

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

JUNE 30, 2011

- 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> |
|--------------------|----------------------------|---------------------|
| Randy Severson | Mayor | January 2014 |
| Jane Bloomingdale | Mayor Pro Tem | January 2012 |
| Teresa George | Council Member (Appointed) | January 2012 |
| Gary Nerlien | Council Member (Appointed) | January 2012 |
| Roger Rustad | Council Member | January 2014 |
| Rhonda Taylor | Council Member | January 2014 |
| Pat Deen | Council Member | Resigned |
| John Podgorniak | Council Member | Resigned |
| 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, 2011, 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, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated October 4, 2011 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 the internal control over financial reporting or on 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 27 through 29 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 seven years ended June 30, 2010 (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".

October 4, 2011

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, 2011. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities decreased 34%, or approximately \$897,000 from fiscal year 2010 to fiscal year 2011. Bond proceeds decreased approximately \$893,000.

Disbursements of the City's governmental activities decreased 11%, or approximately \$213,000, in fiscal year 2011 from fiscal year 2010. Capital projects disbursements decreased approximately \$431,000 and public safety disbursements increased approximately \$81,000.

The City's total cash basis net assets decreased 6%, or approximately \$178,000, from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities decreased approximately \$48,000 and the assets of the business type activities decreased by approximately \$130,000.

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 and the City's indebtedness.

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 Funds. 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 the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains several Enterprise Funds, including 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 \$2,444,432 to \$2,396,930. 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, | |
|--|---------------------|---------|
| | 2011 | 2010 |
| Receipts: | | |
| Program receipts: | | |
| Charges for service | \$ 78 | \$ 74 |
| Operating grants, contributions and restricted interest | 445 | 458 |
| General receipts: | | |
| Property tax | 870 | 853 |
| Local option sales tax | 153 | 133 |
| Grants and contributions not restricted to specific purposes | - | 171 |
| Unrestricted interest on investments | 28 | 29 |
| Bond proceeds, net | - | 893 |
| Other general receipts | 175 | 35 |
| Total receipts | \$1,749 | \$2,646 |
| Disbursements: | | |
| Public safety | \$ 350 | \$ 269 |
| Public works | 432 | 363 |
| Health and social services | 15 | 11 |
| Culture and recreation | 285 | 350 |
| Community and economic development | 148 | 151 |
| General government | 209 | 149 |
| Debt service | 304 | 232 |
| Capital projects | 8 | 439 |
| Total disbursements | \$1,751 | \$1,964 |
| Change in cash basis net assets before transfers | \$ (2) | \$ 682 |
| Transfers, net | (45) | (5) |
| Change in cash basis net assets | \$ (47) | \$ 677 |
| Cash basis net assets beginning of year | 2,444 | 1,767 |
| Cash basis net assets end of year | \$2,397 | \$2,444 |

The City's total receipts for governmental activities decreased by 34%, or approximately \$897,000. The total cost of all programs and services decreased approximately \$213,000, or 11%, with no new programs added this year. The significant decrease in receipts was primarily the result of proceeds received from the issuance of general obligation bonds in the previous year. The decrease in disbursements was primarily the result of the bridge construction project in the capital projects function last year.

The cost of all governmental activities this year was approximately \$1,751,000 compared to approximately \$1,964,000 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 \$1,228,738 because some of the cost was paid by those directly benefited from the programs (\$77,939) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$444,703). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2011 from approximately \$2,646,000 to approximately \$1,749,000. The City paid for the remaining "public benefit" portion of governmental activities (\$1,023,000) with taxes (some of which could only be used for certain programs) and other receipts, such as interest and other general receipts.

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

| | Year ended June 30, | |
|--|---------------------|---------|
| | 2011 | 2010 |
| Receipts: | | |
| Program receipts: | | |
| Charges for service: | | |
| Water | \$ 172 | \$ 177 |
| Sewer | 151 | 148 |
| Garbage | 112 | - |
| Other | 34 | 139 |
| General receipts: | | |
| Unrestricted interest on investments | 7 | 12 |
| Other general receipts | - | 11 |
| Total receipts | \$ 476 | \$ 487 |
| Disbursements: | | |
| Water | \$ 324 | \$ 178 |
| Sewer | 161 | 159 |
| Garbage | 119 | - |
| Other | 47 | 161 |
| Total disbursements | \$ 651 | \$ 498 |
| Change in cash basis net assets before transfers | \$ (175) | \$ (11) |
| Tranfers, net | 45 | 5 |
| Change in cash basis net assets | \$ (130) | \$ (6) |
| Cash basis net assets beginning of year | 687 | 693 |
| Cash basis net assets end of year | \$ 557 | \$ 687 |

Total business type activities receipts for the fiscal year were approximately \$476,000 compared to approximately \$487,000 last year. The cash balance decreased by approximately \$130,000 from the prior year. Total disbursements for the fiscal year increased by 31% to a total of approximately \$651,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Northwood completed the year, its governmental funds reported a combined fund balance of \$2,349,346, a decrease of more than \$55,000 from last year's total of \$2,405,234. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance decreased \$76,278 from the prior year to \$862,180. This decrease was due to additional public safety and public works disbursements.

The Special Revenue, Road Use Tax Fund cash balance increased by \$5,609 to \$140,702 during the fiscal year. This increase was attributable to receipts greater than disbursements.

The Special Revenue, Urban Renewal Tax Increment Fund cash balance was \$78,545, a decrease from the previous year. The decrease was the result of making additional principal payments on TIF debt.

The Debt Service, General Obligation Bonds Fund cash balance increased \$308 to \$10,603, due to decreased debt service payments.

The Capital Projects, 2009 GO Bond Fund cash balance did not change during the year ended June 30, 2011. Interest earned on the cash balance was transferred to pay the debt payment during the year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise, Water Fund cash balance decreased by \$133,106 to \$141,645, due primarily to an increase in operating disbursements.

The Enterprise, Sewer Fund cash balance decreased by \$9,174 to \$118,032 due primarily to an increase in operating disbursements.

The Enterprise, Sewer Replacement Fund cash balance increased by \$9,093 to \$177,159 due primarily to a transfer in.

The Enterprise, Garbage Fund cash balance decreased by \$6,282 to \$67,101 due to an increase in operating disbursements.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 24, 2011 and resulted in an increase in disbursements and transfers out of \$455,557. The City increased revenues and other financing sources \$98,254. The City exceeded the amounts budgeted in the health and social services and business type activities prior to amendment.

DEBT ADMINISTRATION

At June 30, 2011, the City had approximately \$1,779,000 in bonds and other long-term debt outstanding, compared to approximately \$2,019,000 last year, as shown below.

Outstanding Debt at Year-End
(Expressed in Thousands)

| | June 30, | |
|---|-----------------|-----------------|
| | 2011 | 2010 |
| General obligation bonds | \$ 1,726 | \$ 1,890 |
| Urban renewal tax increment financing revenue bonds | 53 | 129 |
| Total | <u>\$ 1,779</u> | <u>\$ 2,019</u> |

Debt decreased as a result of scheduled bond payments.

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 \$1,779,313 is significantly below its constitutional debt limit of \$4,695,531.

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 2012 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, 2011

| FUNCTIONS/PROGRAMS: | <u>Disbursements</u> | Program Receipts | | |
|---------------------------------------|----------------------|------------------------------------|--|--|
| | | <u>Charges for Service</u> | <u>Operating Grants, Contributions and Restricted Interest</u> | <u>Capital Grants, Contributions and Restricted Interest</u> |
| Governmental activities: | | | | |
| Public safety | \$ 350,436 | \$ 1,820 | \$ - | \$ - |
| Public works | 431,830 | - | 373,134 | - |
| Health and social services | 15,263 | 12,523 | - | - |
| Culture and recreation | 284,634 | 63,596 | 40,237 | - |
| Community and economic development | 148,524 | - | 31,332 | - |
| General government | 208,819 | - | - | - |
| Debt service | 304,303 | - | - | - |
| Capital projects | <u>7,571</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total governmental activities | <u>\$1,751,380</u> | <u>\$ 77,939</u> | <u>\$ 444,703</u> | <u>\$ -</u> |
| Business type activities: | | | | |
| Water | \$ 323,429 | \$ 171,785 | \$ - | \$ - |
| Sewer | 161,369 | 151,198 | - | - |
| Garbage | 118,939 | 112,290 | - | - |
| Other | <u>47,965</u> | <u>34,058</u> | <u>-</u> | <u>-</u> |
| Total business type activities | <u>\$ 651,702</u> | <u>\$ 469,331</u> | <u>\$ -</u> | <u>\$ -</u> |
| Total | <u>\$2,403,082</u> | <u>\$ 547,270</u> | <u>\$ 444,703</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> |
|------------------------------------|-------------------------------------|-----------------------|
| \$ (348,616) | \$ - | \$ (348,616) |
| (58,696) | - | (58,696) |
| (2,740) | - | (2,740) |
| (180,801) | - | (180,801) |
| (117,192) | - | (117,192) |
| (208,819) | - | (208,819) |
| (304,303) | - | (304,303) |
| <u>(7,571)</u> | <u>-</u> | <u>(7,571)</u> |
| | | |
| <u>\$ (1,228,738)</u> | <u>\$ -</u> | <u>\$ (1,228,738)</u> |
| | | |
| \$ - | \$ (151,644) | \$ (151,644) |
| - | (10,171) | (10,171) |
| - | (6,649) | (6,649) |
| <u>-</u> | <u>(13,907)</u> | <u>(13,907)</u> |
| | | |
| <u>\$ -</u> | <u>\$ (182,371)</u> | <u>\$ (182,371)</u> |
| | | |
| <u>\$ (1,228,738)</u> | <u>\$ (182,371)</u> | <u>\$ (1,411,109)</u> |

CITY OF NORTHWOOD, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

General Receipts and Transfers:

- Property and other city tax levied for:
 - General purposes
 - Debt service
- Tax increment financing
- Local option sales tax
- 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:
 - Nonexpendable:
 - Cemetery perpetual care
 - Expendable:
 - 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> |
|------------------------------------|-------------------------------------|----------------------------|
| \$ 560,136 | \$ - | \$ 560,136 |
| 41,457 | - | 41,457 |
| 268,943 | - | 268,943 |
| 153,190 | - | 153,190 |
| 28,086 | 6,838 | 34,924 |
| 174,681 | - | 174,681 |
| <u>(45,257)</u> | <u>45,257</u> | <u>-</u> |
| <u>\$ 1,181,236</u> | <u>\$ 52,095</u> | <u>\$ 1,233,331</u> |
| \$ (47,502) | \$ (130,276) | \$ (177,778) |
| <u>2,444,432</u> | <u>687,426</u> | <u>3,131,858</u> |
| <u>\$ 2,396,930</u> | <u>\$ 557,150</u> | <u>\$ 2,954,080</u> |
| | | |
| \$ 102,706 | \$ - | \$ 102,706 |
| 140,702 | - | 140,702 |
| 78,545 | - | 78,545 |
| 10,603 | - | 10,603 |
| 1,202,196 | - | 1,202,196 |
| <u>862,178</u> | <u>557,150</u> | <u>1,419,328</u> |
| <u>\$ 2,396,930</u> | <u>\$ 557,150</u> | <u>\$ 2,954,080</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, 2011

| | <u>General</u> | <u>Special Revenue</u> | | <u>Debt Service</u> |
|--|--------------------------|-------------------------|------------------------------------|---------------------------------|
| | | <u>Road Use</u> | <u>Urban Renewal Tax Increment</u> | <u>General Obligation Bonds</u> |
| | | <u>Tax</u> | | |
| RECEIPTS: | | | | |
| Property tax | \$ 393,131 | \$ - | \$ - | \$ 41,457 |
| Tax increment financing | - | - | 268,943 | - |
| Other city tax | - | - | - | - |
| Licenses and permits | 4,620 | - | - | - |
| Use of money and property | 20,862 | - | - | - |
| Intergovernmental | 14,137 | 197,991 | - | - |
| Charges for service | 66,583 | - | - | - |
| Miscellaneous | 370,412 | - | - | - |
| Total receipts | <u>\$ 869,745</u> | <u>\$197,991</u> | <u>\$ 268,943</u> | <u>\$ 41,457</u> |
| DISBURSEMENTS: | | | | |
| Operating: | | | | |
| Public safety | \$ 272,579 | \$ - | \$ - | \$ - |
| Public works | 200,161 | 193,309 | - | - |
| Health and social services | 15,037 | - | - | - |
| Culture and recreation | 258,573 | - | - | - |
| Community and economic development | 38,030 | - | 14,085 | - |
| General government | 195,389 | - | - | - |
| Debt service | - | - | - | 304,303 |
| Capital projects | - | - | - | - |
| Total disbursements | <u>\$ 979,769</u> | <u>\$193,309</u> | <u>\$ 14,085</u> | <u>\$ 304,303</u> |
| Excess (deficiency) of receipts over (under) disbursements | <u>\$ (110,024)</u> | <u>\$ 4,682</u> | <u>\$ 254,858</u> | <u>\$ (262,846)</u> |
| Other financing sources (uses): | | | | |
| Operating transfers in | \$ 127,050 | \$ 927 | \$ - | \$ 263,154 |
| Operating transfers out | (93,304) | - | (262,415) | - |
| Total other financing sources (uses) | <u>\$ 33,746</u> | <u>\$ 927</u> | <u>\$ (262,415)</u> | <u>\$ 263,154</u> |
| Net change in cash balances | \$ (76,278) | \$ 5,609 | \$ (7,557) | \$ 308 |
| Cash balances beginning of year, as restated | <u>938,458</u> | <u>135,093</u> | <u>86,102</u> | <u>10,295</u> |
| Cash balances end of year | <u>\$ 862,180</u> | <u>\$140,702</u> | <u>\$ 78,545</u> | <u>\$ 10,603</u> |
| Cash Basis Fund Balances: | | | | |
| Nonspendable - Cemetery perpetual care | \$ - | \$ - | \$ - | \$ - |
| Restricted for: | | | | |
| Urban renewal purposes | - | - | 78,545 | - |
| Debt service | - | - | - | 10,603 |
| Streets | - | 140,702 | - | - |
| Other purposes | - | - | - | - |
| Assigned for: | | | | |
| Cemetery | 29,196 | - | - | - |
| Library memorial trust | 149,492 | - | - | - |
| Other | 290 | - | - | - |
| Unassigned | <u>683,202</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total cash basis fund balances | <u>\$ 862,180</u> | <u>\$140,702</u> | <u>\$ 78,545</u> | <u>\$ 10,603</u> |

See Notes to Financial Statements.

**Capital
Projects**

| <u>2009</u> | | |
|--------------------------|--------------------------|---------------------------|
| <u>GO Bond</u> | <u>Nonmajor</u> | <u>Total</u> |
| \$ - | \$ 167,005 | \$ 601,593 |
| - | - | 268,943 |
| - | 153,190 | 153,190 |
| - | - | 4,620 |
| 7,224 | - | 28,086 |
| - | 42,226 | 254,354 |
| - | - | 66,583 |
| - | 20,622 | 391,034 |
| <u>\$ 7,224</u> | <u>\$ 383,043</u> | <u>\$1,768,403</u> |
| | | |
| \$ - | \$ 77,857 | \$ 350,436 |
| - | 38,360 | 431,830 |
| - | 226 | 15,263 |
| - | 26,061 | 284,634 |
| - | 96,409 | 148,524 |
| - | 13,430 | 208,819 |
| - | - | 304,303 |
| - | 7,571 | 7,571 |
| <u>\$ -</u> | <u>\$ 259,914</u> | <u>\$1,751,380</u> |
| | | |
| <u>\$ 7,224</u> | <u>\$ 123,129</u> | <u>\$ 17,023</u> |
| | | |
| \$ - | \$ 47,500 | \$ 438,631 |
| <u>(7,224)</u> | <u>(148,599)</u> | <u>(511,542)</u> |
| <u>\$ (7,224)</u> | <u>\$ (101,099)</u> | <u>\$ (72,911)</u> |
| | | |
| \$ - | \$ 22,030 | \$ (55,888) |
| | | |
| <u>535,083</u> | <u>700,203</u> | <u>2,405,234</u> |
| <u>\$ 535,083</u> | <u>\$ 722,233</u> | <u>\$2,349,346</u> |
| | | |
| \$ - | \$ 102,706 | \$ 102,706 |
| - | - | 78,545 |
| - | - | 10,603 |
| - | - | 140,702 |
| 535,083 | 369,586 | 904,669 |
| - | - | 29,196 |
| - | - | 149,492 |
| - | 249,941 | 250,231 |
| - | - | 683,202 |
| <u>\$ 535,083</u> | <u>\$ 722,233</u> | <u>\$2,349,346</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, 2011

Total governmental funds cash balances (page 14) \$2,349,346

*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.

47,584

Cash basis net assets of governmental activities (page 12) \$2,396,930

Net change in cash balances (page 14) \$ (55,888)

*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.

8,386

Change in cash basis net assets of governmental activities (page 12) \$ (47,502)

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, 2011

| | <u>Enterprise</u> | | | |
|---|--------------------------|-------------------------|------------------------------|-------------------------|
| | <u>Water</u> | <u>Sewer</u> | <u>Sewer Replacement</u> | <u>Garbage</u> |
| Operating receipts: | | | | |
| Charges for service | \$ 171,202 | \$151,198 | \$ - | \$112,290 |
| Miscellaneous | 583 | - | - | - |
| Total operating receipts | <u>\$ 171,785</u> | <u>\$151,198</u> | <u>\$ -</u> | <u>\$112,290</u> |
| Operating disbursements: | | | | |
| Governmental activities: | | | | |
| Public safety | \$ - | \$ - | \$ - | \$ - |
| Public works | - | - | - | - |
| General government | - | - | - | - |
| Business type activities | 323,429 | 161,369 | - | 118,939 |
| Total operating disbursements | <u>\$ 323,429</u> | <u>\$161,369</u> | <u>\$ -</u> | <u>\$118,939</u> |
| Excess (deficiency) of operating receipts over (under) operating disbursements | \$(151,644) | \$(10,171) | \$ - | \$ (6,649) |
| Non-operating receipts: | | | | |
| Interest on investments | 3,538 | 2,933 | - | 367 |
| Excess (deficiency) of receipts over (under) disbursements | <u>\$(148,106)</u> | <u>\$ (7,238)</u> | <u>\$ -</u> | <u>\$ (6,282)</u> |
| Other financing sources (uses): | | | | |
| Operating transfers in | \$ 15,000 | \$ 7,157 | \$ 9,093 | \$ - |
| Operating transfers out | - | (9,093) | - | - |
| Total other financing sources (uses) | <u>\$ 15,000</u> | <u>\$ (1,936)</u> | <u>\$ 9,093</u> | <u>\$ -</u> |
| Net change in cash balances | \$(133,106) | \$ (9,174) | \$ 9,093 | \$ (6,282) |
| Cash balances beginning of year | 274,751 | 127,206 | 168,066 | 73,383 |
| Cash balances end of year | <u>\$ 141,645</u> | <u>\$118,032</u> | <u>\$ 177,159</u> | <u>\$ 67,101</u> |
| Cash Basis Fund Balances | | | | |
| Committed for other purposes | \$ - | \$ - | \$ 177,159 | \$ - |
| Unrestricted | 141,645 | 118,032 | - | 67,101 |
| Total cash basis fund balances | <u>\$ 141,645</u> | <u>\$118,032</u> | <u>\$ 177,159</u> | <u>\$ 67,101</u> |

See Notes to Financial Statements.

| Nonmajor | Total | Internal Service Employee Health |
|------------------|-------------------|---|
| \$ 28,458 | \$ 463,148 | \$ - |
| 5,600 | 6,183 | - |
| \$ 34,058 | \$ 469,331 | \$ - |
| | | |
| \$ - | \$ - | \$ 6,496 |
| - | - | 7,775 |
| - | - | 3,591 |
| 47,965 | 651,702 | 1,535 |
| \$ 47,965 | \$ 651,702 | \$ 19,397 |
| | | |
| \$ (13,907) | \$ (182,371) | \$ (19,397) |
| | | |
| - | 6,838 | 129 |
| | | |
| \$ (13,907) | \$ (175,533) | \$ (19,268) |
| | | |
| \$ 23,100 | \$ 54,350 | \$ 27,654 |
| - | (9,093) | - |
| \$ 23,100 | \$ 45,257 | \$ 27,654 |
| | | |
| \$ 9,193 | \$ (130,276) | \$ 8,386 |
| 44,020 | 687,426 | 39,198 |
| \$ 53,213 | \$ 557,150 | \$ 47,584 |
| | | |
| \$ 36,692 | \$ 213,851 | \$ 47,584 |
| 16,521 | 343,299 | - |
| \$ 53,213 | \$ 557,150 | \$ 47,584 |

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(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 the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent, Cemetery Perpetual Care Fund.

Expendable 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.

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(1) Summary of Significant Accounting Policies - continued

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

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

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and proprietary funds are aggregated and reported as nonmajor governmental and proprietary 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 the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

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

The Capital Projects, 2009 GO Bond Fund is used to account for construction on the bridge project.

The City reports the following major proprietary funds:

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

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(1) Summary of Significant Accounting Policies - continued

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

The Enterprise, Garbage Utility Fund accounts for the operation and maintenance of the City's garbage system.

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.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

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. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the Council intends to use for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

**CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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

E. **Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the health and social services and business type functions prior to amending.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2011 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.

(3) **Bonds Payable**

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

| Year Ending June 30, | General Obligation Bonds | | Urban Renewal Tax Increment Revenue Bonds | | Total | |
|----------------------------|-----------------------------|------------------|---|-----------------|--------------------|------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2012 | \$ 167,000 | \$ 54,342 | \$ 51,957 | \$ 2,799 | \$ 218,957 | \$ 57,141 |
| 2013 | 175,000 | 50,071 | 1,356 | 71 | 176,356 | 50,142 |
| 2014 | 179,000 | 45,109 | - | - | 179,000 | 45,109 |
| 2015 | 182,000 | 40,006 | - | - | 182,000 | 40,006 |
| 2016 | 190,000 | 34,286 | - | - | 190,000 | 34,286 |
| 2017-2020 | 833,000 | 72,724 | - | - | 833,000 | 72,724 |
| Total | <u>\$1,726,000</u> | <u>\$296,538</u> | <u>\$ 53,313</u> | <u>\$ 2,870</u> | <u>\$1,779,313</u> | <u>\$299,408</u> |

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

- (a) At the option of the City, bonds due on the Drinking Water Bond issue of June 10, 2000 and Streets & Bridges issue of October 29, 2009, are subject to redemption and prepayment in inverse numerical order beginning June 1, 2010 and June 1, 2017, respectively, and on any interest payment date thereafter, at a price of par plus accrued interest to call date, by giving proper notice.

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(3) **Bonds Payable** - continued

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 \$ 56,183 payable through 2013. For the current year, principal and interest paid and total TIF receipts were \$83,400 and \$268,943, 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.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% 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, 2011, 2010 and 2009 were \$47,718, \$40,297 and \$38,467, respectively, equal to the required contributions for each year.

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

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 benefits are provided through a fully-insured plan with United Healthcare. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

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 \$377 for single coverage and \$1,112 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City contributed \$148,896 and plan members eligible for benefits contributed nothing to the plan.

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, comp time and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable, comp time payable and sick leave payable to employees at June 30, 2011, primarily relating to the General Fund, is as follows:

| <u>Type of Benefit</u> | <u>Amount</u> |
|------------------------|-----------------|
| Vacation | \$34,366 |
| Comp time | 3,226 |
| Sick leave | 45,872 |
| Total | <u>\$83,464</u> |

This liability has been computed based on rates of pay in effect at June 30, 2011.

(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 \$2,600,000 is outstanding at June 30, 2011. 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.

(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, 2011 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 was paid off during the year ended June 30, 2011.

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, 2011 was \$6,665.

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, 2011 was \$14,095.

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(8) **Economic Development** - continued

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 was written off during the year ended June 30, 2011.

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, 2011 was \$459.

On January 17, 2011, the City loaned \$9,871 to Manuel Ramirez, Shawna Seger, and Noe Garduno Flores D/B/A Tequila's Mexican Bar & Grill. The loan proceeds were to be used for a business in Northwood. The loan is a non-interest bearing loan. Tequila's Mexican Bar & Grill is obligated to repay the City \$4,035 in annual installments of \$1,645 beginning January 2014. The remaining \$4,936 is forgivable after three years. The loan balance at June 30, 2011 was \$4,035.

On March 9, 2011, the City loaned \$12,000 to Thomas Capranos D/B/A Northwood Laundromat. The loan proceeds were to be used for a business in Northwood. The loan is a non-interest bearing loan. Thomas Capranos is obligated to repay the City \$7,000 in annual installments of \$1,500 beginning March 10, 2012. The remaining \$5,000 is forgivable after five years. The loan balance at June 30, 2011 was \$7,000.

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 2011 fiscal year was \$23,604.

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 2011 fiscal year was \$38,871.

(9) **Risk Management**

The City 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.

(10) **Related Party Transactions**

The City had business transactions between the City and City officials totaling \$5,654 during the year ended June 30, 2011.

CITY OF NORTHWOOD, IOWA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

(11) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

| <u>Transfer to</u> | <u>Transfer from</u> | <u>Amount</u> |
|-------------------------------|---|-------------------|
| General | Special Revenue: | |
| | Urban Renewal Tax Increment | \$ 11,762 |
| | Local Option Sales Tax - Property Tax Relief | 74,000 |
| | Local Option Sales Tax - Infrastructure | 41,288 |
| | | <u>\$ 127,050</u> |
| Special Revenue: | | |
| Housing Assistance Program | General | \$ 30,000 |
| Revitalization | General | 15,000 |
| Road Use Tax | General | 927 |
| Housing Rehab | General | 2,500 |
| | | <u>\$ 48,427</u> |
| Debt Service: | | |
| General Obligation Bonds | General | \$ 6,777 |
| | Special Revenue: | |
| | Urban Renewal Tax Increment | 249,153 |
| | Capital Projects: | |
| | 2009 GO Bond | 7,224 |
| | | <u>\$ 263,154</u> |
| Enterprise: | | |
| Water | General | <u>\$ 15,000</u> |
| Sewer | Special Revenue: | |
| | Urban Renewal Tax Increment | \$ 1,500 |
| | Local Option Sales Tax - Infrastructure | 5,657 |
| | | <u>\$ 7,157</u> |
| Sewer Replacement | Enterprise: Sewer | <u>\$ 9,093</u> |
| Taxi | General | <u>\$ 23,100</u> |
| Internal Service: | | |
| Employee Health | Special Revenue: Employee Benefits | <u>\$ 27,654</u> |
| Total | | <u>\$ 520,635</u> |

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

CITY OF NORTHWOOD, IOWA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

(12) Subsequent Event

On July 12, 2011 the Council approved the purchase of a new dump truck/plow in the amount of \$135,352, partially funded with a WCDA grant.

(13) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

| | Special Revenue | | | | | |
|--|------------------|--------------------|-------------------------|----------------------------|--------------------------------|------------------------------|
| | General | Winter Lighting | Cemetery Improvement | Cemetery Beautification | Cemetery Flower Memorial | Library Memorial Trust |
| Balances June 30, 2010, as previously reported | \$757,156 | \$ 337 | \$15,701 | \$ 3,946 | \$ 9,651 | \$151,667 |
| Change in fund type classification per implementation of GASB Statement No. 54 | <u>181,302</u> | <u>(337)</u> | <u>(15,701)</u> | <u>(3,946)</u> | <u>(9,651)</u> | <u>(151,667)</u> |
| Balances July 1, 2010, as restated | <u>\$938,458</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

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, 2011

| | Governmental Funds <u>Actual</u> | Proprietary Funds <u>Actual</u> | Less Funds Not Required <u>To Be Budgeted</u> |
|---|--|---------------------------------------|---|
| RECEIPTS: | | | |
| Property tax | \$ 601,593 | \$ - | \$ - |
| Tax increment financing | 268,943 | - | - |
| Other city tax | 153,190 | - | - |
| Licenses and permits | 4,620 | - | - |
| Use of money and property | 28,086 | 6,967 | 129 |
| Intergovernmental | 254,354 | - | - |
| Charges for service | 66,583 | 463,148 | - |
| Miscellaneous | 391,034 | 6,183 | - |
| Total receipts | <u>\$ 1,768,403</u> | <u>\$ 476,298</u> | <u>\$ 129</u> |
| DISBURSEMENTS: | | | |
| Public safety | \$ 350,436 | \$ 6,496 | \$ 6,496 |
| Public works | 431,830 | 7,775 | 7,775 |
| Health and social services | 15,263 | - | - |
| Culture and recreation | 284,634 | - | - |
| Community and economic development | 148,524 | - | - |
| General government | 208,819 | 3,591 | 3,591 |
| Debt service | 304,303 | - | - |
| Capital projects | 7,571 | - | - |
| Business type activities | - | 653,237 | 1,535 |
| Total disbursements | <u>\$ 1,751,380</u> | <u>\$ 671,099</u> | <u>\$ 19,397</u> |
| Excess (deficiency) of receipts over (under) disbursements | \$ 17,023 | \$ (194,801) | \$ (19,268) |
| Other financing sources, net | <u>(72,911)</u> | <u>72,911</u> | <u>27,654</u> |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | \$ (55,888) | \$ (121,890) | \$ 8,386 |
| Balances beginning of year | <u>2,405,234</u> | <u>726,624</u> | <u>39,198</u> |
| Balances end of year | <u>\$ 2,349,346</u> | <u>\$ 604,734</u> | <u>\$ 47,584</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> | |
| \$ 601,593 | \$ 579,762 | \$ 579,762 | \$ 21,831 |
| 268,943 | 275,000 | 275,000 | (6,057) |
| 153,190 | 166,333 | 166,333 | (13,143) |
| 4,620 | 4,275 | 4,275 | 345 |
| 34,924 | 39,000 | 39,000 | (4,076) |
| 254,354 | 598,768 | 638,773 | (384,419) |
| 529,731 | 609,180 | 609,180 | (79,449) |
| 397,217 | 218,985 | 241,785 | 155,432 |
| <u>\$2,244,572</u> | <u>\$2,491,303</u> | <u>\$ 2,554,108</u> | <u>\$ (309,536)</u> |
| | | | |
| \$ 350,436 | \$ 345,952 | \$ 394,627 | \$ 44,191 |
| 431,830 | 429,361 | 598,500 | 166,670 |
| 15,263 | 12,789 | 17,500 | 2,237 |
| 284,634 | 452,953 | 452,953 | 168,319 |
| 148,524 | 285,148 | 295,148 | 146,624 |
| 208,819 | 185,357 | 225,860 | 17,041 |
| 304,303 | 321,802 | 321,802 | 17,499 |
| 7,571 | 535,082 | 535,082 | 527,511 |
| 651,702 | 573,420 | 720,500 | 68,798 |
| <u>\$2,403,082</u> | <u>\$3,141,864</u> | <u>\$ 3,561,972</u> | <u>\$1,158,890</u> |
| | | | |
| \$ (158,510) | \$ (650,561) | (1,007,864) | \$ 849,354 |
| <u>(27,654)</u> | <u>-</u> | <u>-</u> | <u>(27,654)</u> |
| | | | |
| \$ (186,164) | \$ (650,561) | \$(1,007,864) | \$ 821,700 |
| <u>3,092,660</u> | <u>2,760,310</u> | <u>3,030,577</u> | <u>62,083</u> |
| <u>\$2,906,496</u> | <u>\$2,109,749</u> | <u>\$ 2,022,713</u> | <u>\$ 883,783</u> |

CITY OF NORTHWOOD, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
JUNE 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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

Formal and legal budgetary control is based upon 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, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$420,108. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amount budgeted in the health and social services and business type activities functions prior to being amended.

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, 2011

| | Special | | |
|---|------------------|-------------------|-------------|
| | Local Option | | |
| | Sales Tax | | |
| | Employee | Property | I-Jobs |
| | Benefits | Tax Relief | |
| RECEIPTS: | | | |
| Property tax | \$ 167,005 | \$ - | \$ - |
| Other city tax | - | 76,595 | - |
| Intergovernmental | - | - | 10,894 |
| Miscellaneous | - | - | - |
| Total receipts | \$ 167,005 | \$ 76,595 | \$ 10,894 |
| DISBURSEMENTS: | | | |
| Operating: | | | |
| Public safety | \$ 77,857 | \$ - | \$ - |
| Public works | 27,466 | - | 10,894 |
| Health and social services | 226 | - | - |
| Culture and recreation | 26,061 | - | - |
| Community and economic development | - | - | - |
| General government | 13,430 | - | - |
| Capital projects | - | - | - |
| Total disbursements | \$ 145,040 | \$ - | \$ 10,894 |
| Excess (deficiency) of receipts over (under) disbursements | \$ 21,965 | \$ 76,595 | \$ - |
| Other financing sources (uses): | | | |
| Operating transfers in | \$ - | \$ - | \$ - |
| Operating transfers out | (27,654) | (74,000) | - |
| Total other financing sources (uses) | \$ (27,654) | \$ (74,000) | \$ - |
| Net change in cash balances | \$ (5,689) | \$ 2,595 | \$ - |
| Cash balances beginning of year, as restated | 77,650 | 147,746 | - |
| Cash balances end of year | \$ 71,961 | \$ 150,341 | \$ - |
| Cash Basis Fund Balances: | | | |
| Nonspendable - Cemetery perpetual care | \$ - | \$ - | \$ - |
| Restricted for other purposes | 71,961 | 150,341 | - |
| Assigned for: | | | |
| Housing assistance | - | - | - |
| Revitalization | - | - | - |
| Economic development | - | - | - |
| Total cash basis fund balances | \$ 71,961 | \$ 150,341 | \$ - |

See Accompanying Independent Auditor's Report.

| Revenue | | | | | Permanent | |
|---|----------------------------------|--------------------|------------------|-------------------|-------------------------------|---------------------|
| Local Option Sales Tax Infrastructure | Housing Assistance Program | Revitalization | Housing Rehab | Revolving Loan | Cemetery Perpetual Care | Total |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 167,005 |
| 76,595 | - | - | - | - | - | 153,190 |
| - | - | - | 31,332 | - | - | 42,226 |
| - | 1,640 | 1,794 | 2,230 | 13,533 | 1,425 | 20,622 |
| <u>\$ 76,595</u> | <u>\$ 1,640</u> | <u>\$ 1,794</u> | <u>\$ 33,562</u> | <u>\$ 13,533</u> | <u>\$ 1,425</u> | <u>\$ 383,043</u> |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 77,857 |
| - | - | - | - | - | - | 38,360 |
| - | - | - | - | - | - | 226 |
| - | - | - | - | - | - | 26,061 |
| - | 23,604 | 38,973 | 33,832 | - | - | 96,409 |
| - | - | - | - | - | - | 13,430 |
| 7,571 | - | - | - | - | - | 7,571 |
| <u>\$ 7,571</u> | <u>\$ 23,604</u> | <u>\$ 38,973</u> | <u>\$ 33,832</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 259,914</u> |
| <u>\$ 69,024</u> | <u>\$ (21,964)</u> | <u>\$ (37,179)</u> | <u>\$ (270)</u> | <u>\$ 13,533</u> | <u>\$ 1,425</u> | <u>\$ 123,129</u> |
| \$ - | \$ 30,000 | \$ 15,000 | \$ 2,500 | \$ - | \$ - | \$ 47,500 |
| (46,945) | - | - | - | - | - | (148,599) |
| <u>\$ (46,945)</u> | <u>\$ 30,000</u> | <u>\$ 15,000</u> | <u>\$ 2,500</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (101,099)</u> |
| \$ 22,079 | \$ 8,036 | \$ (22,179) | \$ 2,230 | \$ 13,533 | \$ 1,425 | \$ 22,030 |
| 122,975 | 41 | 35,136 | - | 215,374 | 101,281 | 700,203 |
| <u>\$ 145,054</u> | <u>\$ 8,077</u> | <u>\$ 12,957</u> | <u>\$ 2,230</u> | <u>\$ 228,907</u> | <u>\$102,706</u> | <u>\$ 722,233</u> |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$102,706 | \$ 102,706 |
| 145,054 | - | - | 2,230 | - | - | 369,586 |
| - | 8,077 | - | - | - | - | 8,077 |
| - | - | 12,957 | - | - | - | 12,957 |
| - | - | - | - | 228,907 | - | 228,907 |
| <u>\$ 145,054</u> | <u>\$ 8,077</u> | <u>\$ 12,957</u> | <u>\$ 2,230</u> | <u>\$ 228,907</u> | <u>\$102,706</u> | <u>\$ 722,233</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, 2011

| | <u>Enterprise</u> | | |
|--|-------------------------|--------------------------|-------------------------|
| | <u>Taxi</u> | <u>Meter Deposit</u> | <u>Total</u> |
| Operating receipts: | | | |
| Charges for service | \$ 28,458 | \$ - | \$ 28,458 |
| Miscellaneous | - | 5,600 | 5,600 |
| Total operating receipts | <u>\$ 28,458</u> | <u>\$ 5,600</u> | <u>\$ 34,058</u> |
| Operating disbursements: | | | |
| Business type activities | <u>44,802</u> | <u>3,163</u> | <u>47,965</u> |
| Excess (deficiency) of operating receipts over (under) operating disbursements | \$(16,344) | \$ 2,437 | \$(13,907) |
| Operating transfers in | <u>23,100</u> | <u>-</u> | <u>23,100</u> |
| Net change in cash balances | \$ 6,756 | \$ 2,437 | \$ 9,193 |
| Cash balances beginning of year | <u>9,765</u> | <u>34,255</u> | <u>44,020</u> |
| Cash balances end of year | <u>\$ 16,521</u> | <u>\$36,692</u> | <u>\$ 53,213</u> |
| Cash Basis Fund Balances: | | | |
| Unrestricted | \$ 16,521 | \$ - | \$ 16,521 |
| Committed for other purposes | <u>-</u> | <u>36,692</u> | <u>36,692</u> |
| Total cash basis fund balances | <u>\$ 16,521</u> | <u>\$36,692</u> | <u>\$ 53,213</u> |

See Accompanying Independent Auditor's Report.

CITY OF NORTHWOOD, IOWA
 SCHEDULE OF INDEBTEDNESS
 YEAR ENDED JUNE 30, 2011

| <u>Obligation</u> | <u>Date of Issue</u> | <u>Interest Rates</u> | <u>Amount Originally Issued</u> |
|---|--------------------------|-----------------------|---|
| General Obligation Bonds: | | | |
| Streets & Bridges | 10-29-09 | 1.50 - 3.50% | \$ 900,000 |
| 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> |
|--|-----------------------------------|-------------------------------------|------------------------------------|--------------------------|--|
| \$ 900,000 | \$ - | \$ 80,000 | \$ 820,000 | \$ 23,560 | \$ - |
| 990,000 | - | 84,000 | 906,000 | 32,324 | - |
| <u>\$1,890,000</u> | <u>\$ -</u> | <u>\$ 164,000</u> | <u>\$1,726,000</u> | <u>\$ 55,884</u> | <u>\$ -</u> |
| \$ 129,356 | \$ - | \$ 76,043 | \$ 53,313 | \$ 7,357 | \$ - |
| <u>\$2,019,356</u> | <u>\$ -</u> | <u>\$ 240,043</u> | <u>\$1,779,313</u> | <u>\$ 63,241</u> | <u>\$ -</u> |

CITY OF NORTHWOOD, IOWA
 BOND MATURITIES
 JUNE 30, 2011

GENERAL OBLIGATION BONDS

| <u>Year Ending June 30,</u> | <u>Drinking Water</u> | | <u>Streets & Bridges</u> | | <u>Total</u> |
|-------------------------------------|-----------------------------|--------------------------|--------------------------------|--------------------------|---------------------------|
| | <u>Issued June 10, 2000</u> | | <u>Issued October 29, 2009</u> | | |
| | <u>Interest Rates</u> | <u>Amount</u> | <u>Interest Rates</u> | <u>Amount</u> | |
| 2012 | 3.53% | \$ 87,000 | 1.50% | \$ 80,000 | \$ 167,000 |
| 2013 | 3.53 | 90,000 | 2.10 | 85,000 | 175,000 |
| 2014 | 3.53 | 94,000 | 2.10 | 85,000 | 179,000 |
| 2015 | 3.53 | 97,000 | 2.70 | 85,000 | 182,000 |
| 2016 | 3.53 | 100,000 | 2.70 | 90,000 | 190,000 |
| 2017 | 3.53 | 104,000 | 3.10 | 95,000 | 199,000 |
| 2018 | 3.53 | 108,000 | 3.10 | 95,000 | 203,000 |
| 2019 | 3.53 | 111,000 | 3.30 | 100,000 | 211,000 |
| 2020 | 3.53 | 115,000 | 3.50 | 105,000 | 220,000 |
| Total | | <u>\$ 906,000</u> | | <u>\$ 820,000</u> | <u>\$1,726,000</u> |

URBAN RENEWAL TAX
 INCREMENT REVENUE BONDS
 Woodharbor
 Issued July 28, 2003

| <u>Year Ending June 30,</u> | <u>Interest</u> | |
|-------------------------------------|-----------------|-------------------------|
| | <u>Rates</u> | <u>Amount</u> |
| 2012 | 5.25% | \$ 51,957 |
| 2013 | 5.25 | 1,356 |
| | | <u>\$ 53,313</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 EIGHT YEARS**

| | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|---------------------------------------|--------------------|--------------------|--------------------|--------------------|
| Receipts: | | | | |
| Property tax | \$ 601,593 | \$ 606,648 | \$ 601,719 | \$ 532,291 |
| Tax increment financing | 268,943 | 246,761 | 239,192 | 261,044 |
| Other city tax | 153,190 | 132,862 | 153,892 | 148,842 |
| Licenses and permits | 4,620 | 6,110 | 5,555 | 4,701 |
| Use of money and property | 28,086 | 31,674 | 39,178 | 72,070 |
| Intergovernmental | 254,354 | 458,205 | 283,809 | 211,205 |
| Charges for service | 66,583 | 59,726 | 59,881 | 54,376 |
| Special assessments | - | - | - | 92 |
| Miscellaneous | 391,034 | 221,006 | 402,190 | 353,790 |
| | <u>\$1,768,403</u> | <u>\$1,762,992</u> | <u>\$1,785,416</u> | <u>\$1,638,411</u> |
| Total | | | | |
| Disbursements: | | | | |
| Operating: | | | | |
| Public safety | \$ 350,436 | \$ 269,340 | \$ 310,689 | \$ 283,158 |
| Public works | 431,830 | 363,250 | 369,727 | 312,772 |
| Health and social services | 15,263 | 11,285 | 8,109 | 6,626 |
| Culture and recreation | 284,634 | 349,751 | 443,912 | 452,149 |
| Community and economic development | 148,524 | 151,167 | 170,782 | 87,495 |
| General government | 208,819 | 149,034 | 159,063 | 133,933 |
| Debt Service | 304,303 | 231,916 | 292,050 | 294,816 |
| Capital projects | 7,571 | 438,989 | 100,000 | - |
| | <u>\$1,751,380</u> | <u>\$1,964,732</u> | <u>\$1,854,332</u> | <u>\$1,570,949</u> |
| Total | | | | |

See Accompanying Independent Auditor's Report.

| <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|--------------------|--------------------|--------------------|--------------------|
| \$ 548,070 | \$ 504,301 | \$ 446,007 | \$ 391,226 |
| 284,207 | 288,698 | 331,514 | 354,667 |
| 154,150 | 96,949 | 103,304 | 87,758 |
| 6,747 | 5,800 | 7,800 | 4,871 |
| 81,120 | 51,625 | 31,626 | 34,823 |
| 195,470 | 200,687 | 200,824 | 439,701 |
| 52,051 | 54,527 | 67,011 | 73,901 |
| 588 | 2,428 | 2,298 | 10,734 |
| <u>395,172</u> | <u>171,404</u> | <u>118,575</u> | <u>53,389</u> |
| <u>\$1,717,575</u> | <u>\$1,376,419</u> | <u>\$1,308,959</u> | <u>\$1,451,070</u> |
| | | | |
| \$ 230,440 | \$ 215,760 | \$ 213,785 | \$ 209,604 |
| 282,887 | 276,193 | 259,220 | 186,896 |
| 1,490 | 18,014 | 366 | - |
| 240,473 | 190,528 | 175,964 | 186,557 |
| | | | |
| 82,676 | 127,399 | 145,226 | 983,602 |
| 155,033 | 169,536 | 146,082 | 115,983 |
| 281,474 | 275,433 | 336,207 | 190,141 |
| <u>-</u> | <u>56,679</u> | <u>-</u> | <u>-</u> |
| <u>\$1,274,473</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, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued my report thereon dated October 4, 2011. 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 an 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses and other deficiencies I consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Northwood's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying Schedule of Findings as items A, B and C to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. There are no deficiencies described in the accompanying Schedule of Findings that I consider to be significant deficiencies.

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 which 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, 2011 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, and is not intended to be and should not be used by anyone other than these specified parties.

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



October 4, 2011

CITY OF NORTHWOOD, IOWA
Schedule of Findings
Year Ended June 30, 2011

Findings Related to the Financial Statements:

INTERNAL CONTROL 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.

- (C) Preparation of Financial Statements - The City does not have an internal control system designed to provide for the preparation of the financial statements in accordance with an other comprehensive basis of accounting, nor has management identified risks related to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements. Therefore, as an auditor, I was requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual for a governmental entity similar in population to the City. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation - I recognize that with a limited number of office employees, preparation of the financial statements is difficult. However, I recommend that City officials continue reviewing operating procedures in order to obtain the maximum internal control possible under the circumstances.

Response - The City will continue to review and monitor procedures currently in place and evaluate the risks to be accepted in preparation of the financial statements.

CITY OF NORTHWOOD, IOWA
Schedule of Findings
Year Ended June 30, 2011

Findings Related to the Financial Statements: - continued

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, 2011 exceeded the amount budgeted in the health and social services and business type functions prior to amendment. 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 prior to disbursements exceeding the budget in the future.

Conclusion - Response accepted.

- (2) Questionable Disbursements - I noted certain disbursements I believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

| <u>Paid to</u> | <u>Purpose</u> | <u>Amount</u> |
|-----------------------|--|---------------|
| Village Florist | Flower arrangements for gifts/memorials | \$ 27 |
| Flower Zone by Connie | Flower arrangements for gifts/memorials | 55 |

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation - The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response - We will investigate this further.

Conclusion - Response accepted.

- (3) Economic Development Payment - The City disbursed funds to a private company during a previous year which were questioned by a citizen. The disbursement has been reviewed by the State Ombudsman. While the City may have intended the payment to be for economic development within the City, the Ombudsman determined that the public purpose of the disbursement was not properly documented.

CITY OF NORTHWOOD, IOWA
Schedule of Findings
Year Ended June 30, 2011

Other Findings Related to Required Statutory Reporting: - continued

Recommendation - The City should properly evaluate and determine the public purpose to be served prior to making disbursements as provided by Iowa Code section 15A.1(2).

Response - We will follow procedures for evaluating and documenting the public purpose of City disbursements.

Conclusion - Response accepted.

- (4) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) 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, Mayor, Co-owner of Northwood Lumber | Supplies | \$ 1,748 |
| John Podgorniak, Council Member, Co-owner of Northwood Anchor | Publications | 781 |
| Jim Meland, Employee, Equipment Rental | Rental | 3,125 |

In accordance with Chapter 362.5 (3)(k) of the Code of Iowa, the transactions with Randy Severson and John Pdgorniak do not appear to represent a conflict of interest since total transactions were less than \$2,500 during the fiscal year. The transaction with Jim Meland 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.

- (6) 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.
- (7) Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.
- (8) 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, 2011

Other Findings Related to Required Statutory Reporting: - continued

(9) 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.