



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

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Auditor of State

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**NEWS RELEASE**

FOR RELEASE

June 4, 2009

Contact: Andy Nielsen  
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Inwood, Iowa.

The City's receipts totaled \$1,170,658 for the year ended June 30, 2008. The receipts included \$189,832 in property tax, \$29,529 from tax increment financing, \$267,266 from charges for service, \$90,347 from operating grants, contributions and restricted interest, \$15,269 from capital grants, contributions and restricted interest, \$55,047 from local option sales tax, \$4,585 from unrestricted interest on investments, \$497,250 from sewer construction anticipatory warrant proceeds and \$21,533 from other general receipts.

Disbursements for the year totaled \$1,209,367, and included \$118,244 for public works, \$115,851 for culture and recreation and \$66,407 for general government. Also, disbursements for business type activities totaled \$792,521.

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/reports.htm>.

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**CITY OF INWOOD**

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

**JUNE 30, 2008**

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**City of Inwood**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2008)</b>		
Dan Moen	Mayor	Jan 2008
George Ahrendt	Council Member	Jan 2008
Joe Lloyd	Council Member	Jan 2008
Les Gayer	Council Member	Jan 2010
Allen Hassebroek	Council Member	Jan 2010
Shirley Kollis	Council Member	Jan 2010
Carol Vander Kolk	Clerk/Treasurer	Indefinite
Paul Kippley	Attorney	Indefinite
<b>(After January 2008)</b>		
Dan Moen	Mayor	Jan 2012
Les Gayer	Council Member	Jan 2010
Allen Hassebroek	Council Member	Jan 2010
Shirley Kollis	Council Member	Jan 2010
George Ahrendt	Council Member	Jan 2012
Joe Lloyd	Council Member	Jan 2012
Carol Vander Kolk	Clerk/Treasurer	Indefinite
Paul Kippley	Attorney	Indefinite

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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, 2008, 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.

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.

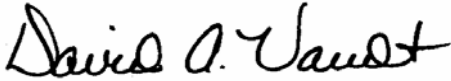
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not 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, 2007.

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, 2007, 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, 2008, 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.

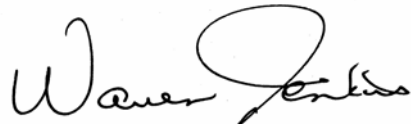
In accordance with Government Auditing Standards, we have also issued our report dated April 3, 2009 on our consideration of the City of Inwood's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and 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 internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

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. Other 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 has been subjected to the auditing procedures applied in our audit of the basic financial statements and, 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, 2007, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

April 3, 2009



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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, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Since 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.

### **2008 FINANCIAL HIGHLIGHTS**

- The cash basis net assets of the City's governmental activities increased approximately \$55,000, primarily due to \$45,000 of road use tax not spent during the year and an increase of \$11,000 in TIF revenues when compared to the prior year.
- The cash basis net assets of the City's business type activities decreased approximately \$77,000, primarily due to sewer capital project disbursements incurred to be financed through the issuance of sewer revenue notes at a later date.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds 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 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 the water and sewer funds, considered to be major funds of the City.

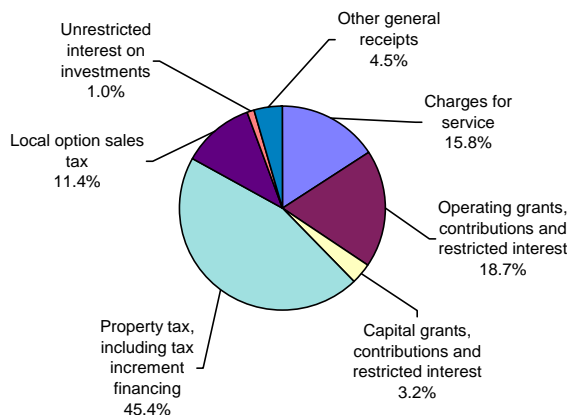
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

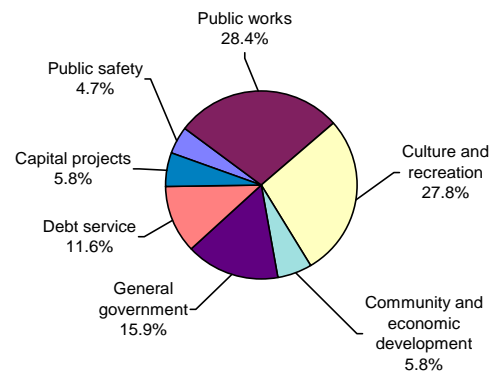
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$193,136 to \$248,628. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		Year Ended June 30, 2008
Receipts:		
Program receipts:		
Charges for service		\$ 75,945
Operating grants, contributions and restricted interest		90,347
Capital grants, contributions and restricted interest		15,269
General receipts:		
Property tax, including tax increment financing		219,361
Local option sales tax		55,047
Unrestricted interest on investments		4,585
Other general receipts		21,533
Total receipts		<u>482,087</u>
Disbursements:		
Public safety		19,687
Public works		118,244
Culture and recreation		115,851
Community and economic development		24,373
General government		66,407
Debt service		48,268
Capital projects		24,016
Total disbursements		<u>416,846</u>
Change in cash basis net assets before transfers		65,241
Transfers, net		<u>(9,749)</u>
Change in cash basis net assets		55,492
Cash basis net assets beginning of year		<u>193,136</u>
Cash basis net assets end of year		<u>\$ 248,628</u>

Receipts by Source



Disbursements by Function



The cash basis net assets of the City's governmental activities increased 28.7%, or approximately \$55,000, due primarily to approximately \$75,000 of road use tax received offset by disbursements of approximately \$30,000 and an increase in TIF revenues of approximately \$11,000.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2008
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 84,907
Sewer	106,414
General receipts:	
Sewer construction anticipatory warrant proceeds	497,250
Total receipts	<u>688,571</u>
Disbursements:	
Water	79,400
Sewer	713,121
Total disbursements	<u>792,521</u>
Change in cash basis net assets before transfers	(103,950)
Transfers, net	<u>27,242</u>
Change in cash basis net assets	(76,708)
Cash basis net assets beginning of year	<u>(31,871)</u>
Cash basis net assets end of year	<u><u>\$ (108,579)</u></u>

Total business type activities cash basis net assets decreased from a year ago, from approximately (\$32,000) to approximately (\$109,000). The overall decrease is the result of sewer capital project disbursements incurred to be financed through the issuance of sewer revenue notes at a later date.

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

As the City of Inwood completed the year, its governmental funds reported a combined fund balance of \$248,628, an increase of \$55,492 above last year's total of \$193,136. 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 \$4,792 from the prior year to \$302,375.
- The Special Revenue, Road Use Tax Fund cash balance increased \$45,005 to \$181,739 during the fiscal year. This increase was attributable to \$74,964 in road use tax received this fiscal year offset by disbursements of only \$29,959. The City intends to use this money to upgrade the condition of all City roads.
- The Debt Service Fund cash balance decreased \$3,851 to (\$1,778) during the fiscal year. This decrease was due to the debt service tax levy not being sufficient to pay for the current year's bond principal and interest payments.

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased \$31,507 to \$44,311, due primarily to a transfer in of \$26,000 from Inwood Community Fire & Rescue to repay a loan for the purchase of a fire truck.
- The Sewer Fund cash balance decreased \$108,215 to (\$152,890), due primarily to sewer capital project disbursements incurred to be financed through the issuance of sewer revenue notes at a later date.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on June 9, 2008 and resulted in an increase in disbursements for culture and recreation, community and economic development, general government and capital projects disbursements. The increases were to purchase new software for the library, to adjust for an increase in TIF disbursements, to adjust for an increase in wages due to the hiring of a new part-time clerk and to adjust for an increase in projects performed at the City park. The City also increased its budgeted receipts due to an increase in TIF and miscellaneous revenues.

The City's receipts were \$23,319 more than budgeted. This was primarily due to the City receiving more in property tax, intergovernmental and miscellaneous receipts than anticipated, even after the amendments.

Total disbursements were \$94,412 less than budgeted. This was primarily due to the city not having to make a required payment on a general obligation note issuance. The City has paid the debt ahead of schedule and no payment was required for the year ended June 30, 2008. Also, the City delayed equipment purchases.

The City exceeded the amount budgeted in the business type activities function for the year ended June 30, 2008 due to higher sewer capital project costs not budgeted.

## DEBT ADMINISTRATION

At June 30, 2008, the City had approximately \$2,026,000 in notes and other long-term debt outstanding, compared to approximately \$1,582,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2008	2007
General obligation capital loan notes:		
Series 2002	\$ 165	195
Series 2004	208	208
Revenue capital loan notes	379	402
Sewer construction anticipatory warrants	1,274	777
Total	\$ 2,026	1,582

Debt increased as a result of issuing anticipatory warrants for a sewer construction project.

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 TIF debt of \$1,719,281 is above its constitutional debt limit of \$1,599,485. The City intends to reduce its general obligation debt by redeeming approximately \$1.3 million in sewer construction anticipatory warrants by issuing sewer revenue notes which are not subject to the debt limitation.

## 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 2009 budget, tax rates and fees charged for various City activities. The City's FY 2009 assessed taxable valuation has increased \$175,709 from the FY 2008 level.

The FY 2009 budget contains total receipts of \$747,845 and disbursements of \$707,350. The budgeted receipts are somewhat higher than the FY 2008 final budget which contained total receipts of \$650,089. The budgeted disbursements are significantly lower than the FY 2008 final budget which contained disbursements of \$1,303,779. The FY 2009 budgeted receipts increased due to the increased sewer rates approved partway through FY 2008. The FY 2009 budgeted disbursements decreased because the sewer project was completed in FY 2008 causing FY 2009 budgeted disbursements to decrease.

The FY 2009 levy is \$11.59807 per \$1,000 of taxable valuation, a decrease from \$11.72696 per \$1,000 of taxable valuation in FY 2008.

These parameters were taken into account when adopting the budget for FY 2009.

### **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 Street, Inwood, Iowa 51240-0298.

## **Basic Financial Statements**

City of Inwood

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2008

	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	\$ 19,687	215	-	-
Public works	118,244	58,153	74,964	-
Health and social services	-	-	-	-
Culture and recreation	115,851	16,862	15,383	-
Community and economic development	24,373	-	-	1,242
General government	66,407	715	-	-
Debt service	48,268	-	-	-
Capital projects	24,016	-	-	14,027
Total governmental activities	416,846	75,945	90,347	15,269
Business type activities:				
Water	79,400	84,907	-	-
Sewer	713,121	106,414	-	-
Total business type activities	792,521	191,321	-	-
<b>Total Primary Government</b>	<b>\$ 1,209,367</b>	<b>267,266</b>	<b>90,347</b>	<b>15,269</b>
<b>Component Unit:</b>				
Inwood Community Fire and Rescue, Inc.	\$ 51,977	21,206	28,222	-
<b>General Receipts:</b>				
Property and other city tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Unrestricted interest on investments				
Sewer construction anticipatory warrant 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:				
Streets				
Urban renewal purposes				
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	
(19,472)	-	(19,472)	-
14,873	-	14,873	-
-	-	-	-
(83,606)	-	(83,606)	-
(23,131)	-	(23,131)	-
(65,692)	-	(65,692)	-
(48,268)	-	(48,268)	-
(9,989)	-	(9,989)	-
<u>(235,285)</u>	<u>-</u>	<u>(235,285)</u>	<u>-</u>
-	5,507	5,507	-
-	(606,707)	(606,707)	-
-	(601,200)	(601,200)	-
<u>(235,285)</u>	<u>(601,200)</u>	<u>(836,485)</u>	<u>-</u>
-	-	-	(2,549)
149,775	-	149,775	-
29,529	-	29,529	-
40,057	-	40,057	-
55,047	-	55,047	-
4,585	-	4,585	45
-	497,250	497,250	-
21,533	-	21,533	-
(9,749)	27,242	17,493	(17,493)
<u>290,777</u>	<u>524,492</u>	<u>815,269</u>	<u>(17,448)</u>
55,492	(76,708)	(21,216)	(19,997)
193,136	(31,871)	161,265	29,509
<u>\$ 248,628</u>	<u>(108,579)</u>	<u>140,049</u>	<u>9,512</u>
\$ 181,739	-	181,739	-
25,692	-	25,692	-
-	-	-	9,512
41,197	(108,579)	(67,382)	-
<u>\$ 248,628</u>	<u>(108,579)</u>	<u>140,049</u>	<u>9,512</u>

City of Inwood

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

As of and for the year ended June 30, 2008

	Special Revenue		
	General	Road Use Tax	Debt Service
Receipts:			
Property tax	\$ 129,797	-	40,057
Tax increment financing	-	-	-
Other city tax	55,047	-	-
Licenses and permits	930	-	-
Use of money and property	6,010	-	-
Intergovernmental	16,625	74,964	-
Charges for service	73,590	-	-
Special assessments	14,027	-	-
Miscellaneous	21,533	-	-
Total receipts	<u>317,559</u>	<u>74,964</u>	<u>40,057</u>
Disbursements:			
Operating:			
Public safety	19,687	-	-
Public works	88,285	29,959	-
Culture and recreation	115,851	-	-
Community and economic development	8,750	-	-
General government	39,921	-	-
Debt service	-	-	43,908
Capital projects	24,016	-	-
Total disbursements	<u>296,510</u>	<u>29,959</u>	<u>43,908</u>
Excess (deficiency) of receipts over (under) disbursements	<u>21,049</u>	<u>45,005</u>	<u>(3,851)</u>
Other financing sources (uses):			
Operating transfers in	-	-	-
Operating transfers out	(16,257)	-	-
Total other financing sources (uses)	<u>(16,257)</u>	<u>-</u>	<u>-</u>
Net change in cash balances	4,792	45,005	(3,851)
Cash balances beginning of year	297,583	136,734	2,073
Cash balances end of year	<u>\$ 302,375</u>	<u>181,739</u>	<u>(1,778)</u>
<b>Cash Basis Fund Balances</b>			
Unreserved:			
General fund	\$ 302,375	-	-
Special revenue funds	-	181,739	-
Debt service fund	-	-	(1,778)
Capital projects fund	-	-	-
Total cash basis fund balances	<u>\$ 302,375</u>	<u>181,739</u>	<u>(1,778)</u>

See notes to financial statements.

Nonmajor	Total
19,978	189,832
29,529	29,529
-	55,047
-	930
-	6,010
-	91,589
-	73,590
-	14,027
-	21,533
49,507	482,087
-	19,687
-	118,244
-	115,851
15,623	24,373
26,486	66,407
4,360	48,268
-	24,016
46,469	416,846
3,038	65,241
6,508	6,508
-	(16,257)
6,508	(9,749)
9,546	55,492
(243,254)	193,136
(233,708)	248,628
-	302,375
25,692	207,431
-	(1,778)
(259,400)	(259,400)
(233,708)	248,628

**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, 2008

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 84,907	106,414	191,321
Operating disbursements:			
Business type activities	79,400	30,577	109,977
Excess of operating receipts over operating disbursements	5,507	75,837	81,344
Non-operating receipts (disbursements):			
Sewer construction anticipatory warrant proceeds	-	497,250	497,250
Debt service	-	(36,065)	(36,065)
Capital projects	-	(646,479)	(646,479)
Net non-operating receipts (disbursements)	-	(185,294)	(185,294)
Excess (deficiency) of receipts over (under) disbursements	5,507	(109,457)	(103,950)
Operating transfers in	26,000	1,242	27,242
Net change in cash balances	31,507	(108,215)	(76,708)
Cash balances beginning of year	12,804	(44,675)	(31,871)
Cash balances end of year	\$ 44,311	(152,890)	(108,579)
<b>Cash Basis Fund Balances</b>			
Unreserved	\$ 44,311	(152,890)	(108,579)

See notes to financial statements.

City of Inwood

Notes to Financial Statements

June 30, 2008

**(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 Organization

The City participates in a jointly governed organization that provides goods or services to the citizenry of the City but does 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 Lyon County Economic Development.

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 primary government and its component unit. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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

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

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

The Special Revenue, Road Use Tax Fund is used to account for road construction and maintenance.

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

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

The City of Inwood 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.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amount budgeted in the business type activities function.

**(2) Cash and Pooled Investments**

The City's and its component unit's deposits in banks at June 30, 2008 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 Statement No. 40.



**(3) Notes Payable**

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

Year Ending June 30,	General Obligation Capital Loan Notes				Sewer Revenue Capital Loan Notes		Total	
	Series 2002		Series 2004		Series 2001			
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 30,000	8,250	11,100	8,058	24,000	11,370	65,100	27,678
2010	30,000	6,750	6,704	7,868	25,000	10,650	61,704	25,268
2011	35,000	5,250	35,000	7,600	26,000	9,900	96,000	22,750
2012	35,000	3,500	35,000	6,200	26,000	9,120	96,000	18,820
2013	35,000	1,750	40,000	4,800	27,000	8,340	102,000	14,890
2014 - 2018	-	-	80,000	4,800	150,000	28,950	230,000	33,750
2019 - 2021	-	-	-	-	101,000	6,120	101,000	6,120
Total	\$ 165,000	25,500	207,804	39,326	379,000	84,450	751,804	149,276

The Code of Iowa requires principal and interest on general obligation capital loan notes be paid from the Debt Service Fund. However, during the year, \$4,360 of general obligation capital loan note principal was paid from the Capital Projects, Subdivision Fund.

Sewer Revenue Capital Loan Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$529,000 in sewer revenue capital loan notes issued October 24, 2001. 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 2021. The total principal and interest remaining to be paid on the notes is \$463,450. For the current year, principal and interest paid and total customer net receipts were \$35,060 and \$75,837, respectively. Annual principal and interest payments on these sewer revenue capital loan notes are expected to require less than 47 percent of net receipts.

The resolution providing for the issuance of the revenue 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 Fund. Money in the Revenue Fund 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 within the Enterprise Funds 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 bonds falling due in the same year.

The City has not established the required Operation and Maintenance Fund, Sinking Fund and Reserve Fund for the sewer revenue capital loan notes.

**(4) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% 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, 2008 was \$6,969, 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, 2008, primarily relating to the General Fund, is \$30,000.

This liability has been computed based on rates of pay in effect at June 30, 2008.

**(6) Anticipatory Warrants**

Anticipatory warrants are warrants which are legally drawn on City funds but are not paid for lack of funds, in accordance with Chapter 74 of the Code of Iowa. The warrants bear interest at rates in effect at the time the warrants are first presented for redemption.

For the years ended June 30, 2008 and 2007, the City issued \$497,250 and \$776,548 of anticipatory warrants, at 6.00% interest per annum, for sewer construction. As of June 30, 2008, none of those anticipatory warrants had been redeemed, leaving an unpaid balance at June 30, 2008 of \$1,273,798 plus interest of \$96,837.

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue:		
Employee Benefits	General	\$ 6,508
Enterprise:		
Sewer	General	1,242
Enterprise:	Component Unit:	
Water	Inwood Community Fire and Rescue, Inc.	26,000
Component Unit:		
Inwood Community Fire and Rescue, Inc	General	<u>8,507</u>
Total		<u><u>\$33,750</u></u>

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

**(8) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$15,827 during the year ended June 30, 2008.

**(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) Deficit Balances**

The Debt Service, Capital Projects, Subdivision, and Sewer Funds had deficit balances of \$1,778, \$259,400 and \$152,890 at June 30, 2008. The City is reviewing alternatives to eliminate the deficit balances in the Debt Service and Capital Projects, Subdivision Funds. The deficit balance in the Sewer Fund was a result of sewer project costs incurred prior to availability of funds. The City intends to issue revenue notes to eliminate the deficit.

**(11) 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 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 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 \$184,000.

During the year ended June 30, 2008, the City rebated \$15,623 of incremental tax to the developer. The outstanding principal balance on this agreement at June 30, 2008 is \$72,679.

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.

**(12) 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, \$26,000 was paid to the City, leaving a balance of \$45,990 at June 30, 2008.

**Required Supplementary 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

Required Supplementary Information

Year ended June 30, 2008

	Governmental Funds Actual	Proprietary Funds Actual	Total
<b>Receipts:</b>			
Property tax	\$ 189,832	-	189,832
Tax increment financing	29,529	-	29,529
Other city tax	55,047	-	55,047
Licenses and permits	930	-	930
Use of money and property	6,010	-	6,010
Intergovernmental	91,589	-	91,589
Charges for service	73,590	191,321	264,911
Special assessments	14,027	-	14,027
Miscellaneous	21,533	-	21,533
Total receipts	482,087	191,321	673,408
<b>Disbursements:</b>			
Public safety	19,687	-	19,687
Public works	118,244	-	118,244
Culture and recreation	115,851	-	115,851
Community and economic development	24,373	-	24,373
General government	66,407	-	66,407
Debt service	48,268	-	48,268
Capital projects	24,016	-	24,016
Business type activities	-	792,521	792,521
Total disbursements	416,846	792,521	1,209,367
Excess (deficiency) of receipts over (under) disbursements	65,241	(601,200)	(535,959)
Other financing sources (uses), net	(9,749)	524,492	514,743
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	55,492	(76,708)	(21,216)
Balances beginning of year	193,136	(31,871)	161,265
Balances end of year	\$ 248,628	(108,579)	140,049

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total Variance
184,754	184,754	5,078
18,000	29,500	29
54,930	54,930	117
1,305	1,305	(375)
4,000	4,000	2,010
84,400	84,400	7,189
270,300	270,300	(5,389)
11,000	11,000	3,027
5,400	9,900	11,633
<u>634,089</u>	<u>650,089</u>	<u>23,319</u>
28,194	28,194	8,507
167,450	167,450	49,206
111,980	116,980	1,129
23,750	24,500	127
65,440	68,940	2,533
81,350	81,350	33,082
33,000	36,000	11,984
780,365	780,365	(12,156)
<u>1,291,529</u>	<u>1,303,779</u>	<u>94,412</u>
(657,440)	(653,690)	117,731
<u>670,000</u>	<u>670,000</u>	<u>(155,257)</u>
12,560	16,310	(37,526)
<u>12,342</u>	<u>12,342</u>	<u>148,923</u>
<u><u>24,902</u></u>	<u><u>28,652</u></u>	<u><u>111,397</u></u>

City of Inwood

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2008

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 the discretely presented component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities and non-program. 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 Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$12,250 and budgeted receipts by \$16,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amount budgeted in the business type activities function.



**Other 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, 2008

	Special Revenue		Capital Projects	
	Urban Renewal Tax Increment Financing	Employee Benefits	Subdivision	Total
Receipts:				
Property tax	\$ -	19,978	-	19,978
Tax increment financing	29,529	-	-	29,529
Total receipts	29,529	19,978	-	49,507
Disbursements:				
Operating:				
Community and economic development	15,623	-	-	15,623
General government	-	26,486	-	26,486
Debt service	-	-	4,360	4,360
Total disbursements	15,623	26,486	4,360	46,469
Excess (deficiency) of receipts over (under) disbursements	13,906	(6,508)	(4,360)	3,038
Other financing sources:				
Operating transfers in	-	6,508	-	6,508
Net change in cash balances	13,906	-	(4,360)	9,546
Cash balances beginning of year	11,786	-	(255,040)	(243,254)
Cash balances end of year	\$ 25,692	-	(259,400)	(233,708)
<b>Cash Basis Fund Balances</b>				
Unreserved:				
Special revenue funds	\$ 25,692	-	-	25,692
Capital projects fund	-	-	(259,400)	(259,400)
Total cash basis fund balances	\$ 25,692	-	(259,400)	(233,708)

See accompanying independent auditor's report.

City of Inwood  
 Schedule of Indebtedness  
 Year ended June 30, 2008

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
Anticipatory warrants:			
Sewer construction	Varies	6.00%	\$ 1,273,798

See accompanying independent auditor's report.

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Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
195,000	-	30,000	165,000	9,750
208,004	-	200	207,804	8,318
<u>\$ 403,004</u>	<u>-</u>	<u>30,200</u>	<u>372,804</u>	<u>18,068</u>
<u>402,000</u>	<u>-</u>	<u>23,000</u>	<u>379,000</u>	<u>12,060</u>
<u>776,548</u>	<u>497,250</u>	<u>-</u>	<u>1,273,798</u>	<u>-</u>

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**Schedule 3**

City of Inwood  
 Note Maturities  
 June 30, 2008

Year Ending June 30,	General Obligation Capital Loan Notes					Revenue Capital Loan Notes	
	Essential Corporate Purpose		Essential Corporate Purpose		Total	Sewer	
	Issued Sep 1, 2002		Issued April 28, 2004			Issued Oct 24, 2001	
	Interest Rates	Amount	Interest Rates	Amount		Interest Rates	Amount
2009	5.00%	\$ 30,000	4.00%	\$ 11,100	41,100	3.00%	\$ 24,000
2010	5.00	30,000	4.00	6,704	36,704	3.00	25,000
2011	5.00	35,000	4.00	35,000	70,000	3.00	26,000
2012	5.00	35,000	4.00	35,000	70,000	3.00	26,000
2013	5.00	35,000	4.00	40,000	75,000	3.00	27,000
2014	-	-	4.00	40,000	40,000	3.00	28,000
2015	-	-	4.00	40,000	40,000	3.00	29,000
2016	-	-	-	-	-	3.00	30,000
2017	-	-	-	-	-	3.00	31,000
2018	-	-	-	-	-	3.00	32,000
2019	-	-	-	-	-	3.00	33,000
2020	-	-	-	-	-	3.00	33,000
2021	-	-	-	-	-	3.00	35,000
Total		<u>\$ 165,000</u>		<u>\$ 207,804</u>	<u>372,804</u>		<u>\$ 379,000</u>

See accompanying independent auditor's report.



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

David A. Vaudt, 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, 2008, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated April 3, 2009. 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, 2007. 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

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 our 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items (A), (C), (D), (F) and (H) are material weaknesses.

#### Compliance and Other Matters

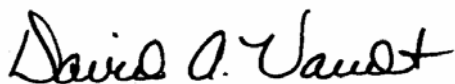
As part of obtaining reasonable assurance about whether the City of Inwood's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material 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 that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 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.

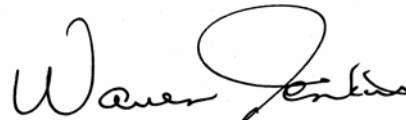
The City of Inwood's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Inwood's responses and, accordingly, we express no opinion on them.

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. This report 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.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

April 3, 2009



City of Inwood

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

**Findings Related to the Financial Statements:**

**SIGNIFICANT DEFICIENCIES:**

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. One person had control over each of the following areas for the City:
- (1) Cash – initiating cash receipt and disbursement transactions, handling and recording cash and reconciling bank accounts.
  - (2) Investments – detailed recording keeping, custody of investments and reconciling earnings.
  - (3) Long-term debt – Maintaining long-term debt records, 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) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.

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

Response – The City of Inwood understands the concern, but with a small office it is difficult to maintain segregation of duties. We will review our policies and make an extra effort to maximize internal controls.

Conclusion – Response accepted.

- (B) Policies and Procedures – The City does not have written policies and procedures for the following:
- Accounting policies and procedures.
  - A policy stating the City’s mission statement, goals and objectives.
  - 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.

City of Inwood  
Schedule of Findings  
Year ended June 30, 2008

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

Response – We plan to develop the policies for the items noted above.

Conclusion – Response accepted.

- (C) Information System – Access to the computer and accounting system are not restricted through the use of user IDs and passwords.

Recommendation – To protect against unauthorized access, the City should restrict access to the computer and the accounting system through the use of user IDs and passwords.

Response – Our computer support company will be contacted to help us implement user IDs and password protection.

Conclusion – Response accepted.

- (D) Bank Reconciliations – Reconciliations of book balances to the bank and cash balances were not documented.

Recommendation – To improve financial accountability and control, a reconciliation of the book balances to bank and cash balances should be prepared and retained. Any variances should be investigated and resolved in a timely manner.

Response – We will now reconcile our bank statements either on the back of the bank statements or on a separate form detailing all reconciling items.

Conclusion – Response accepted.

- (E) Chart of Accounts – The City’s accounting system is not using the Uniform Chart of Accounts for Iowa City Governments.

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

Response – We will work to get our accounts converted to the Uniform Chart of Accounts.

Conclusion – Response accepted.

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

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

Response – A monthly utility reconciliation will be completed each month and approved by the Council.

Conclusion – Response accepted.

City of Inwood

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

- (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 – Time sheets will be prepared and signed by all employees.

Conclusion – Response accepted.

- (H) Financial Reporting – During the audit, we identified a material amount of other financing sources and disbursements related to anticipatory warrants not recorded correctly in the City's accounting system. Adjustments were subsequently made by the City to properly record these amounts in the financial statements.

Recommendation – The City should implement procedures to ensure all other financing sources and disbursements are properly classified and recorded in the City's financial statements.

Response – All disbursements, including anticipatory warrants, will be included in the financial statements.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Inwood  
 Schedule of Findings  
 Year ended June 30, 2008

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

- (1) Certified Budget – Disbursements during the year ended June 30, 2008 exceeded the amount budgeted in the community and economic development function before the budget amendment was adopted. Disbursements also exceeded the amount budgeted in the business type activities 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 accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – Budget amendments will be completed before disbursements exceed 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
Joe Lloyd, Council Member, Postmaster	Postage	\$ 1,950
Allen Hassebroek, Council Member, Owner of AB Auto	Vehicle repair	2,580
Barbara Hassebroek, spouse of Council Member, Insurance Agent	Insurance with ICAP	10,756
Les Gayer, Council Member, employee of Farmer’s Elevator	Diesel fuel and oil	541

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Council Member Gayer do not appear to represent conflicts of interest since total transactions were less than \$1,500 during the fiscal year. The transactions with Council Members Lloyd and Hassebroek and Council Member Hassebroek’s spouse may represent conflicts of interest since total transactions with each exceeded \$1,500 during the fiscal year.

City of Inwood

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Recommendation – The City should consult legal counsel to determine the disposition of the transactions with Council Members Lloyd and Hassebroek and Council Member Hassebroek’s spouse.

Response – The City will consult legal counsel.

Conclusion – Response accepted.

(5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

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

Certain transfers were not approved by the Council and listed in the minutes record.

The City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978 and Chapter 372.13(6) of the Code of Iowa.

Minutes of the meetings of the City Council were not signed in accordance with Chapter 308.7 of the Code of Iowa.

Recommendation – The Council should ensure all transfers are approved through the certified budget, resolutions or minutes record. Also, the City should publish annual individual salaries and comply with Chapter 372.13 of the Code of Iowa. The minutes of the meetings of the City Council should be signed to authenticate the action taken.

Response – Transfers between funds will be approved by our City Council. Annual gross salaries will be published and the City Clerk will sign minutes.

Conclusion – Response accepted.

(7) Deposits and Investments – The City has not developed and approved a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should develop and approve a written investment policy.

Response – We are currently working on an investment policy.

Conclusion – Response accepted.

(8) Sewer Revenue Notes – The City has not established the Operation and Maintenance Fund, Sinking Fund and Reserve Fund as required by the sewer revenue note resolution. The loan disbursement agreement for the Sewer Revenue Note requires an audit to be completed within 180 days after the end of each fiscal year for which the report is prepared. The FY2008 audit was not completed by 12/31/2008. The note resolution requires a parity statement be completed if additional sewer revenue notes on parity with the current notes are to be issued. The City is planning to issue additional sewer revenue notes but has not obtained a parity statement.

City of Inwood

Schedule of Findings

Year ended June 30, 2008

Recommendation – The City should establish the Operation and Maintenance Fund, Sinking Fund and Reserve Fund and make the necessary transfers as required by the note indenture. The City should review the note resolution and loan disbursement agreement and comply with the audit and parity statement requirements.

Response – Sewer Operating Fund, Sinking Fund, and Reserve Fund have been set up and the necessary transfers will be done. We will review the note resolution and loan disbursement agreement and will comply with the audit and parity statement requirements.

Conclusion – Response accepted.

- (9) Financial Condition – The Debt Service, Capital Projects, Subdivision and Sewer Funds had deficit balances at June 30, 2008 of \$1,778, \$259,400 and \$152,890, respectively.

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

Response – Negative account balances will be investigated before the end of each fiscal year.

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, 2006 certified \$647,000 of TIF debt. The City's TIF debt consists entirely of developer rebate agreements in which the City agrees to rebate TIF taxes to the developer(s) 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:

- a) Amounts certified could not be substantiated to ensure they were done so in accordance with Chapter 403.19(5)(a) of the Code of Iowa.
- b) It appears the same debt is recertified, which is not allowed by Chapter 403.19(5)(a) of the Code of Iowa.

Recommendation – The City should review the December 1, 2006 TIF debt certification and adjust for the above items through future certifications. Amounts included in the certification should be supported.

Response – The TIF certification will be reviewed and adjusted accordingly.

Conclusion – Response accepted.

- (11) Annual Financial Report – The City's annual financial report was prepared and filed timely for the fiscal year ended June 30, 2008. However, the report contained material errors in certain receipt and disbursement line items for the proprietary funds. The report also did not disclose \$1.3 million in long-term debt related to anticipatory warrants for a sewer project.

City of Inwood

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Recommendation – The City should amend the annual financial report to correctly report receipts, disbursements and long-term debt balances.

Response – We will amend and republish the annual financial report.

Conclusion – Response accepted.

- (12) Constitutional Debt Limitation – Cities in the State of Iowa are allowed to issue general obligation debt up to a limit of 5% of the taxable valuation of all property in the City. At June 30, 2008, the City was \$119,796 over its constitutional debt limitation.

Recommendation – The City should consult legal counsel.

Response – The City is in the process of issuing sewer revenue notes, which will eliminate the excess general obligation debt. Legal counsel has been contacted.

Conclusion – Response accepted

- (13) Payment of General Obligation Debt – Certain general obligation capital loan note principal was paid from the Capital Projects, Subdivision 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, Subdivision 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 – All payments for notes will be made through the Debt Service Fund and transfers will be completed, if necessary.

Conclusion – Response accepted.

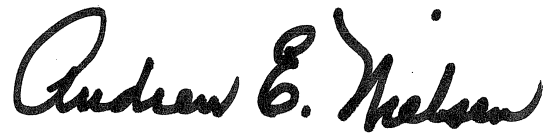
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City of Inwood

Staff

This audit was performed by:

Joe T. Marturello, CIA, Manager  
Michael P. Piehl, Senior Auditor  
Jessica P. V. Green, 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 a distinct dot over the 'i' in Nielsen.

Andrew E. Nielsen, CPA  
Deputy Auditor of State