



**OFFICE OF AUDITOR OF STATE**  
STATE OF IOWA

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Mary Mosiman, CPA  
Auditor of State

NEWS RELEASE

FOR RELEASE

May 20, 2013

Contact: Andy Nielsen  
515/281-5834

The Office of Auditor of State today released an audit report on the City of Inwood, Iowa.

The City's receipts totaled \$2,645,042 for the year ended June 30, 2012. The receipts included \$267,094 in property tax, \$21,623 from tax increment financing, \$371,795 from charges for service, \$146,181 from operating grants, contributions and restricted interest, \$7,744 from capital grants, contributions and restricted interest, \$90,064 from local option sales tax, \$1,361 from unrestricted interest on investments, \$1,385,010 from loan proceeds and \$354,170 from other general receipts.

Disbursements for the year totaled \$2,351,159, and included \$154,179 for culture and recreation, \$133,628 for public works and \$98,107 for debt service. Also, disbursements for business type activities totaled \$1,761,933.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1221-0571-B00F.pdf>.

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**CITY OF INWOOD**

**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**SUPPLEMENTARY AND OTHER INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2012**

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**City of Inwood**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Before January 2012</b>		
Dan Moen	Mayor	Jan 2012
Joe Lloyd	Mayor Pro tem	Jan 2012
George Ahrendt	Council Member	Jan 2012
Kyle Knobloch	Council Member	Jan 2014
Shirley Kollis	Council Member	Jan 2014
Mark Timmerman	Council Member	Jan 2014
Carol Vander Kolk	City Clerk	Indefinite
Paul Kippley	City Attorney	Indefinite
<b>After January 2012</b>		
Dan Moen	Mayor	Jan 2016
Joe Lloyd	Mayor Pro tem	Jan 2016
Kyle Knobloch	Council Member	Jan 2014
Shirley Kollis	Council Member	Jan 2014
Mark Timmerman	Council Member	Jan 2014
Tim Altena	Council Member	Jan 2016
Carol Vander Kolk	City Clerk	Indefinite
Paul Kippley	City Attorney	Indefinite

**City of Inwood**



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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Inwood, Iowa, as of and for the year ended June 30, 2012, 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 Inwood's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our 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 we 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. We believe our audit provides a reasonable basis for our 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. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2011.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2011, as discussed in the preceding paragraph, 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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Inwood as of June 30, 2012, 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, we have also issued our report dated April 29, 2013 on our consideration of the City of Inwood's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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 our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Inwood's basic financial statements. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2011, as discussed in the third paragraph, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Inwood's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 12 and 30 through 32 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

April 29, 2013

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The City of Inwood 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, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

### **2012 FINANCIAL HIGHLIGHTS**

- The cash basis net assets of the City's governmental activities increased approximately \$409,700 during the fiscal year, primarily due to donations to be used for the future construction of a new pool and a new operating grant from the Lyon County Riverboat Foundation.
- The cash basis net assets of the City's business type activities decreased approximately \$115,400 during the fiscal year, due primarily due to redemption of sewer construction anticipatory warrants in fiscal year 2012.

### **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 financial 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.

Other Information further explains and supports the financial statements with a comparison to the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental 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 that 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 water and sewer systems. These activities are financed primarily by user fees.

### *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, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

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

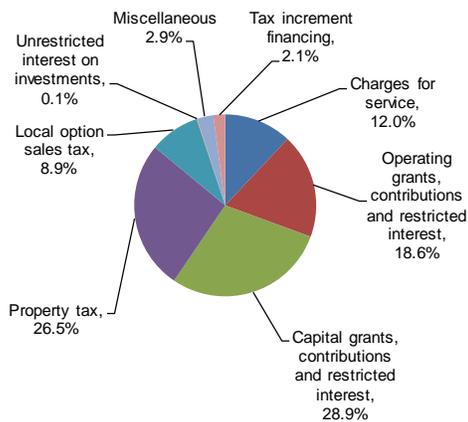
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

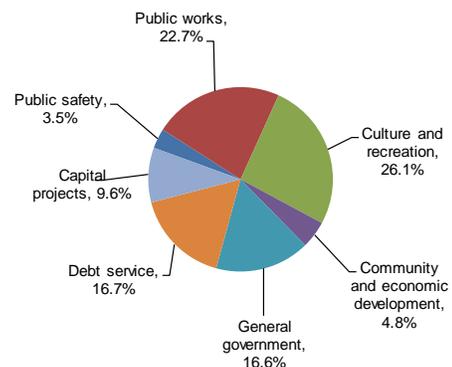
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$409,683 to \$870,127, primarily due to donations to be used for future construction of a new pool. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2012
Receipts:	
Program receipts:	
Charges for service	\$ 121,257
Operating grants, contributions and restricted interest	188,161
Capital grants, contributions and restricted interest	290,495
General receipts:	
Property tax	267,094
Tax increment financing	21,623
Local option sales tax	90,064
Unrestricted interest on investments	1,361
Miscellaneous	29,429
<b>Total receipts</b>	<b>1,009,484</b>
Disbursements:	
Public safety	20,563
Public works	133,628
Culture and recreation	154,179
Community and economic development	28,094
General government	97,839
Debt service	98,107
Capital projects	56,816
<b>Total disbursements</b>	<b>589,226</b>
Change in cash basis net assets before transfers	420,258
Transfers, net	(10,575)
<b>Change in cash basis net assets</b>	<b>409,683</b>
Cash basis net assets beginning of year	460,444
<b>Cash basis net assets end of year</b>	<b>\$ 870,127</b>

Receipts by Source



Disbursements by Function



The cash basis net assets of the City's governmental funds increased 89%, or approximately \$410,000, primarily due to donations of \$282,750 received to be used for future construction of a new pool, a much greater amount than the previous year. The City also received \$51,277 from the Lyon County Riverboat Foundation and \$41,980 from the Violet Bahnson Memorial, two new receipt sources.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2012
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 89,663
Sewer	160,875
General receipts:	
Loan proceeds	1,385,010
Other general receipts	10
Total receipts	<u>1,635,558</u>
Disbursements :	
Water	107,962
Sewer	1,653,971
Total disbursements	<u>1,761,933</u>
Change in cash basis net assets before transfers	(126,375)
Transfers, net	10,990
Change in cash basis net assets	<u>(115,385)</u>
Cash basis net assets beginning of year	<u>(63,771)</u>
Cash basis net assets end of year	<u><u>\$ (179,156)</u></u>

Total business type activities cash basis net assets decreased \$115,385 from a year ago, from (\$63,771) to (\$179,156). The overall decrease is primarily due to the payment of \$1,273,798, plus \$261,508 of interest on the anticipatory warrants, for sewer construction, offset by the \$1,385,010 of loan proceeds used to pay the warrants and interest.

### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Inwood completed the year, its governmental funds reported a combined fund balance of \$870,127, an increase of \$409,683 above last year's total of \$460,444. 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 \$350,865 over the prior year to \$612,491. This increase is due primarily to an increase in receipts to be used for future construction of a new pool and two new receipt sources from the Lyon County Riverboat Foundation and the Violet Bahnson Memorial.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$41,679 due to disbursements and transfers out exceeding receipts for the fiscal year.
- The Debt Service Fund cash balance increased \$869 to \$39,514 during the fiscal year.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Enterprise, Water Fund cash balance decreased \$7,299 to a year-end balance of (\$41,698).
- The Enterprise, Sewer Fund cash balance decreased \$108,086 to a year-end balance of (\$137,458), primarily due to the redemption of anticipatory warrant principal and interest offset by loan proceeds.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once. The amendment was approved on June 4, 2012 and resulted in an increase in disbursements for culture and recreation, community and economic development, general government, capital projects and business type activities. Increases in receipts were in other city tax, miscellaneous and other financing sources.

The City’s receipts were \$314,139 more than budgeted. This was primarily due to the City receiving more miscellaneous and intergovernmental receipts than was budgeted.

Total disbursements were \$62,061 less than budgeted. This was primarily due to the City having less expenses for public works and capital projects than expected.

The City exceeded the amount budgeted in the debt services function for the year ended June 30, 2012 due to an extra payment on a general obligation capital loan note not budgeted.

**DEBT ADMINISTRATION**

At June 30, 2012, the City had \$1,785,000 of notes and other long-term debt outstanding, compared to approximately \$1,817,000 last year, as shown below:

	Outstanding Debt at Year-End	
	June 30,	
	2012	2011
General obligation capital loan notes:		
Series 2002	35	70
Series 2004	101	155
Revenue capital loan notes:		
Series 2001	278	304
Series 2010	1,371	14
Sewer construction anticipatory warrants	-	1,274
Total	\$ 1,785	1,817

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation debt is \$136,000, which is significantly below its constitutional debt limit of approximately \$1,075,167.

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES**

The City of Inwood’s elected and appointed officials and citizens considered many factors when setting the fiscal year 2013 budget, tax rates and fees charged for various City activities. The City’s fiscal year 2013 assessed taxable valuation has increased \$442,268 from the fiscal year 2012 level.

The fiscal year 2013 budget contains total receipts of \$961,214 and disbursements of \$806,487. This budget is significantly less than the fiscal year 2012 final budget with total receipts of \$2,351,893 and disbursements of \$2,413,220. The large decrease is due the loan proceeds of \$1,385,010 received in fiscal year 2012. The City does not plan on having similar receipts in fiscal year 2013. The large decrease in disbursements is due to \$1,273,798 of anticipatory warrants for sewer construction redeemed in fiscal year 2012 and interest paid of \$261,508. No large payments of this amount are expected in fiscal year 2013.

The fiscal year 2013 property tax levy is \$12.76732 per \$1,000 of taxable valuation, a decrease from \$13.01980 per \$1,000 of taxable valuation for fiscal year 2012.

These parameters were taken into account when adopting the budget for fiscal year 2013.

### **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 Carol Vander Kolk, City Clerk, 103 S. Main St., Inwood, Iowa 51240.

## **Basic Financial Statements**

City of Inwood

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2012

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
<b>Primary Government</b>				
Governmental activities:				
Public safety	\$ 20,563	10	-	-
Public works	133,628	85,545	77,209	-
Culture and recreation	154,179	34,987	59,675	-
Community and economic development	28,094	-	-	-
General government	97,839	715	51,277	-
Debt service	98,107	-	-	-
Capital projects	56,816	-	-	290,495
Total governmental activities	589,226	121,257	188,161	290,495
Business type activities:				
Water	107,962	89,663	-	-
Sewer	1,653,971	160,875	-	-
Total business type activities	1,761,933	250,538	-	-
<b>Total Primary Government</b>	<b>\$ 2,351,159</b>	<b>371,795</b>	<b>188,161</b>	<b>290,495</b>
<b>Component Unit</b>				
Inwood Community Fire and Rescue, Inc.	\$ 79,201	26,214	46,328	-
<b>General Receipts and Transfers:</b>				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Loan proceeds				
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				
<b>Cash Basis Net Assets</b>				
Restricted:				
Expendable:				
Streets				
Pool				
Debt service				
Tax increment financing				
Local option sales tax				
Fire department donations				
Unrestricted				
<b>Total cash basis net assets</b>				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets				
Primary Government				Component Unit
Governmental Activities	Business Type Activities	Total		
(20,553)	-	(20,553)		
29,126	-	29,126		
(59,517)	-	(59,517)		
(28,094)	-	(28,094)		
(45,847)	-	(45,847)		
(98,107)	-	(98,107)		
233,679	-	233,679		
10,687	-	10,687		
-	(18,299)	(18,299)		
-	(1,493,096)	(1,493,096)		
-	(1,511,395)	(1,511,395)		
10,687	(1,511,395)	(1,500,708)		
				(6,659)
187,118	-	187,118		-
79,976	-	79,976		-
21,623	-	21,623		-
90,064	-	90,064		-
1,361	-	1,361		8
-	1,385,010	1,385,010		-
29,429	10	29,439		-
(10,575)	10,990	415		(415)
398,996	1,396,010	1,795,006		(407)
409,683	(115,385)	294,298		(7,066)
460,444	(63,771)	396,673		20,564
\$ 870,127	(179,156)	690,971		13,498
\$ 60,040	-	60,040		-
356,723	-	356,723		-
39,514	15,579	55,093		-
80,913	-	80,913		-
77,169	-	77,169		-
-	-	-		13,498
255,768	(194,735)	61,033		-
\$ 870,127	(179,156)	690,971		13,498

City of Inwood

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds

As of and for the year ended June 30, 2012

	<u>Special</u>		
	General	<u>Revenue</u> Road Use Tax	Debt Service
<b>Receipts:</b>			
Property tax	\$ 164,882	-	79,976
Tax increment financing	-	-	-
Other city tax	-	-	-
Licenses and permits	725	-	-
Use of money and property	1,490	-	-
Intergovernmental	17,696	77,209	-
Charges for service	120,402	-	-
Special assessments	7,744	-	-
Miscellaneous	405,437	-	-
Total receipts	<u>718,376</u>	<u>77,209</u>	<u>79,976</u>
<b>Disbursements:</b>			
Operating:			
Public safety	20,563	-	-
Public works	73,140	60,488	-
Culture and recreation	154,179	-	-
Community and economic development	-	-	-
General government	62,238	-	-
Debt service	-	-	79,107
Capital projects	56,816	-	-
Total disbursements	<u>366,936</u>	<u>60,488</u>	<u>79,107</u>
Excess of receipts over disbursements	351,440	16,721	869
<b>Other financing sources (uses):</b>			
Operating transfers in	10,000	-	-
Operating transfers out	(10,575)	(58,400)	-
Total other financing sources (uses)	<u>(575)</u>	<u>(58,400)</u>	<u>-</u>
Change in cash balances	350,865	(41,679)	869
Cash balances beginning of year	261,626	101,719	38,645
Cash balances end of year	<u>\$ 612,491</u>	<u>60,040</u>	<u>39,514</u>
<b>Cash Basis Fund Balances</b>			
Restricted for:			
Streets	\$ -	60,040	-
Pool	356,723	-	-
Debt service	-	-	39,514
Tax increment financing	-	-	-
Local option sales tax	-	-	-
Unassigned	255,768	-	-
Total cash basis fund balances	<u>\$ 612,491</u>	<u>60,040</u>	<u>39,514</u>

See notes to financial statements.

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Nonmajor	Total
22,236	267,094
21,623	21,623
90,064	90,064
-	725
-	1,490
-	94,905
-	120,402
-	7,744
-	405,437
<u>133,923</u>	<u>1,009,484</u>

-	20,563
-	133,628
-	154,179
28,094	28,094
35,601	97,839
19,000	98,107
-	56,816
<u>82,695</u>	<u>589,226</u>
<u>51,228</u>	<u>420,258</u>

281,765	291,765
(233,365)	(302,340)
<u>48,400</u>	<u>(10,575)</u>
99,628	409,683
<u>58,454</u>	<u>460,444</u>
<u>158,082</u>	<u>870,127</u>

-	60,040
-	356,723
-	39,514
80,913	80,913
77,169	77,169
-	255,768
<u>158,082</u>	<u>870,127</u>

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**City of Inwood**

City of Inwood

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2012

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 89,663	160,875	250,538
Operating disbursements:			
Business type activities	107,962	31,824	139,786
Excess (deficiency) of operating receipts over (under) operating disbursements	(18,299)	129,051	110,752
Non-operating receipts (disbursements):			
Loan proceeds	-	1,385,010	1,385,010
Miscellaneous	10	-	10
Debt service	-	(1,622,147)	(1,622,147)
Total non-operating receipts (disbursements)	10	(237,137)	(237,127)
Change in cash balances before transfers	(18,289)	(108,086)	(126,375)
Transfers in	10,990	-	10,990
Change in cash balances	(7,299)	(108,086)	(115,385)
Cash balances beginning of year	(34,399)	(29,372)	(63,771)
Cash balances end of year	\$ (41,698)	(137,458)	(179,156)
<b>Cash Basis Fund Balances</b>			
Restricted for debt service	\$ -	15,579	15,579
Unrestricted	(41,698)	(153,037)	(194,735)
Total cash basis fund balances	\$ (41,698)	(137,458)	(179,156)

See notes to financial statements.

City of Inwood

Notes to Financial Statements

June 30, 2012

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

The City of Inwood is a political subdivision of the State of Iowa located in Lyon County. It was first incorporated in 1884 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, 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 Inwood 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.

These financial statements present the City of Inwood (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Unit

Inwood Community Fire and Rescue, Inc. has been incorporated under the provisions of the Iowa Nonprofit Corporation Act for the purpose of providing fire and rescue protection. The City has provided significant debt financing to Inwood Community Fire and Rescue, Inc. In accordance with criteria set by the Governmental Accounting Standards Board, Inwood Community Fire and Rescue, Inc. meets the definition of a component unit which should be discretely presented.

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 following boards and commissions: Lyon County Economic Development, Lyon County Assessor's Conference Board, Lyon County Emergency Management Commission and Lyon County Joint E911 Services 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 receipts, 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:

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.

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.

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 from general and emergency levies 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.

The Special Revenue, 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 Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

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.

C. Measurement Focus and 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.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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 and 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:

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.

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amount budgeted in the debt service function. Also during the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the culture and recreation, community and economic development, general government and business type activities functions prior to a budget amendment being adopted.

**(2) Cash and Pooled Investments**

The City's and its component unit's deposits in banks at June 30, 2012 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 and its component unit are 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.

The City and its component unit had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by No. 40.

**(3) Long-Term Debt**

Annual debt service requirements to maturity for general obligation and sewer revenue capital loan notes are as follows:

Year Ending June 30,	Capital Loan Notes				Total		
	General Obligation		Sewer Revenue		Principal	Interest	Total
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2013	\$ 56,000	2,366	56,000	49,470	112,000	51,836	163,836
2014	40,000	2,273	58,000	47,790	98,000	50,063	148,063
2015	40,000	2,640	60,000	46,050	100,000	48,690	148,690
2016	-	-	62,000	44,250	62,000	44,250	106,250
2017	-	-	64,000	42,390	64,000	42,390	106,390
2018-2022	-	-	316,000	182,020	316,000	182,020	498,020
2023-2027	-	-	214,000	142,560	214,000	142,560	356,560
2028-2032	-	-	252,000	108,240	252,000	108,240	360,240
2033-2037	-	-	295,000	67,950	295,000	67,950	362,950
2038-2042	-	-	272,000	20,700	272,000	20,700	292,700
Total	\$ 136,000	7,279	1,649,000	751,420	1,785,000	758,699	2,543,699

The Code of Iowa requires principal and interest on general obligation notes be paid from the Debt Service Fund. However, \$19,000 of general obligation note principal was paid from the Capital Projects Fund during the year ended June 30, 2012.

Sewer Revenue Capital Loan Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,928,000 of sewer revenue capital loan notes issued in October 2001 and January 2010. Proceeds from the notes provided financing for the construction of improvements to the sewer system. The notes are payable solely from sewer customer net receipts and are payable through 2041. Annual principal and interest payments on the notes are expected to require less than 65% of net receipts. The total principal and interest remaining to be paid on the notes is \$2,400,420. For the current year, principal and interest paid and total customer net receipts were \$82,584 and \$129,051, respectively.

The resolutions providing for the issuance of sewer revenue capital loan notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) All income and revenues shall be deposited in the sewer revenue account. Money in the revenue account shall be deposited in a separate operation and maintenance account to pay current expenses.
- (c) Sufficient monthly transfers shall be made to a sewer revenue sinking account for the purpose of making the note principal and interest payments when due.
- (d) Additional monthly transfers shall be made to a sewer revenue reserve account until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying, at maturity, principal or interest on the notes when insufficient money shall be available in the sinking account.
- (e) Sewer user rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the average annual installments of principal and interest on the notes falling due in the same year.

**(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 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2012 was \$18,996, equal to the required contribution for the year.

**(5) Compensated Absences**

City employees accumulate earned but unused vacation 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 to employees at June 30, 2012, primarily relating to the General Fund, is \$44,000.

This liability has been computed based on rates of pay in effect at June 30, 2012.

**(6) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Local Option Sales Tax	\$ 20,000
Special Revenue: Employee Benefits	Special Revenue Local Option Sales Tax	13,365
Capital Projects	Special Revenue Local Option Sales Tax Road Use Tax	200,000 58,400
Enterprise: Water	Component Unit: Inwood Community Fire and Rescue , Inc.	10,990
Component Unit: Inwood Community Fire and Rescue, Inc.	General	10,575
Total		<u>\$ 313,330</u>

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

**(7) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$1,633,505 during the year ended June 30, 2012.

**(8) Risk Management**

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 663 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150% of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2012 were \$12,453.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

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

The City also carries commercial insurance purchased from another insurer for coverage associated with workers compensation in the amount of \$1,000,000. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) Deficit Balances**

The Enterprise, Water and Sewer Funds had deficit balances of \$41,698 and \$137,458, respectively, at June 30, 2012. The City raised water rates on April 1, 2013 and is looking into raising sewer rates.

**(10) Development and Rebate Agreements**

In prior years, the City entered into development and rebate agreements to assist in an urban renewal project. The City agreed to rebate incremental property tax paid by the developer in exchange for infrastructure improvements, rehabilitation and development of commercial projects constructed by the developers as set forth in the urban renewal plan and the individual development and rebate agreements. The incremental property tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developers will be rebated for a period of ten years, beginning with the tax year in which the property tax on the completed value of the improvements is first paid. The total amount to be rebated under the development and rebate agreements is not to exceed \$223,623.

During the year ended June 30, 2012, the City rebated \$28,094 of incremental property tax to the developers. The outstanding principal balance on these agreements at June 30, 2012 is \$42,567.

No bonds or notes were issued for these projects. These agreements are not a general obligation of the City. However, the amount to be rebated under the agreements is subject to the constitutional debt limitation of the City.

**(11) Loan Agreement**

On July 2, 2007, the City of Inwood loaned \$71,990 at no interest to Inwood Community Fire and Rescue, Inc. to purchase a fire truck. The agreement requires minimum payments of \$10,000 per year with the final payment due by July 31, 2013. However, Inwood Community Fire and Rescue, Inc. can prepay all or part of the amount at any time. During the year, \$10,990 was paid to the City, leaving no remaining balance at June 30, 2012.

**City of Inwood**

## **Other Information**

City of Inwood  
 Budgetary Comparison Schedule  
 of Receipts, Disbursements, and Changes in Balances -  
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 267,094	-
Tax increment financing	21,623	-
Other city tax	90,064	-
Licenses and permits	725	-
Use of money and property	1,490	-
Intergovernmental	146,182	-
Charges for service	120,402	250,538
Special assessments	7,744	-
Miscellaneous	354,160	10
Total receipts	1,009,484	250,548
Disbursements:		
Public safety	20,563	-
Public works	133,628	-
Culture and recreation	154,179	-
Community and economic development	28,094	-
General government	97,839	-
Debt service	98,107	-
Capital projects	56,816	-
Business type activities	-	1,761,933
Total disbursements	589,226	1,761,933
Excess (deficiency) of receipts over (under) disbursements	420,258	(1,511,385)
Other financing sources (uses), net	(10,575)	1,396,000
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	409,683	(115,385)
Balances beginning of year	460,444	(63,771)
Balances end of year	\$ 870,127	(179,156)

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
267,094	259,122	259,122	7,972
21,623	25,000	25,000	(3,377)
90,064	55,631	83,631	6,433
725	840	840	(115)
1,490	2,300	2,300	(810)
146,182	92,600	92,600	53,582
370,940	381,900	381,900	(10,960)
7,744	6,500	6,500	1,244
354,170	4,000	94,000	260,170
1,260,032	827,893	945,893	314,139
20,563	31,138	31,138	10,575
133,628	167,750	167,750	34,122
154,179	132,557	156,567	2,388
28,094	10,000	30,000	1,906
97,839	81,200	101,200	3,361
98,107	79,700	79,700	(18,407)
56,816	30,000	78,000	21,184
1,761,933	228,865	1,768,865	6,932
2,351,159	761,210	2,413,220	62,061
(1,091,127)	66,683	(1,467,327)	376,200
1,385,425	20,000	1,406,000	(20,575)
294,298	86,683	(61,327)	355,625
396,673	404,272	404,272	(7,599)
690,971	490,955	342,945	348,026

City of Inwood

Notes to Other Information – Budgetary Reporting

June 30, 2012

The budgetary comparison is presented 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. 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 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, the City amended the budget one time, increasing budgeted disbursements by \$1,652,010. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amount budgeted in the debt service function. Also during the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the culture and recreation, community and economic development, general government and business type activities functions prior to the budget amendment being adopted.

## **Supplementary Information**

**City of Inwood**

## City of Inwood

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2012

	Special Revenue				Total
	Employee Benefits	Tax Increment Financing	Local Option Sales Tax	Capital Projects	
Receipts:					
Property tax	\$ 22,236	-	-	-	22,236
Tax increment financing	-	21,623	-	-	21,623
Other city tax	-	-	90,064	-	90,064
Total receipts	22,236	21,623	90,064	-	133,923
Disbursements:					
Operating:					
Community and economic development	-	28,094	-	-	28,094
General government	35,601	-	-	-	35,601
Debt service	-	-	-	19,000	19,000
Total disbursements	35,601	28,094	-	19,000	82,695
Excess (deficiency) of receipts over (under) disbursements	(13,365)	(6,471)	90,064	(19,000)	51,228
Other financing sources (uses):					
Operating transfers in	13,365	-	-	258,400	271,765
Operating transfers out	-	-	(223,365)	-	(223,365)
Total other financing sources (uses)	13,365	-	(223,365)	258,400	48,400
Change in cash balances	-	(6,471)	(133,301)	239,400	99,628
Cash balances beginning of year	-	87,384	210,470	(239,400)	58,454
Cash balances end of year	\$ -	80,913	77,169	-	158,082
<b>Cash Basis Fund Balances</b>					
Restricted for:					
Tax increment financing	\$ -	80,913	-	-	80,913
Local option sales tax	-	-	77,169	-	77,169
Total cash basis fund balances	\$ -	80,913	77,169	-	158,082

See accompanying independent auditor's report.

City of Inwood  
Schedule of Indebtedness  
Year ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation capital loan notes:			
Essential corporate purpose	Sep 1, 2002	5.00%	\$ 300,000
Essential corporate purpose	Apr 28, 2004	4.00%	350,000
Total			
Revenue capital loan notes:			
Sewer	Oct 24, 2001 *	3.00%	\$ 529,000
Sewer	Jan 13, 2010 *	3.00%	1,399,000
Total			
Anticipatory warrants:			
Sewer construction	Varies	6.00%	\$ 1,273,798

\* The agreement also requires the City to annually pay a .25% serving fee on the outstanding principal balance

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
70,000	-	35,000	35,000	3,500
155,000	-	54,000	101,000	5,607
<u>\$ 225,000</u>	<u>-</u>	<u>89,000</u>	<u>136,000</u>	<u>9,107</u>
304,000	-	26,000	278,000	9,120
13,990	1,385,010	28,000	1,371,000	19,464
<u>\$ 317,990</u>	<u>1,385,010</u>	<u>54,000</u>	<u>1,649,000</u>	<u>28,584</u>
<u>1,273,798</u>	<u>-</u>	<u>1,273,798</u>	<u>-</u>	<u>261,508</u>

City of Inwood  
Note Maturities  
June 30, 2012

Year Ending June 30,	General Obligation Capital Loan Notes					Total
	Issued June 8, 2006		Issued April 28, 2004			
	Interest Rates	Amount	Interest Rates	Amount		
2013	5.00%	\$ 35,000	4.00%	\$ 21,000		56,000
2014		-	4.00	40,000		40,000
2015		-	4.00	40,000		40,000
2016		-		-		-
2017		-		-		-
2018		-		-		-
2019		-		-		-
2020		-		-		-
2021		-		-		-
2022		-		-		-
2023		-		-		-
2024		-		-		-
2025		-		-		-
2026		-		-		-
2027		-		-		-
2028		-		-		-
2029		-		-		-
2030		-		-		-
2031		-		-		-
2032		-		-		-
2033		-		-		-
2034		-		-		-
2035		-		-		-
2036		-		-		-
2037		-		-		-
2038		-		-		-
2039		-		-		-
2040		-		-		-
2041		-		-		-
Total		<u>\$ 35,000</u>		<u>\$ 101,000</u>		<u>136,000</u>

See accompanying independent auditor's report.

Sewer Revenue Capital Loan Notes				
Issued Oct 24, 2001		Issued Jan 1, 2010		
Interest Rates	Amount	Interest Rates	Amount	Total
3.00%	\$ 27,000	3.00%	\$ 29,000	56,000
3.00	28,000	3.00	30,000	58,000
3.00	29,000	3.00	31,000	60,000
3.00	30,000	3.00	32,000	62,000
3.00	31,000	3.00	33,000	64,000
3.00	32,000	3.00	34,000	66,000
3.00	33,000	3.00	35,000	68,000
3.00	33,000	3.00	37,000	70,000
3.00	35,000	3.00	38,000	73,000
	-	3.00	39,000	39,000
	-	3.00	40,000	40,000
	-	3.00	41,000	41,000
	-	3.00	43,000	43,000
	-	3.00	44,000	44,000
	-	3.00	46,000	46,000
	-	3.00	47,000	47,000
	-	3.00	49,000	49,000
	-	3.00	50,000	50,000
	-	3.00	52,000	52,000
	-	3.00	54,000	54,000
	-	3.00	55,000	55,000
	-	3.00	57,000	57,000
	-	3.00	59,000	59,000
	-	3.00	61,000	61,000
	-	3.00	63,000	63,000
	-	3.00	65,000	65,000
	-	3.00	67,000	67,000
	-	3.00	69,000	69,000
	-	3.00	71,000	71,000
	<u>\$ 278,000</u>		<u>\$ 1,371,000</u>	<u>1,649,000</u>

**City of Inwood**



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

Mary Mosiman, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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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:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Inwood, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated April 29, 2013. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2011. Except as noted in the Independent Auditor's Report, we conducted our 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

The management of the City of Inwood is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Inwood's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Inwood's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Inwood's internal control over financial reporting.

Our 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, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we 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 a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Inwood's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A) through (D) to be material weaknesses.

A significant deficiency is a deficiency, or a 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. We consider the deficiencies described in the accompanying Schedule of Findings as items (E) through (H) to be significant deficiencies.

## Compliance and Other Matters

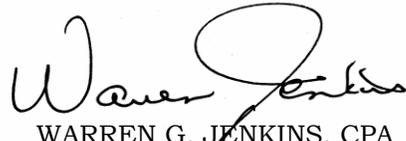
As part of obtaining reasonable assurance about whether the City of Inwood's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we 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, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our 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 Inwood's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Inwood's responses and, accordingly, we 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 Inwood and other parties to whom the City of Inwood may report and is not intended to be and should not be used by anyone other than these specified parties.

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

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

April 29, 2013

City of Inwood  
Schedule of Findings  
Year ended June 30, 2012

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

(A) Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. One person has control over each of the following areas for the City:

- (1) Cash – initiating cash receipts and disbursement transactions, handling and recording cash and reconciling bank accounts.
- (2) Investments – detailed record keeping, custody of investments and reconciling earnings.
- (3) Long-term debt – maintaining long-term debt records and handling and recording cash and reviewing compensated absence records.
- (4) Receipts – collecting, depositing, journalizing and recording.
- (5) Utility receipts – billing, collecting, depositing, recording and reconciling.
- (6) Disbursements – preparation, recording and reconciling.
- (7) Payroll – preparing and distributing.
- (8) Financial reporting – preparing, recording and reconciling.
- (9) Computer usage – performing all general accounting functions and controlling all data input and output.

For the Fire Department, one individual has control over each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – preparing, recording and reconciling.
- (3) Cash – handling, reconciling and recording.

Recommendation - We 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 utilizing currently available staff, including elected officials. Evidence of review of reconciliations should be indicated by the signature or initials of the independent reviewer and the date of the review.

City of Inwood

Schedule of Findings

Year ended June 30, 2012

Responses –

City – The City of Inwood understands the concerns, but with a small office and limited revenues, adding employees is probably not feasible. Council and Mayor review monthly reports and will continue to review reports and budget reports.

Fire Department – All receipts and disbursements will be reviewed at our monthly meetings and an officer of the Company will then sign or initial and date the review. Whenever we have a fundraiser involving cash we have at least three present to count and deposit the monies. The tellers at the bank recount and initial and date the deposit.

Conclusions –

City – Response acknowledged. The City Council’s and Mayor’s review of monthly reports should be evidenced by the signature or initials of the reviewer and the date of the review.

Fire Department – Response accepted.

- (B) Bank Reconciliations – Reconciliations of book balances to the bank and cash balances were not reviewed by an independent individual. Bank statements containing check images do not provide images of the back of checks.

Recommendation – To improve financial accountability and control, a reconciliation of the book balances to bank and cash balances should be reviewed by an independent individual. The City should also request the bank to provide images of the backs of the checks as well as the front of the checks.

Response – Mayor Moen will review bank reconciliations monthly and sign and date bank statement. The bank has already been contacted and will provide images of the backs and fronts of all checks.

Conclusion – Response accepted.

- (C) Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled on a monthly basis and the reconciliations and delinquent account listings were not reviewed by the City Council.

Recommendation – Monthly utility reconciliations should be prepared and the reconciliations and delinquent account listings should be reviewed and approved by the City Council.

Response – Monthly reconciliations will be completed as well as reviewed and approved by the Council.

Conclusion – Response accepted.

City of Inwood

Schedule of Findings

Year ended June 30, 2012

- (D) Computer Systems – Access to the City’s computer systems are not restricted through the use of user ID’s and passwords.

Recommendation – To protect against unauthorized access to the accounting system, the City should restrict access to its computers through the use of user ID’s and passwords.

Response – Our computer tech will be contacted to set up password protection.

Conclusion – Response accepted.

- (E) Policies and Procedures – The City does not have written policies and procedures for the following:

- Accounting policies and procedures
- Personnel policies, including policies for sick leave and vacation accrual, regular evaluations of employee performance and requirements to maintain confidentiality of sensitive information.
- Credit card policy (applies to Inwood Library only)
- Information security and computer usage policies.
- A disaster recovery plan.

Recommendation – Policies and procedures should be developed and approved by the City Council.

Response – The City Clerk will work on preparing policies for Council’s review and approval.

Conclusion – Response accepted.

- (F) Chart of Accounts – The City has not implemented the Uniform Chart of Accounts for Iowa City Governments approved by the City Finance Committee.

Recommendation – To provide better financial information and control, the chart of accounts endorsed by the City Finance Committee should be established.

Response – New software has been budgeted for 2013-2014. The chart of accounts will be used with the new software.

Conclusion – Response accepted.

- (G) Timesheets – The City Clerk, who is salaried, does not prepare a timesheet.

Recommendation – Timesheets should be prepared by all personnel, salaried as well as hourly. The timesheets should be signed by the employee and should be reviewed and signed by the employee’s supervisor. The timesheets should support all hours worked and all hours taken as vacation, sick leave, compensatory time, holiday hours and personal days.

Response – City Clerk will start completing a time card.

Conclusion – Response accepted.

City of Inwood

Schedule of Findings

Year ended June 30, 2012

- (H) Disbursements – Invoices and other supporting documentation were not always available to support disbursements.

Although disbursements were approved by the City Council, not all were approved by the City Council prior to disbursement. The City does not have a written disbursement approval policy allowing certain items to be paid prior to City Council approval.

Recommendation – All disbursements should be supported by invoices or other supporting documentation.

The City should adopt a written disbursement policy to allow payment of certain bills prior to City Council approval. All disbursements should be approved by the City Council prior to disbursement, with the exception of those specifically allowed by the policy.

Response – A policy will be prepared for Council approval to allow payment of payroll tax, utilities and other items which need to be paid before the Council meeting. All disbursements will have documentation (invoice or statement) before being paid.

Conclusion – Response accepted.

City of Inwood

Schedule of Findings

Year ended June 30, 2012

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Inwood  
 Schedule of Findings  
 Year ended June 30, 2012

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the culture and recreation, community and economic development, general government and business type activities functions prior to the budget amendment. Disbursements also exceeded the amount budgeted in the debt service function at the end of the fiscal year. 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 sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – Budget will be amended before disbursements go over the budgeted amount.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe 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:

Name, Title, and Business Connection	Transaction Description	Amount
Security Savings Bank, employs Mayor Dan Moen as a Loan Officer	Loans	\$ 1,633,462
Moen’s Farm Store, owner is uncle of Mayor	Supplies	43

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the transactions with Moen’s Farm Store do not appear to represent a conflict of interest since total transactions were less than \$2,500 during the fiscal year. The transactions with Security Savings Bank may represent a conflict of interest since total transactions exceeded \$1,500 during the fiscal year and the transactions are not covered by an allowable exception to the provisions of Chapter 362.5 of the Code of Iowa.

Recommendation – The City should consult legal counsel to determine the disposition of the transactions with Security Savings Bank.

Response – The City will consult with its City Attorney.

Conclusion – Response accepted.

City of Inwood

Schedule of Findings

Year ended June 30, 2012

(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 ensure the coverage is adequate for current operations.

(6) City Council Minutes – No transactions were found we believe should have been approved in the minutes but were not, except for the following:

Transfers and certain disbursements were not approved by the City Council and listed in the minutes record.

Minutes of the meetings of the City Council were not signed in accordance with Chapter 380.7 of the Code of Iowa.

Recommendation – The City Council should ensure all transfers and disbursements are approved in the Council's minutes. The minutes of the meetings of the City Council should be signed to authenticate the action taken.

Response – Transfers and disbursements will be approved by the Council and the minutes will be signed by our Mayor.

Conclusion – Response accepted.

(7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

(8) Sewer Revenue Capital Loan Notes – The City has established the operation and maintenance, sinking fund and reserve fund as required by the sewer revenue note resolution. However, the City does not maintain a large enough balance in the reserve account to meet reserve requirements. The loan disbursement agreement for the note requires an audit to be completed within 180 days after the end of each fiscal year for which the report is prepared. The fiscal year 2012 audit was not completed by December 31, 2012.

Recommendation - The City should make the necessary transfers required by the note agreements to the enterprise fund for sewer reserve accounts. The City should review the note resolutions and loan disbursement agreement and comply with all requirements, including those for audits.

Response – Funds will be transferred to the Enterprise, Sewer Reserve Fund and the City will review note resolution and loan agreements to ensure the City is in compliance with all requirements including those for audits.

Conclusion – Response accepted.

City of Inwood

Schedule of Findings

Year ended June 30, 2012

- (9) Financial Condition – The Enterprise, Water and Sewer Funds had deficit balances at June 30, 2012 of \$41,698 and \$137,458, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits to return the funds to a sound financial position.

Response – We will watch these funds closely.

Conclusion – Response accepted.

- (10) Tax Increment Financing – The City’s tax increment financing (TIF) certification required by Chapter 403 of the Code of Iowa and filed December 1, 2010 certified no new TIF debt. The City’s TIF debt consists entirely of developer rebate agreements in which the City agrees to rebate TIF taxes to the developers over a specified period of time in exchange for certain infrastructure and other improvements. While these agreements represent debt of the City, we identified the following:

Amounts certified could not be substantiated to ensure they were certified in accordance with Code of Iowa, Chapter 403.19(5)(a). It appears the cash balance in the Special Revenue, Tax Increment Financing Fund is larger than remaining obligations per the developer agreements.

The Special Revenue, Tax Increment Financing Fund cash balance includes \$15,000 in TIF collections for a developer agreement paid from the General Fund in a prior year.

Recommendation – The City should consult legal counsel to determine how to resolve the excess TIF cash balance. The City should transfer \$15,000 from the Special Revenue, Tax Increment Financing Fund to the General Fund to reimburse the amount paid for the developer agreement.

Response – We will discuss our TIF funds with our City Attorney and follow his advice.

Conclusion – Response accepted.

- (11) Payment of General Obligation Debt – Certain general obligation capital loan note principal was paid from the Capital Projects Fund. Chapter 384.4 of the Code of Iowa states, in part, “Moneys pledged or available to service general obligation bonds, and received from sources other than property taxes, must be deposited in the debt service fund.” Also, the resolution for the capital loan note requires principal and interest be paid from the Debt Service Fund.

Recommendation – The City should transfer from the Capital Projects Fund to the Debt Service Fund for future funding contributions. Payments of the notes and interest should then be disbursed from the Debt Service Fund.

Response – Funds will be disbursed from the Debt Service Fund.

Conclusion – Response accepted.

City of Inwood

Schedule of Findings

Year ended June 30, 2012

- (12) Local Option Sales Tax – Local option sales tax receipts were not expended in accordance with the provisions established in the LOST ballot. Money is to be used for infrastructure (75%) and property tax relief (25%). City does not follow the percent distribution.

Recommendation – The Council should ensure local option tax collections are spent in accordance with the LOST ballot.

Response – Council will review the LOST ballot and document purpose of all transfers.

Conclusion – Response accepted.

- (13) Interest on Anticipatory Warrants – The City issued anticipatory warrants for the sewer lagoon project totaling \$1,273,798 at 6% interest during fiscal years 2007 and 2008. In January 2010, the City closed on the State Revolving Fund (SRF) loan of \$1,399,000 at 3% interest, along with a .25% annual service fee, with the intent to use the proceeds to pay off the anticipatory warrants. The City did not submit the required drawdown paperwork and draw the SRF funds until December 2011, at which time the anticipatory warrants were redeemed. The difference between the interest paid on the anticipatory warrants for the period January 2010 through December 2011 and the interest and service fees which would have been paid on the SRF loan was approximately \$62,700. Therefore, the City paid approximately \$62,700 more interest because the paper work was not submitted timely.

Recommendation – The City should ensure needed paper work is prepared timely to draw financing, issued at a lower interest rate, and pay off higher rate financing to minimize the City's interest cost.

Response – The City of Inwood has been more consistent with completing documents in a timely manner and will ask for assistance if necessary. This situation will not happen again.

Conclusion – Response accepted.

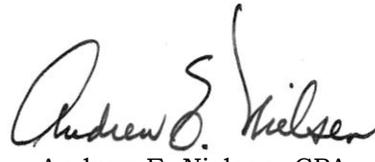
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City of Inwood

Staff

This audit was performed by:

Brian R. Brustkern, CPA, Manager  
Kassi D. Adams, Staff Auditor  
Stephen J. Hoffman, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA  
Deputy Auditor of State