

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

JUNE 30, 2009

- 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 2010
Jane Bloomingdale	Mayor Pro tem	January 2012
Kevin Petznick	Council Member	January 2010
Randy Severson	Council Member	January 2010
John Podgorniak	Council Member	January 2012
Pat Deen	Council Member	January 2012
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, 2009, 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, 2009, 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 22, 2009 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 my 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 five years ended June 30, 2008 (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 22, 2009

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, 2009. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased 6%, or approximately \$104,000 from fiscal 2008 to fiscal 2009. Property tax receipts increased approximately \$48,000 and grants and contributions not restricted to specific purposes increased \$52,000.

Disbursements increased 15%, or approximately \$242,000, in fiscal 2009 from fiscal 2008. Public works disbursements increased approximately \$58,000 and community and economic development disbursements decreased \$58,000.

The City's total cash basis net assets decreased 10%, or approximately \$268,000, from June 30, 2008 to June 30, 2009. Of this amount, the assets of the governmental activities decreased approximately \$107,000 and the assets of the business type activities decreased by approximately \$161,000.

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 and proprietary 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, health and social services, 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 three Enterprise Funds to provide separate information for the water, sewer 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 decreased from a year ago, decreasing from \$1,874,168 to \$1,767,245. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

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

	Year ended June 30,	
	2009	2008
Receipts:		
Program receipts:		
Charges for service	\$ 71	\$ 60
Operating grants, contributions and restricted interest	312	248
Capital grants, contributions and restricted interest	59	-
General receipts:		
Property tax	841	793
Local option sales tax	153	148
Grants and contributions not restricted to specific purposes	220	168
Unrestricted interest on investments	37	70
Other general receipts	82	184
Total receipts	<u>\$1,775</u>	<u>\$1,671</u>
Disbursements:		
Public safety	\$ 311	\$ 283
Public works	370	312
Health and social services	8	6
Culture and recreation	444	452
Community and economic development	170	130
General government	159	134
Debt service	292	295
Capital projects	100	-
Total disbursements	<u>\$1,854</u>	<u>\$1,612</u>
Change in cash basis net assets before transfers	\$ (79)	\$ 59
Transfers, net	<u>(28)</u>	<u>(33)</u>
Change in cash basis net assets	\$ (107)	\$ 26
Cash basis net assets beginning of year	<u>1,874</u>	<u>1,848</u>
Cash basis net assets end of year	<u>\$1,767</u>	<u>\$1,874</u>

The City's total receipts for governmental activities increased by 6%, or approximately \$104,000. The total cost of all programs and services increased approximately \$242,000, or 15%, with no new programs added this year. The increase in disbursements was primarily the result of the retaining wall project in the culture and recreation function.

The cost of all governmental activities this year was approximately \$1,854,000 compared to approximately \$1,612,000 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 \$1,412,871 because some of the cost was paid by those directly benefited from the programs (\$71,361) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$370,100). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$841,000 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,	
	2009	2008
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 186	\$ 180
Sewer	167	156
Other	138	130
General receipts:		
Unrestricted interest on investments	20	23
Other general receipts	18	6
Total receipts	\$ 529	\$ 495
Disbursements:		
Water	\$ 321	\$ 176
Sewer	233	168
Other	163	148
Total disbursements	\$ 717	\$ 492
Change in cash basis net assets before transfers	\$ (188)	\$ 3
Tranfers, net	28	33
Change in cash basis net assets	\$ (160)	\$ 36
Cash basis net assets beginning of year	853	817
Cash basis net assets end of year	\$ 693	\$ 853

Total business type activities receipts for the fiscal year were approximately \$529,000 compared to approximately \$495,000 last year. The cash balance decreased by approximately \$161,000 from the prior year. Total disbursements for the fiscal year increased by 46% to a total of approximately \$717,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Northwood completed the year, its governmental funds reported a combined fund balance of \$1,719,528, a decrease of \$96,836 from last year's total of \$1,816,364. 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 \$77,667 from the prior year to \$705,118. This increase was due to increased casino grant receipts for the fiscal year.

The Road Use Tax Fund cash balance decreased by \$18,225 to \$130,871 during the fiscal year. This decrease was attributable to decreased road use tax funding.

The Urban Renewal Tax Increment Fund cash balance was \$49,828, a decrease of \$67,681 from the previous year. The decrease was the result of reduced tax increment financing receipts. 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 \$22,730 to \$195,705. This is due to the payback of revolving loans by businesses. The balance will be used on future revolving loans to businesses.

The Debt Service Fund cash balance increased \$128 to \$10,231, due to decreased debt service payments.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance decreased by \$102,274 to \$263,772, due primarily to an increase in operating disbursements.

The Sewer Fund cash balance decreased by \$61,443 to \$143,647 due primarily to an increase in operating disbursements.

The Sewer Replacement Fund cash balance increased by \$12,710 to \$157,086 due primarily to a transfer in.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 26, 2009 and resulted in an increase in operating disbursements of \$11,960. The City decreased revenues \$146,592.

The City exceeded the amount budgeted in the Capital Projects Function for the year ended June 30, 2009.

DEBT ADMINISTRATION

At June 30, 2009, the City had approximately \$1,290,000 in bonds and other long-term debt outstanding, compared to approximately \$1,520,000 last year, as shown below.

Outstanding Debt at Year-End
(Expressed in Thousands)

	June 30,	
	2009	2008
General obligation bonds	\$ 1,071	\$ 1,220
Urban renewal tax increment financing revenue bonds	219	300
Total	\$ 1,290	\$ 1,520

No new debt was issued during the year ended June 30, 2009.

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 and tax increment financing debt of \$1,290,000 is significantly below its constitutional debt limit of \$4,561,275.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Northwood's elected and appointed officials and citizens considered many factors when setting the fiscal year 2010 budget, tax rates and fees 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, 627 Central, Northwood, Iowa 50459-1584.

CITY OF NORTHWOOD, IOWA
 STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

	<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	\$ 310,689	\$ 2,084	\$ -	\$ -
Public works	369,727	2,030	182,632	-
Health and social services	8,109	12,679	-	-
Culture and recreation	443,912	54,028	13,525	58,691
Community and economic development	170,782	-	115,252	-
General government	159,063	540	-	-
Debt service	292,050	-	-	-
Capital projects	100,000	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total governmental activities	<u>\$1,854,332</u>	<u>\$ 71,361</u>	<u>\$ 311,409</u>	<u>\$ 58,691</u>
Business type activities:				
Water	\$ 321,532	\$ 185,405	\$ -	\$ -
Sewer	232,633	167,216	-	-
Other	162,605	138,211	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total business type activities	<u>\$ 716,770</u>	<u>\$ 490,832</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u>\$2,571,102</u>	<u>\$ 562,193</u>	<u>\$ 311,409</u>	<u>\$ 58,691</u>

(Continued)

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

Governmental Activities	Business Type Activities	Total
\$ (308,605)	\$ -	\$ (308,605)
(185,065)	-	(185,065)
4,570	-	4,570
(317,668)	-	(317,668)
(55,530)	-	(55,530)
(158,523)	-	(158,523)
(292,050)	-	(292,050)
<u>(100,000)</u>	<u>-</u>	<u>(100,000)</u>
<u>\$ (1,412,871)</u>	<u>\$ -</u>	<u>\$ (1,412,871)</u>
\$ -	\$ (136,127)	\$ (136,127)
-	(65,417)	(65,417)
<u>-</u>	<u>(24,394)</u>	<u>(24,394)</u>
<u>\$ -</u>	<u>\$ (225,938)</u>	<u>\$ (225,938)</u>
<u>\$ (1,412,871)</u>	<u>\$ (225,938)</u>	<u>\$ (1,638,809)</u>

CITY OF NORTHWOOD, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

General Receipts:

Property and other city tax levied for:
 General purposes
 Debt service
 Tax increment financing
Local option sales tax
Grants and contributions not restricted to specific purposes
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>
\$ 560,442	\$ -	\$ 560,442
239,192	-	239,192
41,277	-	41,277
153,892	-	153,892
220,897	-	220,897
36,608	19,691	56,299
81,560	17,723	99,283
<u>(27,920)</u>	<u>27,920</u>	<u>-</u>
<u>\$ 1,305,948</u>	<u>\$ 65,334</u>	<u>\$ 1,371,282</u>
\$ (106,923)	\$ (160,604)	\$ (267,527)
<u>1,874,168</u>	<u>853,272</u>	<u>2,727,440</u>
<u>\$ 1,767,245</u>	<u>\$ 692,668</u>	<u>\$ 2,459,913</u>
\$ 130,871	\$ -	\$ 130,871
49,828	-	49,828
10,231	-	10,231
871,197	-	871,197
<u>705,118</u>	<u>692,668</u>	<u>1,397,786</u>
<u>\$ 1,767,245</u>	<u>\$ 692,668</u>	<u>\$ 2,459,913</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, 2009

		<u>Special Revenue</u>	
	<u>General</u>	<u>Road Use Tax</u>	<u>Urban Renewal Tax Increment</u>
RECEIPTS:			
Property tax	\$ 426,453	\$ -	\$ -
Tax increment financing	-	-	239,192
Other city tax	-	-	-
Use of money and property	38,518	-	-
Licenses and permits	5,555	-	-
Intergovernmental	13,150	182,632	-
Charges for service	59,881	-	-
Miscellaneous	350,960	-	-
Total receipts	<u>\$ 894,517</u>	<u>\$ 182,632</u>	<u>\$ 239,192</u>
DISBURSEMENTS:			
Operating:			
Public safety	\$ 239,851	\$ -	\$ -
Public works	96,338	202,654	10,000
Health and social services	7,936	-	-
Culture and recreation	382,636	-	25,958
Community and economic development	-	-	9,637
General government	143,626	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	<u>\$ 870,387</u>	<u>\$ 202,654</u>	<u>\$ 45,595</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 24,130</u>	<u>\$ (20,022)</u>	<u>\$ 193,597</u>
Other financing sources (uses):			
Operating transfers in	\$ 118,111	\$ 1,797	\$ -
Operating transfers out	(64,574)	-	(261,278)
Total other financing sources (uses)	<u>\$ 53,537</u>	<u>\$ 1,797</u>	<u>\$ (261,278)</u>
Net change in cash balances	\$ 77,667	\$ (18,225)	\$ (67,681)
Cash balances beginning of year	<u>627,451</u>	<u>149,096</u>	<u>117,509</u>
Cash balances end of year	<u>\$ 705,118</u>	<u>\$ 130,871</u>	<u>\$ 49,828</u>
Cash Basis Fund Balances:			
Reserved for debt service	\$ -	\$ -	\$ -
Unreserved:			
General fund	705,118	-	-
Special revenue funds	-	130,871	49,828
Permanent funds	-	-	-
Total cash basis fund balances	<u>\$ 705,118</u>	<u>\$ 130,871</u>	<u>\$ 49,828</u>

See Notes to Financial Statements.

Revolving Loan	Debt Service General Obligation Bonds	Other Nonmajor Governmental Funds	Total
\$ -	\$ 41,277	\$ 133,989	\$ 601,719
-	-	-	239,192
-	-	153,892	153,892
-	-	660	39,178
-	-	-	5,555
-	-	88,027	283,809
-	-	-	59,881
22,730	-	28,500	402,190
\$ 22,730	\$ 41,277	\$ 405,068	\$1,785,416
\$ -	\$ -	\$ 70,838	\$ 310,689
-	-	60,735	369,727
-	-	173	8,109
-	-	35,318	443,912
-	-	161,145	170,782
-	-	15,437	159,063
-	292,050	-	292,050
-	-	100,000	100,000
\$ -	\$ 292,050	\$ 443,646	\$1,854,332
\$ 22,730	\$ (250,773)	\$ (38,578)	\$ (68,916)
\$ -	\$ 250,901	\$ 37,081	\$ 407,890
-	-	(109,958)	(435,810)
\$ -	\$ 250,901	\$ (72,877)	\$ (27,920)
\$ 22,730	\$ 128	\$ (111,455)	\$ (96,836)
172,975	10,103	739,230	1,816,364
\$ 195,705	\$ 10,231	\$ 627,775	\$1,719,528
\$ -	\$ 10,231	\$ -	\$ 10,231
-	-	-	705,118
195,705	-	344,161	720,565
-	-	283,614	283,614
\$ 195,705	\$ 10,231	\$ 627,775	\$1,719,528

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, 2009

Total governmental funds cash balances (page 14) \$1,719,528

*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.

47,717

Cash basis net assets of governmental activities (page 12) \$1,767,245

Net change in cash balances (page 14) \$ (96,836)

*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 in net assets of the Internal Service Fund is reported with governmental activities.

(10,087)

Change in cash basis net assets of governmental activities (page 12) \$ (106,923)

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, 2009

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Sewer Replacement</u>
Operating receipts:			
Charges for service	\$ 185,405	\$ 167,216	\$ -
Miscellaneous	6,000	6,443	-
Total operating receipts	<u>\$ 191,405</u>	<u>\$ 173,659</u>	<u>\$ -</u>
Operating disbursements:			
Governmental activities:			
Public safety	\$ -	\$ -	\$ -
Culture and recreation	-	-	-
General government	-	-	-
Business type activities	321,532	232,633	-
Total operating disbursements	<u>\$ 321,532</u>	<u>\$ 232,633</u>	<u>\$ -</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	\$(130,127)	\$ (58,974)	\$ -
Non-operating receipts:			
Interest on investments	<u>9,756</u>	<u>2,307</u>	<u>5,710</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$(120,371)</u>	<u>\$ (56,667)</u>	<u>\$ 5,710</u>
Other financing sources (uses):			
Operating transfers in	\$ 18,097	\$ 2,224	\$ 7,000
Operating transfers out	<u>-</u>	<u>(7,000)</u>	<u>-</u>
Total other financing Sources (uses)	<u>\$ 18,097</u>	<u>\$ (4,776)</u>	<u>\$ 7,000</u>
Net change in cash balances	\$(102,274)	\$ (61,443)	\$ 12,710
Cash balances beginning of year	<u>366,046</u>	<u>205,090</u>	<u>144,376</u>
Cash balances end of year	<u>\$ 263,772</u>	<u>\$ 143,647</u>	<u>\$ 157,086</u>
Cash Basis Fund Balances			
Unreserved	<u>\$ 263,772</u>	<u>\$ 143,647</u>	<u>\$ 157,086</u>

See Notes to Financial Statements.

<u>Nonmajor Enterprise Funds</u>	<u>Total</u>	<u>Internal Service Fund Employee Health</u>
\$ 138,211	\$ 490,832	\$ -
5,280	17,723	799
<u>\$ 143,491</u>	<u>\$ 508,555</u>	<u>\$ 799</u>
\$ -	\$ -	\$ 4,000
-	-	1,000
-	-	1,000
162,605	716,770	4,886
<u>\$ 162,605</u>	<u>\$ 716,770</u>	<u>\$ 10,886</u>
\$ (19,114)	\$ (208,215)	\$ (10,087)
1,918	19,691	-
<u>\$ (17,196)</u>	<u>\$ (188,524)</u>	<u>\$ (10,087)</u>
\$ 25,696	\$ 53,017	\$ -
(18,097)	(25,097)	-
<u>\$ 7,599</u>	<u>\$ 27,920</u>	<u>\$ -</u>
\$ (9,597)	\$ (160,604)	\$ (10,087)
137,760	853,272	57,804
<u>\$ 128,163</u>	<u>\$ 692,668</u>	<u>\$ 47,717</u>
<u>\$ 128,163</u>	<u>\$ 692,668</u>	<u>\$ 47,717</u>

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(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 North Iowa Area Council of Governments and 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 service.

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, 2009

(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 funds loaned to local businesses.

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, 2009

(1) Summary of Significant Accounting Policies - continued

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

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. During the year ended June 30, 2009, disbursements exceeded the amount budgeted in the capital project function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2009 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, 2009

(3) **Bonds and Notes Payable**

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
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	18,291	7,617	112,291	33,351
2015-2019	520,000	76,635	-	-	520,000	76,635
2020	115,000	4,060	-	-	115,000	4,060
Total	<u>\$1,071,000</u>	<u>\$240,075</u>	<u>\$218,897</u>	<u>\$ 80,611</u>	<u>\$1,289,897</u>	<u>\$320,686</u>

The resolution providing for the issuance of the general obligation notes includes the following provision:

- (a) At the option of the City, bonds due on the Drinking Water Bond issue of June 10, 2000, are subject to redemption and prepayment in inverse numerical order beginning June 1, 2010, 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 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. Total principal and interest remaining on the bonds is \$299,508 payable through 2014. For the current year, principal and interest paid and total TIF receipts were \$98,400 and \$239,192, respectively.

(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.

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(4) **Pension and Retirement Benefits** - continued

Most regular plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% 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 contributions to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$38,467, \$33,078 and \$31,872, respectively, equal to the required contributions for each year.

(5) **Other Postemployment Benefits (OPEB)**

The City implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions during the year ended June 30, 2009.

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 13 active and no retired members in the plan. Participants must be age 55 or older at retirement.

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

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$443 for single coverage and \$1,107 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2009, the City contributed \$150,796 and plan members eligible for benefits contributed nothing to the plan.

(6) **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, 2009, primarily relating to the General Fund, is \$71,864. This liability has been computed based on rates of pay in effect at June 30, 2009.

(7) **Industrial Development Revenue Bonds**

The City has issued a total of \$2,800,000 of multifamily elderly revenue bonds under the provision of Chapter 419 of the Code of Iowa, of which \$2,800,000 is outstanding at June 30, 2009. 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.

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(8) **Economic Development**

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, 2009 was \$7,381.

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, 2009 was \$30,112.

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, 2009 was \$18,000.

On September 13, 2007, the City loaned \$16,000 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 \$190 beginning April 30, 2008. The loan balance at June 30, 2009 was \$14,095.

On October 12, 2007, the City loaned \$8,000 to Jose Mondragon D/B/A Caminos De Michocan. The loan proceeds were to be used for a business in Northwood. The loan is a non-interest bearing loan. Jose Mondragon is obligated to repay the City \$3,000 in annual installments of \$1,500 beginning November 1, 2009. The remaining \$5,000 is forgivable after three years. The loan balance at June 30, 2009 was \$8,000.

On January 6, 2009, the City loaned \$2,756 to Brian and Merilee Campbell D/B/A Soup's Pizzeria and Grill. The loan proceeds were to be used for a business in Northwood. The loan is a non-interest bearing loan. Brian and Merilee Campbell are obligated to repay the City \$1,378 in annual installments of \$459 beginning July 1, 2009. The remaining \$1,378 is forgivable after three years. The loan balance at June 30, 2009 was \$2,756.

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 2009 fiscal year was \$41,836.

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 \$8,699.

(9) **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 have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF NORTHWOOD, IOWA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2009

(10) Related Party Transactions

The City had business transactions between the City and City officials totaling \$21,303 during the year ended June 30, 2009.

(11) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Urban Renewal Tax Increment	\$ 8,153
	Local option sales tax -	
	Property tax relief	77,075
	Local option sales tax -	
	Infrastructure	30,707
	Permanent:	
	Library Memorial	2,176
		<u>\$ 118,111</u>
Special Revenue:		
Housing Assistance Program	General	<u>\$ 29,581</u>
Road Use Tax	General	<u>\$ 1,797</u>
Housing Rehab	General	<u>\$ 7,500</u>
Debt Service:	Special Revenue:	
Debt Service G.O. Bond	Urban Renewal Tax Increment	<u>\$ 250,901</u>
Enterprise:	Enterprise:	
Water	Water Deposit	<u>\$ 18,097</u>
Sewer	Special Revenue:	
	Urban Renewal Tax Increment	<u>\$ 2,224</u>
Sewer Replacement	Enterprise:	
	Sewer	<u>\$ 7,000</u>
Taxi	General	<u>\$ 25,696</u>
Total		<u>\$ 460,907</u>

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

(12) Commitments

At June 30, 2009, the following construction commitments had been made:

<u>Project</u>	<u>Total</u>	<u>Costs</u>
	<u>Contract</u>	<u>Incurred</u>
		<u>To Date</u>
2009 Bridge Project	<u>\$235,175</u>	<u>\$ -</u>

(13) Subsequent Event

On August 11, 2009 the Council approved a garage roof repair in the amount of \$13,750.

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, 2009

	<u>Governmental Funds Actual</u>	<u>Proprietary Funds Actual</u>	<u>Less Funds Not Required To Be Budgeted</u>
RECEIPTS:			
Property tax	\$ 601,719	\$ -	\$ -
Tax increment financing	239,192	-	-
Other city tax	153,892	-	-
Licenses and permits	5,555	-	-
Use of money and property	39,178	19,691	-
Intergovernmental	283,809	-	-
Charges for service	59,881	490,832	-
Special assessments	-	-	-
Miscellaneous	402,190	18,522	799
Total receipts	<u>\$ 1,785,416</u>	<u>\$ 529,045</u>	<u>\$ 799</u>
DISBURSEMENTS:			
Public safety	\$ 310,689	\$ 4,000	\$ 4,000
Public works	369,727	-	-
Health and social services	8,109	-	-
Culture and recreation	443,912	1,000	1,000
Community and economic development	170,782	-	-
General government	159,063	1,000	1,000
Debt service	292,050	-	-
Capital projects	100,000	-	-
Business type activities	-	721,656	4,886
Total disbursements	<u>\$ 1,854,332</u>	<u>\$ 727,656</u>	<u>\$ 10,886</u>
Excess (deficiency) of receipts over (under) disbursements	\$ (68,916)	\$ (198,611)	\$ (10,087)
Other financing sources, net	<u>(27,920)</u>	<u>27,920</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ (96,836)	\$ (170,691)	\$ (10,087)
Balances beginning of year	<u>1,816,364</u>	<u>911,076</u>	<u>57,804</u>
Balances end of year	<u>\$ 1,719,528</u>	<u>\$ 740,385</u>	<u>\$ 47,717</u>

See Accompanying Independent Auditor's Report.

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
\$ 601,719	\$ 579,966	\$ 579,966	\$ 21,753
239,192	250,000	250,000	(10,808)
153,892	169,842	169,842	(15,950)
5,555	4,525	4,525	1,030
58,869	61,000	61,000	(2,131)
283,809	729,640	552,248	(268,439)
550,713	583,297	583,297	(32,584)
-	242	242	(242)
419,913	216,728	247,528	172,385
<u>\$2,313,662</u>	<u>\$2,595,240</u>	<u>\$2,448,648</u>	<u>\$(134,986)</u>
\$ 310,689	\$ 315,919	\$ 320,919	\$ 10,230
369,727	297,580	406,825	37,098
8,109	12,772	17,772	9,663
443,912	539,758	608,747	164,835
170,782	250,440	200,440	29,658
159,063	173,572	197,780	38,717
292,050	262,050	292,050	-
100,000	388,776	-	(100,000)
716,770	673,266	881,560	164,790
<u>\$2,571,102</u>	<u>\$2,914,133</u>	<u>\$2,926,093</u>	<u>\$ 354,991</u>
\$ (257,440)	\$ (318,893)	\$ (477,445)	\$ 220,005
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
\$ (257,440)	\$ (318,893)	\$ (477,445)	\$ 220,005
<u>2,669,636</u>	<u>2,494,196</u>	<u>2,627,985</u>	<u>41,651</u>
<u>\$2,412,196</u>	<u>\$2,175,303</u>	<u>\$2,150,540</u>	<u>\$ 261,656</u>

CITY OF NORTHWOOD, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
JUNE 30, 2009

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 nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$11,960. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements exceeded the amount budgeted in the capital projects function.

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, 2009

	Employee Benefits	Local Option Sales Tax Property Tax Relief
RECEIPTS:		
Property tax	\$ 133,989	\$ -
Other city tax	-	76,946
Use of money and property	-	-
Intergovernmental	-	-
Miscellaneous	-	-
Total receipts	\$ 133,989	\$ 76,946
DISBURSEMENTS:		
Operating:		
Public safety	\$ 70,838	\$ -
Public works	26,213	-
Health and social services	173	-
Culture and recreation	22,420	-
Community and economic development	-	-
General government	15,437	-
Capital projects	-	-
Total disbursements	\$ 135,081	\$ -
Excess (deficiency) of receipts over (under) disbursements	\$ (1,092)	\$ 76,946
Other financing sources (uses):		
Operating transfers in	\$ -	\$ -
Operating transfers out	-	(77,075)
Total other financing sources (uses)	\$ -	\$ (77,075)
Net change in cash balances	\$ (1,092)	\$ (129)
Cash balances beginning of year	68,445	157,444
Cash balances end of year	\$ 67,353	\$ 157,315
Cash Basis Fund Balances:		
Unreserved:		
Special revenue funds	\$ 67,353	\$ 157,315
Permanent fund	-	-
Total cash basis fund balances	\$ 67,353	\$ 157,315

(Continued)

Special Revenue

<u>Local Option Sales Tax Infrastructure</u>	<u>Winter Lighting</u>	<u>Campground</u>	<u>Housing Assistance Program</u>	<u>Revitalization</u>	<u>Housing Rehab</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
76,946	-	-	-	-	-
-	-	42	-	-	-
-	-	-	-	-	88,027
-	-	-	7,858	4,974	14,393
<u>\$ 76,946</u>	<u>\$ -</u>	<u>\$ 42</u>	<u>\$ 7,858</u>	<u>\$ 4,974</u>	<u>\$102,420</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
34,522	-	-	-	-	-
-	-	-	-	-	-
-	-	11,010	-	-	-
7,960	-	-	41,836	8,699	102,650
-	-	-	-	-	-
100,000	-	-	-	-	-
<u>\$ 142,482</u>	<u>\$ -</u>	<u>\$ 11,010</u>	<u>\$ 41,836</u>	<u>\$ 8,699</u>	<u>\$102,650</u>
<u>\$ (65,536)</u>	<u>\$ -</u>	<u>\$ (10,968)</u>	<u>\$ (33,978)</u>	<u>\$ (3,725)</u>	<u>\$ (230)</u>
\$ -	\$ -	\$ -	\$ 29,581	\$ -	\$ 7,500
(30,707)	-	-	-	-	-
<u>\$ (30,707)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,581</u>	<u>\$ -</u>	<u>\$ 7,500</u>
\$ (96,243)	\$ -	\$ (10,968)	\$ (4,397)	\$ (3,725)	\$ 7,270
183,443	526	10,968	9,217	23,402	-
<u>\$ 87,200</u>	<u>\$ 526</u>	<u>\$ -</u>	<u>\$ 4,820</u>	<u>\$ 19,677</u>	<u>\$ 7,270</u>
\$ 87,200	\$ 526	\$ -	\$ 4,820	\$ 19,677	\$ 7,270
-	-	-	-	-	-
<u>\$ 87,200</u>	<u>\$ 526</u>	<u>\$ -</u>	<u>\$ 4,820</u>	<u>\$ 19,677</u>	<u>\$ 7,270</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, 2009

	Permanent	
	Cemetery Perpetual Care	Cemetery Improvement
RECEIPTS:		
Property tax	\$ -	\$ -
Other city tax	-	-
Use of money and property	-	406
Intergovernmental	-	-
Miscellaneous	900	-
Total receipts	\$ 900	\$ 406
DISBURSEMENTS:		
Operating:		
Public safety	\$ -	\$ -
Public works	-	-
Health and social services	-	-
Culture and recreation	-	-
Community and economic development	-	-
General government	-	-
Capital projects	-	-
Total disbursements	\$ -	\$ -
Excess (deficiency) of receipts over (under) disbursements	\$ 900	\$ 406
Other financing sources (uses):		
Operating transfers in	\$ -	\$ -
Operating transfers out	-	-
Total other financing sources (uses)	\$ -	\$ -
Net change in cash balances	\$ 900	\$ 406
Cash balances beginning of year	99,456	14,948
Cash balances end of year	\$ 100,356	\$ 15,354
Cash Basis Fund Balances:		
Unreserved:		
Special revenue funds	\$ -	\$ -
Permanent fund	100,356	15,354
Total cash basis fund balances	\$ 100,356	\$ 15,354

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>
\$ -	\$ -	\$ -	\$ 133,989
-	-	-	153,892
64	145	3	660
-	-	-	88,027
375	-	-	28,500
<u>\$ 439</u>	<u>\$ 145</u>	<u>\$ 3</u>	<u>\$ 405,068</u>
\$ -	\$ -	\$ -	\$ 70,838
-	-	-	60,735
-	-	-	173
-	834	1,054	35,318
-	-	-	161,145
-	-	-	15,437
-	-	-	100,000
<u>\$ -</u>	<u>\$ 834</u>	<u>\$ 1,054</u>	<u>\$ 443,646</u>
<u>\$ 439</u>	<u>\$ (689)</u>	<u>\$ (1,051)</u>	<u>\$ (38,578)</u>
\$ -	\$ -	\$ -	\$ 37,081
-	-	(2,176)	(109,958)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,176)</u>	<u>\$ (72,877)</u>
\$ 439	\$ (689)	\$ (3,227)	\$ (111,455)
3,167	11,146	157,068	739,230
<u>\$ 3,606</u>	<u>\$ 10,457</u>	<u>\$ 153,841</u>	<u>\$ 627,775</u>
\$ -	\$ -	\$ -	\$ 344,161
3,606	10,457	153,841	283,614
<u>\$ 3,606</u>	<u>\$ 10,457</u>	<u>\$ 153,841</u>	<u>\$ 627,775</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, 2009

	<u>Garbage</u>	<u>Taxi</u>	<u>Meter Deposit</u>	<u>Total</u>
Operating receipts:				
Charges for service	\$ 110,644	\$ 27,567	\$ -	\$ 138,211
Miscellaneous	-	-	5,280	5,280
Total operating receipts	<u>\$ 110,644</u>	<u>\$ 27,567</u>	<u>\$ 5,280</u>	<u>\$ 143,491</u>
Operating disbursements:				
Business type activities	<u>110,616</u>	<u>47,667</u>	<u>4,322</u>	<u>162,605</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ 28	\$ (20,100)	\$ 958	\$ (19,114)
Non-operating receipts:				
Interest on investments	<u>1,918</u>	<u>-</u>	<u>-</u>	<u>1,918</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 1,946</u>	<u>\$ (20,100)</u>	<u>\$ 958</u>	<u>\$ (17,196)</u>
Other financing sources (uses):				
Operating transfers in	\$ -	\$ 25,696	\$ -	\$ 25,696
Operating transfers out	<u>-</u>	<u>-</u>	<u>(18,097)</u>	<u>(18,097)</u>
Total other financing sources(uses)	<u>\$ -</u>	<u>\$ 25,696</u>	<u>\$ (18,097)</u>	<u>\$ 7,599</u>
Net change in cash balances	\$ 1,946	\$ 5,596	\$ (17,139)	\$ (9,597)
Cash balances beginning of year	<u>67,956</u>	<u>21,428</u>	<u>48,376</u>	<u>137,760</u>
Cash balances end of year	<u>\$ 69,902</u>	<u>\$ 27,024</u>	<u>\$ 31,237</u>	<u>\$ 128,163</u>
Cash Basis Fund Balances:				
Unreserved	<u>\$ 69,902</u>	<u>\$ 27,024</u>	<u>\$ 31,237</u>	<u>\$ 128,163</u>

See Accompanying Independent Auditor's Report.

CITY OF NORTHWOOD, IOWA
 SCHEDULE OF INDEBTEDNESS
 YEAR ENDED JUNE 30, 2009

<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:			
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>
\$ 70,000	\$ -	\$ 70,000	\$ -	\$ 3,080	\$ -
<u>1,150,000</u>	<u>-</u>	<u>79,000</u>	<u>1,071,000</u>	<u>40,595</u>	<u>-</u>
<u>\$1,220,000</u>	<u>\$ -</u>	<u>\$ 149,000</u>	<u>\$1,071,000</u>	<u>\$ 43,675</u>	<u>\$ -</u>
\$ 300,241	\$ -	\$ 81,344	\$ 218,897	\$ 17,056	\$ -
<u>\$1,520,241</u>	<u>\$ -</u>	<u>\$ 230,344</u>	<u>\$1,289,897</u>	<u>\$ 60,731</u>	<u>\$ -</u>

CITY OF NORTHWOOD, IOWA
 BOND AND NOTE MATURITIES
 JUNE 30, 2009

GENERAL OBLIGATION BONDS AND NOTES

<u>Year Ending June 30,</u>	<u>Drinking Water</u>	
	<u>Issued June 10, 2000</u>	
	<u>Interest</u>	
	<u>Rates</u>	<u>Amount</u>
2010	3.53%	\$ 81,000
2011	3.53	84,000
2012	3.53	87,000
2013	3.53	90,000
2014	3.53	94,000
2015	3.53	97,000
2016	3.53	100,000
2017	3.53	104,000
2018	3.53	108,000
2019	3.53	111,000
2020	3.53	115,000
Total		<u>\$1,071,000</u>

<u>Year Ending June 30,</u>	<u>URBAN RENEWAL TAX INCREMENT REVENUE BONDS</u>	
	<u>Woodharbor</u>	
	<u>Issued July 28, 2003</u>	
	<u>Rates</u>	<u>Amount</u>
2010	8.00%	\$ 44,413
2011	8.00	48,038
2012	8.00	51,957
2013	8.00	56,198
2014	8.00	18,291
		<u>\$ 218,897</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 SIX YEARS

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Receipts:			
Property tax	\$ 601,719	\$ 532,291	\$ 548,070
Tax increment financing collections	239,192	261,044	284,207
Other city tax	153,892	148,842	154,150
Licenses and permits	5,555	4,701	6,747
Use of money and property	39,178	72,070	81,120
Intergovernmental	283,809	211,205	195,470
Charges for service	59,881	54,376	52,051
Special assessments	-	92	588
Miscellaneous	402,190	353,790	395,172
Total	<u>\$1,785,416</u>	<u>\$1,638,411</u>	<u>\$1,717,575</u>
Disbursements:			
Operating:			
Public safety	\$ 310,689	\$ 283,158	\$ 230,440
Public works	369,727	312,772	282,887
Health and social services	8,109	6,626	1,490
Culture and recreation	443,912	452,149	240,473
Community and economic development	170,782	87,495	82,676
General government	159,063	133,933	155,033
Debt Service	292,050	294,816	281,474
Capital projects	100,000	-	-
Total	<u>\$1,854,332</u>	<u>\$1,570,949</u>	<u>\$1,274,473</u>

See Accompanying Independent Auditor's Report.

<u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 504,301	\$ 446,007	\$ 391,226
288,698	331,514	354,667
96,949	103,304	87,758
5,800	7,800	4,871
51,625	31,626	34,823
200,687	200,824	439,701
54,527	67,011	73,901
2,428	2,298	10,734
<u>171,404</u>	<u>118,575</u>	<u>53,389</u>
<u>\$ 1,376,419</u>	<u>\$1,308,959</u>	<u>\$1,451,070</u>
\$ 215,760	\$ 213,785	\$ 209,604
276,193	259,220	186,896
18,014	366	-
190,528	175,964	186,557
127,399	145,226	983,602
169,536	146,082	115,983
275,433	336,207	190,141
<u>56,679</u>	<u>-</u>	<u>-</u>
<u>\$ 1,329,542</u>	<u>\$1,276,850</u>	<u>\$1,872,783</u>



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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 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, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued my report thereon dated September 22, 2009. 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 significant deficiency and 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 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, I believe the significant deficiency described above, item (A), 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 the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 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 22, 2009

CITY OF NORTHWOOD, IOWA
Schedule of Findings
Year Ended June 30, 2009

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

- (A) 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.

- (B) 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 noted.

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget - Disbursements during the year ended June 30, 2009 exceeded the amount budgeted in the capital projects function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable. A portion of the sewer improvements project was paid from the Local Option Sales Tax - Infrastructure Fund. This disbursement is under capital project function but budgeted under the business type function.

Conclusion - Response accepted.

CITY OF NORTHWOOD, IOWA
 Schedule of Findings
 Year Ended June 30, 2009

Other Findings Related to Required Statutory Reporting: - continued

- (2) 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.
- (3) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Randy Severson, Council Member, Co-owner of Northwood Lumber	Supplies	\$14,543
John Podgorniak, Council Member, co-owner of Northwood Anchor	Publications	4,310
Jim Meland, employee, Equipment rental	Rental	2,450

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

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

Response - We will do this.

Conclusion - Response accepted.

- (5) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- (6) Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.
- (7) 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.

CITY OF NORTHWOOD, IOWA
Schedule of Findings
Year Ended June 30, 2009

Other Findings Related to Required Statutory Reporting: - continued

(8) 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.