

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

JUNE 30, 2007

- Prepared By -

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

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 2010
Jane Bloomingdale	Mayor Pro tem	January 2008
Don Anderson	Council Member	January 2008
Dennis Reeder	Council Member	January 2008
Kevin Petznick	Council Member	January 2010
Randy Severson	Council Member	January 2010
Donna Tyrrell, MMC	Clerk/Treasurer	Indefinite
John Greve	Attorney	Indefinite



Larry Pump, CPA
117 North Jackson Street
Charles City, IA 50616

E-mail: rlp@fiai.net

(641) 257-4222

or (641) 228-2812

Fax (641) 228-1513

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, 2007, 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, 2007, 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 September 12, 2007 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 8 and 25 through 27 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain 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 four years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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.

A handwritten signature in cursive script that reads "Larry Pump".

September 12, 2007

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, 2007. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased 27%, or approximately \$360,000 from fiscal 2006 to fiscal 2007. Local option sales tax receipts increased approximately \$58,000 and unrestricted grants and contributions increased \$134,000.

Disbursements decreased 4%, or approximately \$56,000, in fiscal 2007 from fiscal 2006. Capital Project disbursements decreased approximately \$57,000.

The City's total cash basis net assets increased 23%, or approximately \$500,000, from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities increased approximately \$426,000 and the assets of the business type activities increased by approximately \$74,000.

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, readers 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 statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

Reconciliation between the government-wide statement and the fund financial statement follows the fund financial statement.

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 four Enterprise Funds to provide separate information for the water, sewer, garbage, and sewer replacement 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 statement for proprietary funds is 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 from a year ago, increasing from \$1,422,107 to \$1,848,482. 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>2007</u>	<u>2006</u>
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 79	\$ 85
Operating grants, contributions and restricted interest	242	259
General receipts:		
Property tax	832	794
Local option sales tax	154	96
Grants and contributions not restricted to specific purposes	149	15
Unrestricted investment earnings	79	49
Other general receipts	186	89
Transfers, net	(21)	(47)
Total receipts and transfers	<u>\$1,700</u>	<u>\$1,340</u>
Disbursements:		
Public safety	\$ 230	\$ 216
Public works	283	276
Health and social services	2	18
Culture and recreation	240	191
Community and economic development	83	127
General government	155	170
Debt service	281	275
Capital projects	-	57
Total disbursements	<u>\$1,274</u>	<u>\$1,330</u>
Change in cash basis net assets	\$ 426	\$ 10
Cash basis net assets beginning of year	<u>1,422</u>	<u>1,412</u>
Cash basis net assets end of year	<u>\$1,848</u>	<u>\$1,422</u>

The City's total receipts for governmental activities increased by 27%, or \$360,000. The total cost of all programs and services decreased by approximately \$56,000, or 4%, with no new programs added this year. The increase in receipts was primarily the result of increased local option sales tax and unrestricted grants and contribution receipts.

The cost of all governmental activities this year was \$1,274,000 compared to \$1,330,000 last year. However, as shown in the Statement of Activities and Net Assets on pages 9-12, the amount taxpayers ultimately financed for these activities was only \$953,525 because some of the cost was paid by those directly benefited from the programs (\$78,714) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$242,234). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$832,000 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,	
	2007	2006
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 184	\$ 163
Sewer	171	151
Garbage	97	98
Other	23	31
Transfers	21	47
General receipts:		
Unrestricted interest on investments	21	15
Other general receipts	6	-
Total receipts	\$ 523	\$ 505
Disbursements and transfers:		
Water	\$167	\$ 149
Sewer	132	128
Garbage	99	91
Other	51	50
Total disbursements and transfers	\$449	\$ 418
Change in cash basis net assets	\$ 74	\$ 87
Cash basis net assets beginning of year	743	656
Cash basis net assets end of year	\$ 817	\$ 743

Total business type activities receipts for the fiscal year were \$523,000 compared to \$505,000 last year. The cash balance increased by approximately \$74,000 from the prior year. Total disbursements and transfers for the fiscal year increased by 7% to a total of \$449,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Northwood completed the year, its governmental funds reported a combined fund balance of \$1,786,716, an increase of more than \$421,000 from last year's total of \$1,365,124. 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 \$331,230 from the prior year to \$558,160. This increase was due to increased transfers in and casino grant receipts for the fiscal year.

The Road Use Tax Fund cash balance decreased by \$2,546 to \$177,593 during the fiscal year. This decrease was attributable to decreased operating receipts.

The Urban Renewal Tax Increment Fund cash balance was \$195,094, an increase of \$15,382 from the previous year. The increase was the result of reduced tax increment financing expenses. 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.

The Revolving Loan Fund cash balance increased by \$35,656 from the prior year to \$159,711. This is due to businesses paying back prior loans made by the City.

The Local Option Sales Tax - Infrastructure Fund cash balance increased by \$52,792 to \$179,480. This is due to receipts coming in faster than project expenditures are made. The balance will be used on future infrastructure projects.

The Debt Service Fund cash balance increased \$187 to \$10,211, due to increased property taxes.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance increased by \$30,136 to \$348,603, due primarily to an increase in operating receipts from the prior year.

The Sewer Fund cash balance increased by \$30,089 to \$220,273 due primarily to increased operating receipts.

The Sewer Replacement Fund cash balance increased by \$11,117 to \$131,022 due primarily to a transfer in.

The Garbage Fund cash balance decreased by \$441 to \$57,586 due to increased operating expenses.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 22, 2007 and resulted in a decrease in operating disbursements of \$436,474. The City decreased other financing sources as well.

DEBT ADMINISTRATION

At June 30, 2007, the City had approximately \$1,736,000 in bonds and other long-term debt, compared to approximately \$1,928,000 last year, as shown below.

Outstanding Debt at Year-End
(Expressed in Thousands)

	June 30,	
	2007	2006
General obligation bonds	\$ 1,366	\$ 1,504
Urban renewal tax increment financing revenue bonds	370	424
Total	<u>\$ 1,736</u>	<u>\$ 1,928</u>

No new debt was issued during the year ended June 30, 2007.

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 \$1,736,000 is significantly below its constitutional debt limit of \$3,355,968.

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 2008 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. Another concern evolves around increased energy costs for the ensuing year and beyond. The increased costs have added as much as thirty percent to segments of the budget. Holding the budget in line becomes challenging while attempting to maintain and improve city services.

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, 2007

	<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	\$ 230,440	\$ 2,574	\$ -	\$ -
Public works	282,887	588	183,495	-
Health and social services	1,490	12,524	-	-
Culture and recreation	240,473	63,028	11,975	-
Community and economic development	82,676	-	46,764	-
General government	155,033	-	-	-
Debt service	<u>281,474</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$1,274,473</u>	<u>\$ 78,714</u>	<u>\$ 242,234</u>	<u>\$ -</u>
Business type activities:				
Water	\$ 166,909	\$ 183,817	\$ -	\$ -
Sewer	132,442	170,964	-	-
Garbage	99,064	97,270	-	-
Other	<u>50,429</u>	<u>22,905</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>\$ 448,844</u>	<u>\$ 474,956</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u>\$1,723,317</u>	<u>\$ 553,670</u>	<u>\$ 242,234</u>	<u>\$ -</u>

(Continued)

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

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (227,866)	\$ -	\$ (227,866)
(98,804)	-	(98,804)
11,034	-	11,034
(165,470)	-	(165,470)
(35,912)	-	(35,912)
(155,033)	-	(155,033)
<u>(281,474)</u>	<u>-</u>	<u>(281,474)</u>
<u>\$ (953,525)</u>	<u>\$ -</u>	<u>\$ (953,525)</u>
\$ -	\$ 16,908	\$ 16,908
-	38,522	38,522
-	(1,794)	(1,794)
<u>-</u>	<u>(27,524)</u>	<u>(27,524)</u>
<u>\$ -</u>	<u>\$ 26,112</u>	<u>\$ 26,112</u>
<u>\$ (953,525)</u>	<u>\$ 26,112</u>	<u>\$ (927,413)</u>

CITY OF NORTHWOOD, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

General Receipts:

Property and other city 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

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>
\$ 506,176	\$ -	\$ 506,176
284,207	-	284,207
41,894	-	41,894
154,150	-	154,150
149,493	-	149,493
78,570	20,657	99,227
186,587	6,137	192,724
<u>(21,177)</u>	<u>21,177</u>	<u>-</u>
<u>\$ 1,379,900</u>	<u>\$ 47,971</u>	<u>\$ 1,427,871</u>
\$ 426,375	\$ 74,083	\$ 500,458
<u>1,422,107</u>	<u>743,007</u>	<u>2,165,114</u>
<u>\$ 1,848,482</u>	<u>\$ 817,090</u>	<u>\$ 2,665,572</u>
\$ 177,593	\$ -	\$ 177,593
195,094	-	195,094
10,211	-	10,211
907,424	-	907,424
<u>558,160</u>	<u>817,090</u>	<u>1,375,250</u>
<u>\$ 1,848,482</u>	<u>\$ 817,090</u>	<u>\$ 2,665,572</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, 2007

		<u>Special Revenue</u>	
	<u>General</u>	<u>Road Use Tax</u>	<u>Urban Renewal Tax Increment</u>
RECEIPTS:			
Property tax	\$ 381,787	\$ -	\$ -
Tax increment financing collections	-	-	284,207
Other city tax	-	-	-
Use of money and property	79,450	-	-
Licenses and permits	6,747	-	-
Intergovernmental	11,975	183,495	-
Charges for service	52,051	-	-
Special assessments	255	-	-
Miscellaneous	345,287	-	-
Total receipts	<u>\$ 877,552</u>	<u>\$ 183,495</u>	<u>\$ 284,207</u>
DISBURSEMENTS:			
Operating:			
Public safety	\$ 175,050	\$ -	\$ -
Public works	74,702	187,583	-
Health and social services	1,490	-	-
Culture and recreation	218,327	-	-
Community and economic development	-	-	8,404
General government	139,490	-	-
Debt service	-	-	-
Total disbursements	<u>\$ 609,059</u>	<u>\$ 187,583</u>	<u>\$ 8,404</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 268,493</u>	<u>\$ (4,088)</u>	<u>\$ 275,803</u>
Other financing sources (uses):			
Operating transfers in	\$ 90,040	\$ 1,542	\$ 30,012
Operating transfers out	(27,303)	-	(290,433)
Total other financing sources (uses)	<u>\$ 62,737</u>	<u>\$ 1,542</u>	<u>\$ (260,421)</u>
Net change in cash balances	\$ 331,230	\$ (2,546)	\$ 15,382
Cash balances beginning of year	<u>226,930</u>	<u>180,139</u>	<u>179,712</u>
Cash balances end of year	<u>\$ 558,160</u>	<u>\$ 177,593</u>	<u>\$ 195,094</u>
Cash Basis Fund Balances:			
Reserved for debt service	\$ -	\$ -	\$ -
Unreserved:			
General fund	558,160	-	-
Special revenue funds	-	177,593	195,094
Permanent funds	-	-	-
Total cash basis fund balances	<u>\$ 558,160</u>	<u>\$ 177,593</u>	<u>\$ 195,094</u>

See Notes to Financial Statements.

<u>Revolving Loan</u>	<u>Local Option Sales Tax- Infrastructure</u>	<u>Debt Service General Obligation Bonds</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
\$ -	\$ -	\$ 41,894	\$ 124,389	\$ 548,070
-	-	-	-	284,207
-	77,075	-	77,075	154,150
-	-	-	1,670	81,120
-	-	-	-	6,747
-	-	-	-	195,470
-	-	-	-	52,051
-	-	-	333	588
35,656	-	-	14,229	395,172
<u>\$ 35,656</u>	<u>\$ 77,075</u>	<u>\$ 41,894</u>	<u>\$ 217,696</u>	<u>\$1,717,575</u>
\$ -	\$ -	\$ -	\$ 55,390	\$ 230,440
-	-	-	20,602	282,887
-	-	-	-	1,490
-	-	-	22,146	240,473
-	-	-	74,272	82,676
-	-	-	15,543	155,033
-	-	281,474	-	281,474
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 281,474</u>	<u>\$ 187,953</u>	<u>\$1,274,473</u>
<u>\$ 35,656</u>	<u>\$ 77,075</u>	<u>\$ (239,580)</u>	<u>\$ 29,743</u>	<u>\$ 443,102</u>
\$ -	\$ -	\$ 239,767	\$ 39,177	\$ 400,538
-	(24,283)	-	(80,029)	(422,048)
<u>\$ -</u>	<u>\$ (24,283)</u>	<u>\$ 239,767</u>	<u>\$ (40,852)</u>	<u>\$ (21,510)</u>
\$ 35,656	\$ 52,792	\$ 187	\$ (11,109)	\$ 421,592
124,055	126,688	10,024	517,576	1,365,124
<u>\$ 159,711</u>	<u>\$ 179,480</u>	<u>\$ 10,211</u>	<u>\$ 506,467</u>	<u>\$1,786,716</u>
\$ -	\$ -	\$ 10,211	\$ -	\$ 10,211
-	-	-	-	558,160
159,711	179,480	-	218,858	930,736
-	-	-	287,609	287,609
<u>\$ 159,711</u>	<u>\$ 179,480</u>	<u>\$ 10,211</u>	<u>\$ 506,467</u>	<u>\$1,786,716</u>

CITY OF NORTHWOOD, IOWA
 RECONCILIATION OF THE STATEMENT OF CASH
 RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
 GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

Total governmental funds cash balances (page 14)	\$ 1,786,716
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Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge costs to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.

61,766

Cash basis net assets of governmental activities (page 12)	\$ <u>1,848,482</u>
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Net change in cash balances (page 14)	\$ 421,592
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Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge costs to individual funds. The change on net assets of the Internal Service Fund is reported with governmental activities.

4,783

Change in cash balance of governmental activities (page 12)	\$ <u>426,375</u>
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See Notes to Financial Statements.

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, 2007

	Enterprise Funds		
	Water	Sewer	Sewer Replacement
Operating receipts:			
Charges for service	\$ 183,817	\$ 170,964	\$ -
Miscellaneous	1,192	-	-
Total operating receipts	\$ 185,009	\$ 170,964	\$ -
Operating disbursements:			
Business type activities:			
Personal services	\$ 93,572	\$ 97,453	\$ -
Services and commodities	71,337	32,989	-
Capital outlay	2,000	2,000	-
Total operating disbursements	\$ 166,909	\$ 132,442	\$ -
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ 18,100	\$ 38,522	\$ -
Non-operating receipts:			
Interest on investments	11,478	7,826	-
Excess (deficiency) of receipts over (under) disbursements	\$ 29,578	\$ 46,348	\$ -
Other financing sources (uses):			
Operating transfers in	\$ 558	\$ -	\$ 11,117
Operating transfers out	-	(16,259)	-
Total other financing Sources (uses)	\$ 558	\$ (16,259)	\$ 11,117
Net change in cash balances	\$ 30,136	\$ 30,089	\$ 11,117
Cash balances beginning of year	318,467	190,184	119,905
Cash balances end of year	\$ 348,603	\$ 220,273	\$ 131,022
Cash Basis Fund Balances			
Unreserved	\$ 348,603	\$ 220,273	\$ 131,022

See Notes to Financial Statements.

<u>Garbage</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total</u>	<u>Internal Service Fund Employee Health</u>
\$ 97,270	\$ 22,905	\$ 474,956	\$ -
-	4,945	6,137	4,950
<u>\$ 97,270</u>	<u>\$ 27,850</u>	<u>\$ 481,093</u>	<u>\$ 4,950</u>
\$ 21,873	\$ 35,894	\$ 248,792	\$ -
71,620	14,535	190,481	500
5,571	-	9,571	-
<u>\$ 99,064</u>	<u>\$ 50,429</u>	<u>\$ 448,844</u>	<u>\$ 500</u>
\$ (1,794)	\$ (22,579)	\$ 32,249	\$ 4,450
<u>1,353</u>	<u>-</u>	<u>20,657</u>	<u>-</u>
<u>\$ (441)</u>	<u>\$ (22,579)</u>	<u>\$ 52,906</u>	<u>\$ 4,450</u>
\$ -	\$ 25,761	\$ 37,436	\$ 333
-	-	(16,259)	-
<u>\$ -</u>	<u>\$ 25,761</u>	<u>\$ 21,177</u>	<u>\$ 333</u>
\$ (441)	\$ 3,182	\$ 74,083	\$ 4,783
<u>58,027</u>	<u>56,424</u>	<u>743,007</u>	<u>56,983</u>
<u>\$ 57,586</u>	<u>\$ 59,606</u>	<u>\$ 817,090</u>	<u>\$ 61,766</u>
<u>\$ 57,586</u>	<u>\$ 59,606</u>	<u>\$ 817,090</u>	<u>\$ 61,766</u>

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

(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 government 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 units 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 Statement - 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.

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

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

(1) Summary of Significant Accounting Policies - continued

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 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.

The Revolving Loan Fund is used to account for loans made to businesses.

The Local Option Sales Tax - Infrastructure Fund is used to account for local option sales tax funds designated for infrastructure improvements.

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.

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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

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.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

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, 2007 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.

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

CITY OF NORTHWOOD, IOWA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2007

(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
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	29,140	2,657	126,140	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	<u>\$1,366,000</u>	<u>\$333,157</u>	<u>\$369,557</u>	<u>\$141,040</u>	<u>\$1,735,557</u>	<u>\$474,197</u>

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 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.

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

(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.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$31,872, \$30,585 and \$29,534, respectively, equal to the required contributions for each year.

(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, 2007, primarily relating to the General Fund, is \$58,130. This liability has been computed based on rates of pay as of June 30, 2007.

(6) Industrial Development Revenue Bonds

The City has issued a total of \$3,000,000 of multifamily elderly revenue bonds under the provision of Chapter 419 of the Code of Iowa, of which \$3,000,000 is outstanding at June 30, 2007. 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. The loan balance at June 30, 2007 was \$6,000.

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, 2007 was \$11,529.

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

(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, 2007 was \$64,948.

On January 24, 2007, the City loaned \$6,000 to All-Stars Pizza & Grill. The loan proceeds were to be used for a business in Northwood. The loan is a non-interest bearing loan. All-Stars Pizza & Grill is obligated to repay the City \$2,000 in annual installments of \$1,000 beginning January 24, 2011. The remaining \$4,000 is forgivable after three years. The loan balance at June 30, 2007 was \$6,000.

On February 26, 2007, the City loaned \$18,000 to Worth Brewing Company, LLC. The loan proceeds were to be used for a business in Northwood. The loan is a non-interest bearing loan. Worth Brewing Company, LLC is obligated to repay the City \$8,000 in annual installments of \$1,335 beginning February 26, 2011. The remaining \$10,000 is forgivable after three years. The loan balance at June 30, 2007 was \$18,000.

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 2007 fiscal year was \$50,200.

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 \$24,000.

(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.

CITY OF NORTHWOOD, IOWA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2007

(9) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	
General	Special Revenue:	
	Urban Renewal Tax Increment	\$ 10,931
	Local option sales tax - Property tax relief	51,652
	Local option sales tax - Infrastructure	24,283
	Revitalization	998
	Permanent:	
	Library Memorial	2,176
		<u>\$ 90,040</u>
Special Revenue:	Special Revenue:	
Urban Renewal Tax Increment	Housing assistance	\$ 24,870
	Enterprise:	
	Sewer Utility	5,142
		<u>\$ 30,012</u>
Housing Assistance	Special Revenue:	
	Urban Renewal Tax Increment	\$ 39,177
Road Use Tax	General	\$ 1,542
Debt Service:	Special Revenue:	
Debt Service G.O. Bond	Urban Renewal Tax Increment	\$ 239,767
Enterprise:		
Sewer Utility	Special Revenue:	
	Urban Renewal Tax Increment	\$ 558
Sewer Replacement	Enterprise:	
	Sewer Utility	\$ 11,117
Taxi	General	\$ 25,761
Internal Service:	Special Revenue:	
Employee Health	Sidewalk Assessment	\$ 333
		<u>\$ 438,307</u>

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

(10) Related Party Transactions

The City had business transactions between the City and City officials totaling \$464 during the year ended June 30, 2007.

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, 2007

	<u>Governmental Funds Actual</u>	<u>Proprietary Funds Actual</u>	<u>Less Funds Not Required To Be Budgeted</u>
RECEIPTS:			
Property tax	\$ 548,070	\$ -	\$ -
Tax increment financing collections	284,207	-	-
Other city tax	154,150	-	-
Licenses and permits	6,747	-	-
Use of money and property	81,120	20,657	-
Intergovernmental	195,470	-	-
Charges for service	52,051	474,956	-
Special assessments	588	-	-
Miscellaneous	395,172	11,087	4,950
Total receipts	<u>\$ 1,717,575</u>	<u>\$ 506,700</u>	<u>\$ 4,950</u>
DISBURSEMENTS:			
Public safety	\$ 230,440	\$ -	\$ -
Public works	282,887	-	-
Health and social services	1,490	-	-
Culture and recreation	240,473	-	-
Community and economic development	82,676	-	-
General government	155,033	-	-
Debt service	281,474	-	-
Business type activities	-	449,344	500
Total disbursements	<u>\$ 1,274,473</u>	<u>\$ 449,344</u>	<u>\$ 500</u>
Excess (deficiency) of receipts over (under) disbursements	\$ 443,102	\$ 57,356	\$ 4,450
Other financing sources, net	<u>(21,510)</u>	<u>21,510</u>	<u>333</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ 421,592	\$ 78,866	\$ 4,783
Balances beginning of year	<u>1,365,124</u>	<u>799,990</u>	<u>56,983</u>
Balances end of year	<u>\$ 1,786,716</u>	<u>\$ 878,856</u>	<u>\$ 61,766</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>	
\$ 548,070	\$ 522,600	\$ 522,600	\$ 25,470
284,207	275,000	275,000	9,207
154,150	117,172	177,636	(23,486)
6,747	5,125	5,125	1,622
101,777	33,000	69,000	32,777
195,470	195,360	219,175	(23,705)
527,007	553,291	553,291	(26,284)
588	436	436	152
401,309	61,442	324,678	76,631
<u>\$2,219,325</u>	<u>\$1,763,426</u>	<u>\$2,146,941</u>	<u>\$ 72,384</u>
\$ 230,440	\$ 228,926	\$ 244,293	\$ 13,853
282,887	267,378	340,422	57,535
1,490	8,765	8,765	7,275
240,473	220,772	302,372	61,899
82,676	305,000	106,015	23,339
155,033	163,809	184,809	29,776
281,474	270,611	330,611	49,137
448,844	979,296	490,796	41,952
<u>\$1,723,317</u>	<u>\$2,444,557</u>	<u>\$2,008,083</u>	<u>\$ 284,766</u>
\$ 496,008	\$ (681,131)	\$ 138,858	\$ 357,150
<u>(333)</u>	<u>700,000</u>	<u>30,000</u>	<u>(30,333)</u>
\$ 495,675	\$ 18,869	\$ 168,858	\$ 326,817
<u>2,108,131</u>	<u>1,832,771</u>	<u>2,068,746</u>	<u>39,385</u>
<u>\$2,603,806</u>	<u>\$1,851,640</u>	<u>\$2,237,604</u>	<u>\$ 366,202</u>

CITY OF NORTHWOOD, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
JUNE 30, 2007

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 Governmental 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. 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, one budget amendment decreased budgeted disbursements by \$436,474. The budget amendment is reflected in the final budgeted amounts.

Other Supplementary Information

CITY OF NORTHWOOD, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	<u>Special Revenue</u>	
	<u>Employee</u>	<u>Local Option</u>
	<u>Benefits</u>	<u>Sales Tax</u>
		<u>Property</u>
		<u>Tax Relief</u>
RECEIPTS:		
Property tax	\$ 124,389	\$ -
Other city tax	-	77,075
Use of money and property	-	-
Special assessments	-	-
Miscellaneous	-	-
Total receipts	<u>\$ 124,389</u>	<u>\$ 77,075</u>
DISBURSEMENTS:		
Operating:		
Public safety	\$ 55,390	\$ -
Public works	20,602	-
Culture and recreation	20,934	-
Community and economic development	-	-
General government	15,543	-
Total disbursements	<u>\$ 112,469</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 11,920</u>	<u>\$ 77,075</u>
Other financing sources (uses):		
Operating transfers in	\$ -	\$ -
Operating transfers out	-	(51,652)
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ (51,652)</u>
Net change in cash balances	\$ 11,920	\$ 25,423
Cash balances beginning of year	<u>47,086</u>	<u>106,075</u>
Cash balances end of year	<u>\$ 59,006</u>	<u>\$ 131,498</u>
Cash Basis Fund Balances:		
Unreserved:		
Special revenue fund	\$ 59,006	\$ 131,498
Permanent fund	-	-
Total cash basis fund balances	<u>\$ 59,006</u>	<u>\$ 131,498</u>

(Continued)

<u>Winter Lighting</u>	<u>Campground</u>	<u>Housing Assistance Program</u>	<u>Revitalization</u>	<u>Central Avenue Special Assessments</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
32	320	-	-	-
-	-	-	-	333
-	-	8,750	2,358	-
<u>\$ 32</u>	<u>\$ 320</u>	<u>\$ 8,750</u>	<u>\$ 2,358</u>	<u>\$ 333</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
72	-	50,200	24,000	-
-	-	-	-	-
<u>\$ 72</u>	<u>\$ -</u>	<u>\$ 50,200</u>	<u>\$ 24,000</u>	<u>\$ -</u>
<u>\$ (40)</u>	<u>\$ 320</u>	<u>\$ (41,450)</u>	<u>\$ (21,642)</u>	<u>\$ 333</u>
\$ -	\$ -	\$ 39,177	\$ -	\$ -
-	-	(24,870)	(998)	(333)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,307</u>	<u>\$ (998)</u>	<u>\$ (333)</u>
\$ (40)	\$ 320	\$ (27,143)	\$ (22,640)	\$ -
<u>1,059</u>	<u>10,059</u>	<u>34,885</u>	<u>31,854</u>	<u>-</u>
<u>\$ 1,019</u>	<u>\$ 10,379</u>	<u>\$ 7,742</u>	<u>\$ 9,214</u>	<u>\$ -</u>
\$ 1,019	\$ 10,379	\$ 7,742	\$ 9,214	\$ -
-	-	-	-	-
<u>\$ 1,019</u>	<u>\$ 10,379</u>	<u>\$ 7,742</u>	<u>\$ 9,214</u>	<u>\$ -</u>

CITY OF NORTHWOOD, IOWA
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	Permanent	
	Cemetery Perpetual Care	Cemetery Improvement
RECEIPTS:		
Property tax	\$ -	\$ -
Other city tax	-	-
Use of money and property	-	559
Special assessments	-	-
Miscellaneous	1,813	-
Total receipts	\$ 1,813	\$ 559
DISBURSEMENTS:		
Operating:		
Public safety	\$ -	\$ -
Public works	-	-
Culture and recreation	-	-
Community and economic development	-	-
General government	-	-
Total disbursements	\$ -	\$ -
Excess (deficiency) of receipts over (under) disbursements	\$ 1,813	\$ 559
Other financing sources (uses):		
Operating transfers in	\$ -	\$ -
Operating transfers out	-	-
Total other financing sources (uses)	\$ -	\$ -
Net change in cash balances	\$ 1,813	\$ 559
Cash balances beginning of year	96,368	13,731
Cash balances end of year	\$ 98,181	\$ 14,290
Cash Basis Fund Balances:		
Unreserved:		
Special revenue fund	\$ -	\$ -
Permanent fund	98,181	14,290
Total cash basis fund balances	\$ 98,181	\$ 14,290

See Accompanying Independent Auditor's Report.

SCHEDULE 1
(Continued)

<u>Cemetery Beautification</u>	<u>Cemetery Flower Memorial</u>	<u>Library Memorial Trust</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 124,389
-	-	-	77,075
230	523	6	1,670
-	-	-	333
1,132	176	-	14,229
<u>\$ 1,362</u>	<u>\$ 699</u>	<u>\$ 6</u>	<u>\$ 217,696</u>
\$ -	\$ -	\$ -	\$ 55,390
-	-	-	20,602
-	1,133	79	22,146
-	-	-	74,272
-	-	-	15,543
<u>\$ -</u>	<u>\$ 1,133</u>	<u>\$ 79</u>	<u>\$ 187,953</u>
\$ 1,362	\$ (434)	\$ (73)	\$ 29,743
\$ -	\$ -	\$ -	\$ 39,177
-	-	(2,176)	(80,029)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,176)</u>	<u>\$ (40,852)</u>
\$ 1,362	\$ (434)	\$ (2,249)	\$ (11,109)
4,698	11,767	159,994	517,576
<u>\$ 6,060</u>	<u>\$ 11,333</u>	<u>\$ 157,745</u>	<u>\$ 506,467</u>
\$ -	\$ -	\$ -	\$ 218,858
6,060	11,333	157,745	287,609
<u>\$ 6,060</u>	<u>\$ 11,333</u>	<u>\$ 157,745</u>	<u>\$ 506,467</u>

CITY OF NORTHWOOD, IOWA
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
 CHANGES IN CASH BALANCES
 NONMAJOR PROPRIETARY FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	<u>Taxi</u>	<u>Meter Deposit</u>	<u>Total</u>
Operating receipts:			
Charges for service	\$ 22,905	\$ -	\$ 22,905
Miscellaneous	-	4,945	4,945
Total operating receipts	<u>\$ 22,905</u>	<u>\$ 4,945</u>	<u>\$ 27,850</u>
Operating disbursements:			
Business type activities:			
Personal services	\$ 35,894	\$ -	\$ 35,894
Services and commodities	13,152	1,383	14,535
Total operating disbursements	<u>\$ 49,046</u>	<u>\$ 1,383</u>	<u>\$ 50,429</u>
Excess (deficiency) of operating receipts over(under) operating disbursements	\$ (26,141)	\$ 3,562	\$ (22,579)
Other financing sources:			
Operating transfers in	<u>25,761</u>	<u>-</u>	<u>25,761</u>
Net change in cash balances	\$ (380)	\$ 3,562	\$ 3,182
Cash balances beginning of year	<u>14,651</u>	<u>41,773</u>	<u>56,424</u>
Cash balances end of year	<u>\$ 14,271</u>	<u>\$ 45,335</u>	<u>\$ 59,606</u>
Cash Basis Fund Balances:			
Unreserved	<u>\$ 14,271</u>	<u>\$ 45,335</u>	<u>\$ 59,606</u>

See Accompanying Independent Auditor's Report.

CITY OF NORTHWOOD, IOWA
 SCHEDULE OF INDEBTEDNESS
 YEAR ENDED JUNE 30, 2007

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Bonds and Notes:			
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>
\$ 205,000	\$ -	\$ 65,000	\$ 140,000	\$ 8,920	\$ -
<u>1,299,000</u>	<u>-</u>	<u>73,000</u>	<u>1,226,000</u>	<u>45,855</u>	<u>-</u>
<u>\$1,504,000</u>	<u>\$ -</u>	<u>\$ 138,000</u>	<u>\$1,366,000</u>	<u>\$ 54,775</u>	<u>\$ -</u>
\$ 4,116	\$ -	\$ 4,116	\$ -	\$ 134	\$ -
<u>419,587</u>	<u>-</u>	<u>50,030</u>	<u>369,557</u>	<u>33,370</u>	<u>-</u>
<u>\$ 423,703</u>	<u>\$ -</u>	<u>\$ 54,146</u>	<u>\$ 369,557</u>	<u>\$ 33,504</u>	<u>\$ -</u>
<u>\$1,927,703</u>	<u>\$ -</u>	<u>\$ 192,146</u>	<u>\$1,735,557</u>	<u>\$ 88,279</u>	<u>\$ -</u>

CITY OF NORTHWOOD, IOWA
BOND AND NOTE MATURITIES
JUNE 30, 2007

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 Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	
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>\$140,000</u>		<u>\$1,226,000</u>	<u>\$1,366,000</u>

URBAN RENEWAL TAX
INCREMENT REVENUE BONDS

Year Ending June 30,	<u>Woodharbor</u> <u>Issued July 28, 2003</u>	
	<u>Interest Rates</u>	<u>Amount</u>
2008	8.00%	\$ 37,965
2009	8.00	41,063
2010	8.00	44,413
2011	8.00	48,038
2012	8.00	51,957
2013	8.00	56,198
2014	8.00	60,783
2015	8.00	29,140
		<u>\$369,557</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 FIVE YEARS

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Receipts:					
Property tax	\$ 548,070	\$ 504,301	\$ 446,007	\$ 391,226	\$ 359,495
Tax increment financing collections	284,207	288,698	331,514	354,667	457,150
Other city tax	154,150	96,949	103,304	87,758	82,812
Licenses and permits	6,747	5,800	7,800	4,871	3,915
Use of money and property	81,120	51,625	31,626	34,823	34,359
Intergovernmental	195,470	200,687	200,824	439,701	200,486
Charges for service	52,051	54,527	67,011	73,901	69,958
Special assessments	588	2,428	2,298	10,734	11,823
Miscellaneous	395,172	171,404	118,575	53,389	68,979
Total	<u>\$1,717,575</u>	<u>\$1,376,419</u>	<u>\$1,308,959</u>	<u>\$1,451,070</u>	<u>\$1,288,977</u>
Disbursements:					
Operating:					
Public safety	\$ 230,440	\$ 215,760	\$ 213,785	\$ 209,604	\$ 209,801
Public works	282,887	276,193	259,220	186,896	231,643
Health and social services	1,490	18,014	366	-	-
Culture and recreation	240,473	190,528	175,964	186,557	207,464
Community and economic development	82,676	127,399	145,226	983,602	49,104
General government	155,033	169,536	146,082	115,983	122,555
Debt Service	281,474	275,433	336,207	190,141	399,643
Capital projects	-	56,679	-	-	124,105
Total	<u>\$1,274,473</u>	<u>\$1,329,542</u>	<u>\$1,276,850</u>	<u>\$1,872,783</u>	<u>\$1,344,315</u>

See Accompanying Independent Auditor's Report.



Larry Pump, CPA
 117 North Jackson Street
 Charles City, IA 50616

E-mail: rlp@fiai.net

(641) 257-4222

or (641) 228-2812

Fax (641) 228-1513

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

To the Honorable Mayor and
 Members of the City Council:

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, 2007, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued my report thereon dated September 12, 2007. My report expressed unqualified opinions 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 as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of the City of Northwood's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Northwood's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified a deficiency in internal control over financial reporting that I consider to be a material weakness.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Northwood's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Northwood's financial statements that is more than inconsequential will not be prevented or detected by the City of Northwood's internal control. I consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Northwood's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I believe item II-A-07 is a material weakness.

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, 2007 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.

The City of Northwood's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the City's responses, I did not audit the City of Northwood's responses and, accordingly, I express no opinion on them.

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.



September 12, 2007

CITY OF NORTHWOOD, IOWA
Schedule of Findings
Year Ended June 30, 2007

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

- (a) Unqualified opinions were 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) Significant deficiencies in 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.

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-07 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 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-07 Countersignature of Checks - Checks are prepared and signed by one individual.

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.

Response - We will investigate the alternatives.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

CITY OF NORTHWOOD, IOWA
Schedule of Findings
Year Ended June 30, 2007

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-07 Certified Budget - Disbursements during the year ended June 30, 2007 did not exceed the amounts budgeted.

IV-B-07 Questionable Disbursements - No disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-07 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-07 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Randy Severson, Council Member, Co-owner of Northwood Lumber	Supplies	\$ 464

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

IV-E-07 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-F-07 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

IV-G-07 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-H-07 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.