41,406)	\$ -
Net change in cash balances	\$ 8,523	\$ 62,926	\$ 10,246	\$ 51,652
Cash balances beginning of year	35,323	30,772	87,873	51,313
Cash balances end of year	\$ 43,846	\$ 93,698	\$ 98,119	\$ 102,965
Cash Basis Fund Balances:				
Unreserved:				
Special revenue fund	\$ 43,846	\$ 93,698	\$ 98,119	\$ 102,965
Capital project fund	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	\$ 43,846	\$ 93,698	\$ 98,119	\$ 102,965

(Continued)

<u>Woodharbor ESDA</u>	<u>Winter Lighting</u>	<u>Campground</u>	<u>Housing Assistance Program</u>	<u>Revitalization</u>	<u>Central Avenue Special Assessments</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	9	90	-	-	-
3,285	-	-	-	-	-
-	-	-	-	-	124
-	-	-	2,000	26,000	-
<u>\$ 3,285</u>	<u>\$ 9</u>	<u>\$ 90</u>	<u>\$ 2,000</u>	<u>\$ 26,000</u>	<u>\$ 124</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
3,285	-	-	54,355	27,857	-
-	-	-	-	-	-
<u>\$ 3,285</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,355</u>	<u>\$ 27,857</u>	<u>\$ -</u>
\$ -	\$ 9	\$ 90	\$ (52,355)	\$ (1,857)	\$ 124
\$ -	\$ -	\$ -	\$ 49,665	\$ -	\$ -
-	-	-	-	(50,388)	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,665</u>	<u>\$ (50,388)</u>	<u>\$ -</u>
\$ -	\$ 9	\$ 90	\$ (2,690)	\$ (52,245)	\$ 124
-	1,026	9,744	7,325	150,338	32,097
<u>\$ -</u>	<u>\$ 1,035</u>	<u>\$ 9,834</u>	<u>\$ 4,635</u>	<u>\$ 98,093</u>	<u>\$ 32,221</u>
\$ -	\$ 1,035	\$ 9,834	\$ 4,635	\$ 98,093	\$ 32,221
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 1,035</u>	<u>\$ 9,834</u>	<u>\$ 4,632</u>	<u>\$ 98,093</u>	<u>\$ 32,221</u>

CITY OF NORTHWOOD, IOWA
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2005

	<u>Capital Projects</u>		
	<u>Water Plant</u>	<u>Sidewalk Special Assessment</u>	<u>Cemetery Perpetual Care</u>
RECEIPTS:			
Property tax	\$ -	\$ -	\$ -
Other city tax	-	-	-
Use of money and property	6	-	-
Intergovernmental	-	-	-
Special assessments	-	2,174	-
Miscellaneous	-	-	1,090
Total receipts	<u>\$ 6</u>	<u>\$ 2,174</u>	<u>\$ 1,090</u>
DISBURSEMENTS:			
Public safety	\$ -	\$ -	\$ -
Public works	5,006	-	-
Culture and recreation	-	-	-
Community and economic development	-	-	-
General government	-	-	-
Total disbursements	<u>\$ 5,006</u>	<u>\$ -</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (5,000)</u>	<u>\$ 2,174</u>	<u>\$ 1,090</u>
Other financing sources (uses):			
Operating transfers in	\$ -	\$ -	\$ -
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net change in cash balances	\$ (5,000)	\$ 2,174	\$ 1,090
Cash balances beginning of year	<u>5,000</u>	<u>455</u>	<u>90,078</u>
Cash balances end of year	<u>\$ -</u>	<u>\$ 2,629</u>	<u>\$ 91,168</u>
Cash Basis Fund Balances:			
Unreserved:			
Special revenue fund	\$ -	\$ -	\$ -
Capital project fund	-	2,629	-
Permanent fund	<u>-</u>	<u>-</u>	<u>91,168</u>
Total cash basis fund balances	<u>\$ -</u>	<u>\$ 2,629</u>	<u>\$ 91,168</u>

See Accompanying Independent Auditor's Report

<u>Permanent</u>				
<u>Cemetery Improvement</u>	<u>Cemetery Beautification</u>	<u>Cemetery Flower Memorial</u>	<u>Library Memorial Trust</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ 109,563
-	-	-	-	103,304
185	112	526	-	928
-	-	-	-	3,285
-	-	-	-	2,298
-	950	1,100	-	94,066
<u>\$ 185</u>	<u>\$ 1,062</u>	<u>\$ 1,626</u>	<u>\$ -</u>	<u>\$ 313,444</u>
\$ -	\$ -	\$ -	\$ -	\$ 52,088
-	-	-	-	18,973
-	2,795	1,030	-	23,101
-	-	-	-	85,497
-	-	-	-	15,709
<u>\$ -</u>	<u>\$ 2,795</u>	<u>\$ 1,030</u>	<u>\$ -</u>	<u>\$ 195,368</u>
<u>\$ 185</u>	<u>\$ (1,733)</u>	<u>\$ 596</u>	<u>\$ -</u>	<u>\$ 118,076</u>
\$ 693	\$ -	\$ -	\$ -	\$ 50,358
-	-	(693)	-	(92,487)
<u>\$ 693</u>	<u>\$ -</u>	<u>\$ (693)</u>	<u>\$ -</u>	<u>\$ (42,129)</u>
\$ 878	\$ (1,733)	\$ (97)	\$ -	\$ 75,947
12,473	5,531	12,333	161,278	692,959
<u>\$ 13,351</u>	<u>\$ 3,798</u>	<u>\$ 12,236</u>	<u>\$ 161,278</u>	<u>\$ 768,906</u>
\$ -	\$ -	\$ -	\$ -	\$ 484,446
-	-	-	-	2,629
13,351	3,798	12,236	161,278	281,831
<u>\$ 13,351</u>	<u>\$ 3,798</u>	<u>\$ 12,236</u>	<u>\$ 161,278</u>	<u>\$ 768,906</u>

CITY OF NORTHWOOD, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

	<u>Taxi</u>	<u>Meter Deposit</u>	<u>Total</u>
Operating receipts:			
Charges for service	\$ 26,428	\$ -	\$ 26,428
Miscellaneous	-	4,200	4,200
Total operating receipts	<u>\$ 26,428</u>	<u>\$ 4,200</u>	<u>\$ 30,628</u>
Operating disbursements:			
Business type activities:			
Personal services	\$ 41,975	\$ -	\$ 41,975
Services and commodities	2,389	1,619	4,008
Total operating disbursements	<u>\$ 44,364</u>	<u>\$ 1,619</u>	<u>\$ 45,983</u>
Excess (deficiency) of operating receipts over(under) operating disbursements	\$ (17,936)	\$ 2,581	\$ (15,355)
Other financing sources:			
Operating transfers in	<u>23,546</u>	-	<u>23,546</u>
Net change in cash balances	\$ 5,610	\$ 2,581	\$ 8,191
Cash balances beginning of year	<u>4,865</u>	<u>36,457</u>	<u>41,322</u>
Cash balances end of year	<u>\$ 10,475</u>	<u>\$ 39,038</u>	<u>\$ 49,513</u>
Cash Basis Fund Balances:			
Unreserved	<u>\$ 10,475</u>	<u>\$ 39,038</u>	<u>\$ 49,513</u>

See Accompanying Independent Auditor's Report

CITY OF NORTHWOOD, IOWA
 SCHEDULE OF INDEBTEDNESS
 YEAR ENDED JUNE 30, 2005

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Bonds and Notes:			
Central Avenue Improvement	3-01-94	3.50 - 5.20%	\$ 630,000
Pool/Refunding	3-01-99	3.95 - 4.40	720,000
Drinking Water	6-10-00	3.53	1,690,000
Urban Renewal Tax Increment Revenue Bonds:			
Northwood Foods	1-18-00	6.50%	\$ 55,000
Woodharbor	7-28-03	5.25 - 8.00	500,000
 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>
\$ 90,000	\$ -	\$ 90,000	\$ -	\$ 4,680	\$ -
300,000	-	30,000	270,000	12,943	-
1,438,000	-	68,000	1,370,000	50,761	-
<u>\$1,828,000</u>	<u>\$ -</u>	<u>\$ 188,000</u>	<u>\$1,640,000</u>	<u>\$ 68,384</u>	<u>\$ -</u>
\$ 21,920	\$ -	\$ 8,617	\$ 13,303	\$ 1,287	\$ -
500,000	-	42,703	457,297	25,697	-
<u>\$ 521,920</u>	<u>\$ -</u>	<u>\$ 51,320</u>	<u>\$ 470,600</u>	<u>\$ 26,984</u>	<u>\$ -</u>
<u>\$2,349,920</u>	<u>\$ -</u>	<u>\$ 239,320</u>	<u>\$2,110,600</u>	<u>\$ 95,368</u>	<u>\$ -</u>

CITY OF NORTHWOOD, IOWA
BOND AND NOTE MATURITIES
JUNE 30, 2005

GENERAL OBLIGATION BONDS AND NOTES

Year Ending June 30,	<u>Pool/Refunding</u> <u>Issued March 1, 1999</u>		<u>Drinking Water</u> <u>Issued June 10, 2000</u>		<u>Total</u>
	<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>	
2006	4.25%	\$ 65,000	3.53%	\$ 71,000	\$ 136,000
2007	4.30	65,000	3.53	73,000	138,000
2008	4.35	70,000	3.53	76,000	146,000
2009	4.40	70,000	3.53	79,000	149,000
2010	-	-	3.53	81,000	81,000
2011	-	-	3.53	84,000	84,000
2012	-	-	3.53	87,000	87,000
2013	-	-	3.53	90,000	90,000
2014	-	-	3.53	94,000	94,000
2015	-	-	3.53	97,000	97,000
2016	-	-	3.53	100,000	100,000
2017	-	-	3.53	104,000	104,000
2018	-	-	3.53	108,000	108,000
2019	-	-	3.53	111,000	111,000
2020	-	-	3.53	115,000	115,000
Total		<u>\$270,000</u>		<u>\$1,370,000</u>	<u>\$1,640,000</u>

URBAN RENEWAL TAX INCREMENT REVENUE BONDS

Year Ending June 30,	<u>Northwood Foods</u> <u>Issued</u> <u>January 18, 1994</u>		<u>Woodharbor</u> <u>Issued</u> <u>July 28, 2003</u>		<u>Total</u>
	<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>	
2006	6.5%	\$ 9,186	8.00%	\$ 32,452	\$ 41,638
2007	6.5	4,117	8.00	35,100	39,217
2008	-	-	8.00	37,965	37,965
2009	-	-	8.00	41,063	41,063
2010	-	-	8.00	44,413	44,413
2011	-	-	8.00	48,038	48,038
2012	-	-	8.00	51,957	51,957
2013	-	-	8.00	56,198	56,198
2014	-	-	8.00	60,783	60,783
2015	-	-	8.00	49,328	49,328
		<u>\$13,303</u>		<u>\$457,297</u>	<u>\$ 470,600</u>

See Accompanying Independent Auditor's Report.

CITY OF NORTHWOOD, IOWA

Schedule of Receipts By Source and Disbursements By Function-
All Governmental Funds

For the Last Four Years

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Receipts:				
Property tax	\$ 446,007	\$ 391,226	\$ 359,495	\$ 349,064
Tax increment financing collections	331,514	354,667	457,150	585,067
Other city tax	103,304	87,758	82,812	81,606
Licenses and permits	7,800	4,871	3,915	6,098
Use of money and property	31,626	34,823	34,359	54,250
Intergovernmental	200,824	439,701	200,486	482,088
Charges for service	67,011	73,901	69,958	71,904
Special assessments	2,298	10,734	11,823	15,373
Miscellaneous	<u>118,575</u>	<u>53,389</u>	<u>68,979</u>	<u>87,682</u>
Total	<u>\$1,308,959</u>	<u>\$1,451,070</u>	<u>\$1,288,977</u>	<u>\$1,733,132</u>
Disbursements:				
Operating:				
Public safety	\$ 213,785	\$ 209,604	\$ 209,801	\$ 160,259
Public works	259,220	186,896	231,643	163,815
Health and social services	366	-	-	-
Culture and recreation	175,964	186,557	207,464	183,068
Community and economic development	145,226	983,602	49,104	95,537
General government	146,082	115,983	122,555	131,277
Debt Service	336,207	190,141	399,643	458,611
Capital projects	<u>-</u>	<u>-</u>	<u>124,105</u>	<u>1,467,924</u>
Total	<u>\$1,276,850</u>	<u>\$1,872,783</u>	<u>\$1,344,315</u>	<u>\$2,660,491</u>

See Accompanying Independent Auditor's Report.



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

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 Northwood, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated October 13, 2005. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Northwood's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions 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 Northwood'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 items II-A-05 and II-B-05 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Northwood's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters 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, 2005 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.

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 Northwood and other parties to whom the City of Northwood 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 Northwood 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.



October 13, 2005

CITY OF NORTHWOOD, IOWA
Schedule of Findings
Year Ended June 30, 2005

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

- (a) An unqualified opinion was issued on the financial statements which 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.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-05 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 one person has control over most of the accounting and banking functions.

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

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-05 Countersignature of Checks - Checks are prepared and signed by one individual. Also, we noted that during the year, three checks without a signature cleared the bank.

Recommendation - Checks should be prepared and signed by one individual and then the supporting documentation should be made available along with the check to a second independent individual for review and countersignature.

CITY OF NORTHWOOD, IOWA
Schedule of Findings
Year Ended June 30, 2005

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

Response - We will investigate the alternatives.

Conclusion - Response accepted.

II-C-05 Delinquent Utilities - The City has not been fully enforcing the ordinance pertaining to delinquent utilities. I noted that shut-offs were not being implemented when accounts become fully delinquent.

Recommendation - In order to improve the City's cash flow, the City should comply with its shut-off procedures.

Response - We have changed our policy and are in the process of implementation.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable

Part IV: Other Findings Related to Statutory Reporting:

IV-A-05 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, 2005.

IV-B-05 Certified Budget - Disbursements during the year ended June 30, 2005 did not exceed the amounts budgeted.

IV-C-05 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-05 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-E-05 Business Transactions - No business transactions between the City and City officials or employees were noted.

IV-F-05 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-05 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

CITY OF NORTHWOOD, IOWA
Schedule of Findings
Year Ended June 30, 2005

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

IV-H-05 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-05 Health Insurance Plan - The City has a health insurance plan that is partially self-funded. Chapter 509A.15 of the Code of Iowa requires that for this type of plan the city must file a Certificate of Compliance with the Insurance Commissioner of Iowa. I noted that this was not filed.

Recommendation - The Certificate of Compliance should be filed as required by the Code.

Response - We will investigate this.

Conclusion - Response accepted.

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