

CITY OF BELMOND, IOWA

FINANCIAL STATEMENTS

JUNE 30, 2005

Table of Contents

Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis (MD&A)	4-9
Basic Financial Statements	
Government-Wide Financial Statement	
Statement of Activities and Net Assets - Cash Basis.....	10
Governmental Fund Financial Statements	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances.....	11
Proprietary Fund Financial Statement	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances.....	12
Notes to the Financial Statements.....	13-19
Required Supplementary Information	
Schedule of Budgetary Comparison of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds.....	20
Other Supplementary Information	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds.....	21
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Proprietary Funds.....	22
Schedule of Indebtedness.....	23
Schedule of Bond and Note Maturities	24
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds	25
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting	26-29

Officials

Name	Title	Term Expires
Elected Officials		
Jerry A. Greenwood	Mayor	January, 2006
Harlan Tulp	Council member	January, 2006
Sidney Swenson	Council member	January, 2006
Earl Kalkwarf	Council member	January, 2006
Todd Buseman	Council member	January, 2008
Bradley Bloemke	Council member	January, 2008
Appointed Officials		
Lee Ann Waltzing	Manager/Clerk/Treasurer	Indefinite
Gary Berkland	Attorney	Indefinite

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Belmond, Iowa

We have audited the accompanying financial statements of the primary governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Belmond, Iowa, as of and for the year ended June 30, 2005 which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 that our audit provides a reasonable basis for our opinion.

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 accounting principles generally accepted in the United States of America.

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate. Such legally separate entities are referred to as component units. In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the primary governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Belmond at June 30, 2005, and the respective changes in the cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

The primary government financial statements do not include the financial data of legally separate component units which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Belmond at June 30, 2005, and the respective changes in the 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 reports dated July 21, 2005 on our consideration of the City of Belmond, Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of those reports 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. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on Pages 4 through 9 and Page 20 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. We previously audited the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and supplemental data in accordance with the standards referred to in the second paragraph of this report and expressed unqualified opinions on those financial statements and supplemental data. Other supplemental information included on Pages 21 through 25 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, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
July 21, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Belmont 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, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 5%, or approximately \$84,800, from fiscal 2004 to fiscal 2005. Local option sales tax revenues increased by \$37,871 while charges for services increased approximately \$9,000 and the City sold property for \$38,964.
- Disbursements increased less than 1%, or approximately \$12,000, in fiscal 2005 from fiscal 2004. All program areas increased except for debt service, capital and nonprogram disbursements, which decreased offsetting the other increases within 1% of the previous year's budget.
- The City's total cash basis net assets decreased 40%, or approximately \$692,000, from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities decreased approximately \$766,000 and the assets of the business-type activities increased by approximately \$74,000.

USING THIS ANNUAL REPORT

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

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- The Government-Wide Financial Statement consists of a Statement of Activities and Net Assets - Cash Basis. 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 the 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 non-major governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with the U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this financial report, the reader 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”. This Statement of Activities and Net Assets - Cash Basis reports information which helps answer this question.

The Statement of Activities and Net Assets - Cash Basis 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 improving or deteriorating.

The Statement of Activities and Net Assets - Cash Basis is divided into two kinds of activities.

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects.
- Business-Type Activities include the water works 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: a) the General fund, b) Special Revenue Funds, such as Road Use Tax, Local Option Sales Tax and Economic Development Funds, c) the Debt Service Fund, d) the Capital Projects Fund and e) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City’s general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs.

The required financial statements for governmental funds include 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 four Enterprise Funds to provide separate information. The water and sewer funds are considered major funds of the City.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased sharply from a year ago, decreasing from \$1,529,920 to \$763,601. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year Ended June 30, 2005
Receipts and Transfers:	
Program Receipts:	
Charges for service	\$ 122,196
Operating grants, contributions and restricted interest	245,756
Capital grants, contributions and restricted interest	73,712
General Receipts:	
Property tax	831,165
Local option sales tax	204,538
Grants and contributions not restricted to specific purposes	17,557
Unrestricted investment earnings	12,012
Other general receipts	73,808
Transfers, net	<u>161,018</u>
Total Receipts and Transfers	<u>1,741,762</u>
Disbursements:	
Public safety	329,833
Public works	193,829
Health and social services	12,125
Culture and recreation	252,874
Community and economic development	41,922
General government	175,801
Debt service	476,996
Capital projects	<u>1,024,701</u>
Total Disbursements	<u>2,508,081</u>
Decrease in Cash Basis Net Assets	(766,319)
Cash Basis Net Assets - Beginning of Year	<u>1,529,920</u>
Cash Basis Net Assets - End of Year	<u>\$ 763,601</u>

The City's total receipts for governmental activities increased by 10.3%, or \$121,711. The total cost of all programs and services increased approximately \$12,000, or 0.48%, with no new programs added this year. The significant increase in receipts was primarily the result of transfers made to cover bond costs.

The City decreased property tax rates for 2005 by an average of 0.13%. Because of a change in valuation, the City's property tax receipts increased by approximately \$3,160 in 2005. Based on increases in the total assessed valuation, property tax receipts are budgeted to increase by an additional \$5,393 next year.

The cost of all governmental activities this year was \$2,508,081 compared to \$2,496,005 last year. However, as shown in the Statement of Activities and Net Assets - Cash Basis on Page 10, the amount taxpayers ultimately financed for these activities was only \$2,066,417 because some of the cost was paid by those directly benefited from the programs (\$122,196) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$319,468). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2005 from approximately \$479,000 to approximately \$442,000 principally due to fewer contributions being made as they had in the previous year to capital projects. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$831,000 in taxes (some of which could only be used from certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business-Type Activities	
	Year Ended June 30, 2005
Receipts:	
Program Receipts:	
Charges for Service and Miscellaneous:	
Water	\$ 296,104
Sewer	294,140
Landfill	72,792
General Receipts:	
Unrestricted investment earnings	<u>4,127</u>
Total Receipts	<u>667,163</u>
Disbursements:	
Water	212,881
Sewer	155,148
Landfill	64,110
Transfers	<u>161,018</u>
Total Disbursements and Transfers	<u>593,157</u>
Increase in Cash Basis Net Assets	74,006
Cash Basis Net Assets - Beginning of Year	<u>219,683</u>
Cash Basis Net Assets - End of Year	<u>\$ 293,689</u>

Total business-type activities receipts for the fiscal year were \$667,163 compared to \$570,542 last year. This significant increase was due primarily to the increases in the rates for services. The cash balance increased by approximately \$74,000 from the prior year because the City implemented new rates for services in order to establish a water plant capital fund. Total disbursements and transfers for the fiscal year increased by 17.7% to a total of \$593,157.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Belmont completed the year, its governmental funds reported a combined fund balance of \$763,601, a decrease of \$766,319 from last year's total of \$1,529,920. 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 by approximately \$100,000 from the prior year to \$369,381. This increase was mainly due to the transfers into the general fund for the other funds.
- The Road Use Tax Fund cash balance decreased by approximately \$71,000 to \$3,957 during the fiscal year. This decrease was due to using this money to make street improvements.
- The Local Option Sales Tax Fund cash balance increased by approximately \$98,800 from the prior year as we are anticipating the need to have additional funds available for capital projects.
- The Economic Development Fund cash balance decreased by \$10,881 to \$79,653 as a result of issuing two new loans.
- The Capital Projects Fund cash balance decreased by \$845,229 to \$15,365 during the fiscal year. This decrease was due to the construction of First Street SE.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

- The Water Fund cash balance increased by approximately \$84,000 to \$209,729 due primarily to the City's desire to build a cash reserve for a new plant and increasing rates to establish the water capital account.
- The Sewer Fund cash balance decreased by \$19,150 to \$28,219 due primarily to additional costs being incurred as the plant ages.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 16, 2005 to provide for additional disbursements in certain City departments. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2005, the City had \$3,220,675 in bonds and other long-term debt, compared to \$3,557,000 last year, as shown below.

Outstanding Debt at Year End	
	Year Ended June 30, 2005
General obligation bonds	\$ 2,925,000
Urban renewal tax increment financing revenue bonds	<u>295,675</u>
Total	<u>\$ 3,220,675</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$3,220,675 is below its constitutional debt limit of \$4,410,477 at June 30, 2005.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Belmond's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates and fees that will be charged for various City activities. One of those factors is the economy. During the budget preparation, the consumer price index was listed at 2.99%. In addition, the employees were granted a 3% wage increase for the fiscal year beginning July 1, 2005. Since the budget was approved, gasoline and steel prices have increased substantially.

The City Council implemented new rates for sewer usage.

These indicators were taken into account when adopting the budget for fiscal year 2006. Amounts available for appropriation in the operating budget are \$3,934,674. Included in this amount are \$1,747,641 of fund transfers between different funds of the City. Net of transfers total amounts available for appropriation are \$2,187,033, an increase of less than 1% from the final 2005 budget. Budgeted disbursements (net of transfers between different funds of the City) are expected to decrease by \$317,300 from the 2005 budget. The decrease is due to the City not having any capital projects planned in the fiscal year. The City has added no major new programs or initiatives to the 2006 budget.

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 Lee Ann Waltzing, City Manager/Clerk, 112 - 2nd Avenue NE, P.O. Box 192, Belmond, Iowa 50421-0192.

Basic Financial Statements

Statement of Activities and Net Assets - Cash Basis

Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts			Net (Disbursements), Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
Public safety	\$ 329,833	\$ 24,913	\$ 8,078	\$ 40,632	\$ (256,210)	\$ —	\$ (256,210)
Public works	193,829	5,557	212,853	—	24,581	—	24,581
Health and social services.....	12,125	—	—	—	(12,125)	—	(12,125)
Culture and recreation.....	252,874	56,059	24,825	31,000	(140,990)	—	(140,990)
Community and economic development	41,922	12,009	—	—	(29,913)	—	(29,913)
General government.....	175,801	23,658	—	—	(152,143)	—	(152,143)
Debt service.....	476,996	—	—	—	(476,996)	—	(476,996)
Capital projects.....	1,024,701	—	—	2,080	(1,022,621)	—	(1,022,621)
Total Governmental Activities	<u>2,508,081</u>	<u>122,196</u>	<u>245,756</u>	<u>73,712</u>	<u>(2,066,417)</u>	<u>—</u>	<u>(2,066,417)</u>
Business-Type Activities							
Water.....	212,991	296,856	—	—	—	83,865	83,865
Sewer	155,148	294,140	—	—	—	138,992	138,992
Landfill	64,000	72,040	—	—	—	8,040	8,040
Total Business-Type Activities	<u>432,139</u>	<u>663,036</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>230,897</u>	<u>230,897</u>
Total.....	<u>\$ 2,940,220</u>	<u>\$ 785,232</u>	<u>\$ 245,756</u>	<u>\$ 73,712</u>	<u>(2,066,417)</u>	<u>230,897</u>	<u>(1,835,520)</u>
General Receipts							
Property Taxes Levied For							
General purposes.....					478,432	—	478,432
Tax increment financing.....					27,919	—	27,919
Debt service					176,574	—	176,574
Employee benefits.....					133,748	—	133,748
Emergency					14,474	—	14,474
Special assessments					18	—	18
Other City taxes.....					34,844	—	34,844
Local option sales tax.....					204,538	—	204,538
Sale of land.....					38,964	—	38,964
Grants and contributions not restricted to specific purpose.....					17,557	—	17,557
Unrestricted interest on investments					12,012	4,127	16,139
Transfers					161,018	(161,018)	—
Total General Receipts and Transfers					<u>1,300,098</u>	<u>(156,891)</u>	<u>1,143,207</u>
Increase (Decrease) in Cash Basis Net Assets					<u>(766,319)</u>	<u>74,006</u>	<u>(692,313)</u>
Cash Basis Net Assets - Beginning of Year					1,529,920	219,683	1,749,603
Cash Basis Net Assets - End of Year					<u>\$ 763,601</u>	<u>\$ 293,689</u>	<u>\$ 1,057,290</u>
Cash Basis Net Assets							
Restricted							
Streets.....					\$ 3,957	\$ —	\$ 3,957
Urban renewal purposes.....					2,652	—	2,652
Debt service					2,678	—	2,678
Other purposes					322,973	—	322,973
Unrestricted					431,341	293,689	725,030
Total Cash Basis Net Assets					<u>\$ 763,601</u>	<u>\$ 293,689</u>	<u>\$ 1,057,290</u>

See accompanying notes to the financial statements.

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

Year Ended June 30, 2005

	General	Special Revenue				Debt Service	Capital Projects - Streets	Other Nonmajor Governmental Funds	Total
		Road Use Tax	Local Option Sales Tax	Economic Development					
Receipts									
Property taxes	\$ 478,432	\$ —	\$ —	\$ —	\$ 176,574	\$ —	\$ 148,222	\$ 803,228	
T.I.F. collections	—	—	—	—	—	—	27,919	27,919	
Other city taxes.....	36,776	—	204,538	—	7,572	—	6,469	255,355	
Licenses and permits.....	5,070	—	—	—	—	—	—	5,070	
Use of money and property	8,517	—	1,986	1,181	—	3,118	1,885	16,687	
Intergovernmental.....	33,969	212,853	—	—	—	—	—	246,822	
Charges for service	43,958	—	—	—	—	—	—	43,958	
Special assessments.....	—	—	—	—	—	18	—	18	
Miscellaneous.....	88,846	—	—	8,979	—	—	44,898	142,723	
Total Receipts	695,568	212,853	206,524	10,160	184,146	3,136	229,393	1,541,780	
Disbursements									
Operating									
Public safety	326,242	—	—	—	—	—	3,591	329,833	
Public works	33,231	160,598	—	—	—	—	—	193,829	
Health and social services.....	12,125	—	—	—	—	—	—	12,125	
Culture and recreation	252,874	—	—	—	—	—	—	252,874	
Community and economic development	15,436	—	—	21,041	—	—	5,445	41,922	
General government.....	155,926	—	—	—	—	—	19,875	175,801	
Debt service.....	—	—	—	—	413,850	—	63,146	476,996	
Capital projects.....	45,630	—	—	—	—	940,798	38,273	1,024,701	
Total Disbursements	841,464	160,598	—	21,041	413,850	940,798	130,330	2,508,081	
Receipts Over (Under) Disbursements.....	(145,896)	52,255	206,524	(10,881)	(229,704)	(937,662)	99,063	(966,301)	
Other Financing Sources (Uses)									
Sale of land.....	—	—	—	—	—	—	38,964	38,964	
Operating transfers in.....	303,433	6,231	70,903	—	228,653	93,813	123,534	826,567	
Operating transfers out.....	(57,435)	(129,488)	(178,635)	—	—	(1,380)	(298,611)	(665,549)	
Total Other Financing Sources (Uses)	245,998	(123,257)	(107,732)	—	228,653	92,433	(136,113)	199,982	
Increase (Decrease) in Cash Balances.....	100,102	(71,002)	98,792	(10,881)	(1,051)	(845,229)	(37,050)	(766,319)	
Cash Balances - Beginning of Year.....	269,279	74,959	529	90,534	3,729	860,594	230,296	1,529,920	
Cash Balances - End of Year	\$ 369,381	\$ 3,957	\$ 99,321	\$ 79,653	\$ 2,678	\$ 15,365	\$ 193,246	\$ 763,601	
Cash Basis Fund Balances									
Reserved									
Debt service.....	\$ —	\$ —	\$ —	\$ —	\$ 2,678	\$ —	\$ —	\$ 2,678	
Unreserved									
General fund.....	369,381	—	—	—	—	—	—	369,381	
Special revenue funds	—	3,957	99,321	79,653	—	—	93,313	276,244	
Capital projects fund.....	—	—	—	—	—	15,365	46,595	61,960	
Permanent fund	—	—	—	—	—	—	53,338	53,338	
Total Cash Basis Fund Balances	\$ 369,381	\$ 3,957	\$ 99,321	\$ 79,653	\$ 2,678	\$ 15,365	\$ 193,246	\$ 763,601	

See accompanying notes to financial statements.

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

Year Ended June 30, 2005

	Water	Sewer	Other Proprietary Funds	Total
Operating Receipts				
Use of money and property	\$ 2,749	\$ 876	\$ 502	\$ 4,127
Charges for service	274,946	291,931	72,026	638,903
Miscellaneous.....	<u>21,158</u>	<u>2,209</u>	<u>766</u>	<u>24,133</u>
Total Operating Receipts.....	<u>298,853</u>	<u>295,016</u>	<u>73,294</u>	<u>667,163</u>
Operating Disbursements				
Business-type activities	<u>212,881</u>	<u>155,148</u>	<u>64,110</u>	<u>432,139</u>
Operating Receipts Over Operating Disbursements				
	<u>85,972</u>	<u>139,868</u>	<u>9,184</u>	<u>235,024</u>
Operating Transfers In (Out)				
Operating transfers in.....	84,000	57,435	—	141,435
Operating transfers out.....	<u>(86,000)</u>	<u>(216,453)</u>	<u>—</u>	<u>(302,453)</u>
Net Operating Transfers Out.....	<u>(2,000)</u>	<u>(159,018)</u>	<u>—</u>	<u>(161,018)</u>
Increase (Decrease) in Cash Balances..				
Cash Balances - Beginning of Year.....	<u>125,757</u>	<u>47,369</u>	<u>46,557</u>	<u>219,683</u>
Cash Balances - End of Year	<u>\$ 209,729</u>	<u>\$ 28,219</u>	<u>\$ 55,741</u>	<u>\$ 293,689</u>
Cash Basis Fund Balances				
Unreserved	<u>\$ 209,729</u>	<u>\$ 28,219</u>	<u>\$ 55,741</u>	<u>\$ 293,689</u>

See accompanying notes to the financial statements.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

The City of Belmond, Iowa, is a political subdivision of the State of Iowa located in Wright County. It was first incorporated in 1881 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 nonpartisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

Reporting Entity

For financial reporting purposes, the City of Belmond 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 Belmond (the primary government) and do not include its component units, Belmond Community Hospital (Hospital) and the Belmond Public Library Foundation (Foundation) which also includes Friends of the Talbot Belmond Public Library (Friends).

Excluded Component Units

The Hospital is governed by its own Board of Trustees and is dependent on the City Council to approve any debt or payment thereof in excess of the amount of taxes already levied. The Hospital issues its own financial statements prepared in accordance with generally accepted accounting principles. Management has elected to exclude all financial information of the Hospital for financial reporting purposes. A copy of the Hospital's financial statements may be obtained from Lee Ann Waltzing, City Manager/Clerk, Belmond City Hall, Belmond, Iowa.

The Foundation and Friends (an Iowa nonprofit corporation) is a legally separate entity from the City. The Foundation and Friends are governed by their own board. The Foundation and Friends were formed for the direct benefit of the Talbot Belmond Public Library (Library). Economic resources received by the Foundation and Friends are used for the direct benefit of the Library and, therefore, the City's constituents.

The Foundation and Friends have a November fiscal year end. The Foundation and Friends do not prepare financial statements; therefore, audited financial statements are not available. Management has elected to exclude the cash transactions of the Foundation and Friends from City financial statements. Unaudited financial information from the Foundation and Friends' fiscal year end 2004 tax return includes total receipts of \$96,241, cash disbursements excluding fund-raising costs of \$14,719, professional fund-raising disbursements of \$0, a beginning balance of \$337, other decreases of \$0 and an ending balance of \$81,859. Therefore, to avoid material misstatements of governmental activities and aggregate nonmajor fund information of the City, the Foundation and Friends should be included as a discrete component unit in the City's financial statements.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods and 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: Wright County Assessor's Conference Board, Wright County Communications Commission, Wright County Area Landfill Authority, MIDAS Council of Government and the Mid-Iowa Regional Housing Association.

Basis of Presentation

Government-Wide Financial Statements

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 revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities and net assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Total restricted net assets at June 30, 2005 were \$332,260.

Unrestricted net assets consist of net assets that do not meet 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 other 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 that are not paid from other funds.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Special Revenue

The *Road Use Tax Fund* is used to account for road construction and maintenance.

The *Local Option Sales Tax Fund* is used to account for local option sales tax collections and transfers.

The *Economic Development Fund* is used to make low-interest loans to qualifying businesses located in the City.

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

The *Capital Projects - Streets Fund* is used to account for the resources used in the construction of streets.

The City reports the following major proprietary funds:

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

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

Basis of Accounting

The City of Belmond 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 fund in accordance with accounting principles generally accepted in the United States of America.

Proprietary funds distinguish operating receipts and disbursements from nonoperating 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 nonoperating receipts and disbursements.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as required supplementary information. During the year ended June 30, 2005, the City exceeded the amounts budgeted in the capital projects and business-type activities functions.

(2) Deposits and Investments

The City's deposits in banks at June 30, 2005 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.

Notes to the Financial Statements

(2) Deposits and Investments

The City is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities, certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council, prime eligible bankers acceptances, certain high-rated commercial paper, perfected repurchase agreements, certain registered open-end management investment companies, certain joint investment trusts and warrants or improvement certificates of a drainage district.

City investments are categorized to give an indication of the level of risk assumed by the City at year end. The City had no investments at June 30, 2005.

(3) Bonded Indebtedness

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

Year Ending 6-30	General Obligation Bonds		Urban Renewal Tax Increment Financing (T.I.F.) Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 300,000	\$ 117,801	\$ 135,675	\$ 14,784	\$ 435,675	\$ 132,585
2007	280,000	105,862	50,000	8,000	330,000	113,862
2008	300,000	94,318	50,000	5,500	350,000	99,818
2009	310,000	81,671	60,000	3,000	370,000	84,671
2010	320,000	67,981	—	—	320,000	67,981
2011-14	725,000	164,868	—	—	725,000	164,868
2015-19	690,000	78,290	—	—	690,000	78,290
	<u>\$ 2,925,000</u>	<u>\$ 710,791</u>	<u>\$ 295,675</u>	<u>\$ 31,284</u>	<u>\$ 3,220,675</u>	<u>\$ 742,075</u>

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Special Revenue Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City, however, the debt is subject to the constitutional debt limitation of the City.

(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.

Notes to the Financial Statements

(4) Pension and Retirement Benefits

Plan members are required to contribute 3.7% of their annual salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.907%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$35,174, \$34,286 and \$34,525, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of 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 compensated absences payable to employees at June 30, 2005, primarily relating to the General Fund is as follows:

Type of Benefit	June 30, 2005
Vacation.....	<u>\$ 22,785</u>

This liability has been computed based on rates of pay as of June 30, 2005.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer To	Transfer From	Amount
General	Special Revenue	
	Group Insurance	\$ 50,820
	Workers Compensation	19,970
	Employee Retirement	53,694
	Emergency	15,134
	Local Option Sales Tax	117,435
	Capital Projects	
	Streets	1,362
	Enterprise	
	Sewer Rental	<u>45,018</u>
		<u>303,433</u>
Special Revenue	Special Revenue	
Road Use Tax	Employee Retirement	<u>6,231</u>

Notes to the Financial Statements

(6) Interfund Transfers

Transfer To	Transfer From	Amount
Special Revenue	Special Revenue	
Employee Benefits	Road Use Tax	\$ 2,000
	Group Insurance	14,963
	Enterprise	
	Water	2,000
	Sewer Rental	<u>4,000</u>
		<u>22,963</u>
Debt Service	Special Revenue	
	Local Option Sales Tax	61,200
	Capital Projects	
	Streets	18
	Enterprise	
	Sewer Rental	<u>167,435</u>
		<u>228,653</u>
Special Revenue	Special Revenue	
Tax Increment Financing Sinking	Tax Increment Financing	<u>66,896</u>
Special Revenue	Capital Projects	
Local Option Sales Tax	Fire Station	<u>70,903</u>
Capital Projects	Special Revenue	
Streets	Road Use Tax	<u>93,813</u>
Capital Projects	Special Revenue	
Industrial Park	Road Use Tax	<u>33,675</u>
Enterprise	Enterprise	
Water Reserve	Water	<u>84,000</u>
Enterprise	General	<u>57,435</u>
Sewer		
Total		<u>\$ 968,002</u>

(7) Related Entities

The City had business transactions totaling \$7,274 between the City and City officials during the year ended June 30, 2005.

(8) Risk Management

The City of Belmond 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.

Notes to the Financial Statements

(9) Wright County Area Landfill Authority

The City is a member of the Wright County Area Landfill Authority (Authority) which provides for the collection and disposal of solid waste produced or generated within the municipalities that are members. On dissolution of the corporation, the net assets of the Authority will be prorated among municipalities. The Authority is governed by a board composed of an elected representative of the governing body of each participating governmental jurisdiction.

The Authority is not accumulating sufficient financial resources and the participating governments are obligated for a proportionate share of the debts; therefore, the City of Belmond has an ongoing financial responsibility.

During 1994, the Authority issued \$460,000 in notes and used the proceeds to finance the costs of acquiring and constructing works and facilities useful for the collection and disposal of solid waste, including costs incurred or to be funded by the Authority on behalf of the County and the other Municipalities, consisting of certain landfill closure costs, the acquisition of equipment and machinery, transfer station improvements and composting facilities and the refunding of outstanding indebtedness incurred by the Authority with respect thereto. The City's share of the debt totaled approximately \$37,331 at June 30, 2005. On May 1, 1995 the Rural Iowa Waste Management Association, of which the Authority is a member, issued \$830,000 of Solid Waste Revenue Bonds. The City's share of this debt totaled approximately \$39,727 at June 30, 2005.

The City is also obligated to remit a share of the operating and administration costs. During the year ended June 30, 2005, the City of Belmond paid the Authority \$64,000 for its share of the costs. Financial statements for the Authority can be obtained from the Wright County Area Landfill Authority.

(10) Commitments

At June 30, 2005, the City had entered into contracts for street improvements in the approximate amounts below:

Project	Total Contract	Paid Through June 30, 2005	Approximate Remaining Commitment
2004 Street Improvements	\$905,000	\$832,000	\$73,000

(11) Health Care Facility Revenue Bond

During 1997, the City issued a \$287,722 health care facility bond under the provisions of Chapter 419 of the Code of Iowa, of which \$212,998 was outstanding at June 30, 2005. The bond and related interest are payable from the rents paid by tenants of the borrower's facilities. The bond principal and interest do not constitute liabilities of the City.

Required Supplementary Information



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

Year Ended June 30, 2005

	Govern- mental Funds Actual	Propri- etary Funds Actual	Net	Budget Amounts		Final To Net Variance
				Original	Final	
Receipts						
Property taxes	\$ 803,228	\$ —	\$ 803,228	\$ 803,062	\$ 803,062	\$ 166
T.I.F. collections	27,919	—	27,919	30,386	30,386	(2,467)
Other city taxes	255,355	—	255,355	189,703	246,731	8,624
Licenses and permits	5,070	—	5,070	4,475	5,043	27
Use of money and property	16,687	4,127	20,814	43,705	55,123	(34,309)
Intergovernmental	246,822	—	246,822	235,300	241,728	5,094
Charges for service	43,958	638,903	682,861	718,178	707,590	(24,729)
Special assessments	18	—	18	—	20	(2)
Miscellaneous	142,723	24,133	166,856	120,169	162,304	4,552
Total Receipts	1,541,780	667,163	2,208,943	2,144,978	2,251,987	(43,044)
Disbursements						
Public safety	329,833	—	329,833	348,589	362,355	32,522
Public works	193,829	—	193,829	216,151	200,402	6,573
Health and social services	12,125	—	12,125	6,500	12,125	—
Culture and recreation	252,874	—	252,874	235,306	284,771	31,897
Community and economic development	41,922	—	41,922	62,325	59,550	17,628
General government	175,801	—	175,801	180,526	193,968	18,167
Debt service	476,996	—	476,996	478,850	478,850	1,854
Capital projects	1,024,701	—	1,024,701	1,267,000	967,088	(57,613)
Business-type activities	—	432,139	432,139	402,203	427,615	(4,524)
Total Disbursements	2,508,081	432,139	2,940,220	3,197,450	2,986,724	46,504
Receipts Over (Under) Disbursements	(966,301)	235,024	(731,277)	(1,052,472)	(734,737)	(3,460)
Other Financing Sources, Net	199,982	(161,018)	38,964	705,380	—	(38,964)
Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	(766,319)	74,006	(692,313)	(347,092)	(734,737)	(42,424)
Balances - Beginning of Year	1,529,920	219,683	1,749,603	1,256,867	1,749,603	—
Balances - End of Year	\$ 763,601	\$ 293,689	\$ 1,057,290	\$ 909,775	\$ 1,014,866	\$ (42,424)

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 a permanent fund. 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 or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type activities and nonprogram. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds and proprietary funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment decreased budgeted disbursements by \$210,726. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the capital projects and business-type activities functions.

Other Supplementary Information 

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

Year Ended June 30, 2005

	Special Revenue								Capital Projects			Permanent	Total	
	Employee Benefits	Emergency	Urban Renewal Tax Increment	Community Room	Housing Assistance	T.I.F. Sinking Fund	Memorial Park Fund	Veterans Memorial Fund	Restitution Fund	Fire Station	Library	Industrial Park		Cemetery Perpetual Care Fund
Receipts														
Property taxes	\$ 133,748	\$ 14,474	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 148,222
T.I.F. collections	—	—	27,919	—	—	—	—	—	—	—	—	—	—	27,919
Other city taxes.....	5,837	632	—	—	—	—	—	—	—	—	—	—	—	6,469
Use of money and property	313	—	7	707	—	488	193	41	136	—	—	—	—	1,885
Miscellaneous.....	6,669	—	3,397	—	—	—	31,000	—	777	1,225	255	600	975	44,898
Total Receipts.....	146,567	15,106	31,323	707	—	488	31,193	41	913	1,225	255	600	975	229,393
Disbursements														
Operating														
Public Safety	—	—	—	—	—	—	—	—	3,591	—	—	—	—	3,591
Community and Economic Development	—	—	4,969	476	—	—	—	—	—	—	—	—	—	5,445
General Government.....	19,875	—	—	—	—	—	—	—	—	—	—	—	—	19,875
Debt Service	—	—	—	—	—	63,146	—	—	—	—	—	—	—	63,146
Capital Projects	—	—	—	—	—	—	33,489	—	—	1,588	1,361	1,835	—	38,273
Total Disbursements.....	19,875	—	4,969	476	—	63,146	33,489	—	3,591	1,588	1,361	1,835	—	130,330
Receipts Over (Under) Disbursements.....	126,692	15,106	26,354	231	—	(62,658)	(2,296)	41	(2,678)	(363)	(1,106)	(1,235)	975	99,063
Other Financing Sources (Uses)														
Sale of land.....	—	—	38,964	—	—	—	—	—	—	—	—	—	—	38,964
Operating transfers in.....	22,963	—	—	—	—	66,896	—	—	—	—	—	33,675	—	123,534
Operating transfers out.....	(145,678)	(15,134)	(66,896)	—	—	—	—	—	—	(70,903)	—	—	—	(298,611)
Total Other Financing Sources (Uses)	(122,715)	(15,134)	(27,932)	—	—	66,896	—	—	—	(70,903)	—	33,675	—	(136,113)
Increase (Decrease) in Cash Balances	3,977	(28)	(1,578)	231	—	4,238	(2,296)	41	(2,678)	(71,266)	(1,106)	32,440	975	(37,050)
Cash Balances - Beginning of Year.....	32,132	162	4,230	791	26,085	406	16,678	2,578	8,344	72,491	14,036	—	52,363	230,296
Cash Balances - End of Year	\$ 36,109	\$ 134	\$ 2,652	\$ 1,022	\$ 26,085	\$ 4,644	\$ 14,382	\$ 2,619	\$ 5,666	\$ 1,225	\$ 12,930	\$ 32,440	\$ 53,338	\$ 193,246
Cash Basis Fund Balances														
Unreserved														
Special revenue funds.....	\$ 36,109	\$ 134	\$ 2,652	\$ 1,022	\$ 26,085	\$ 4,644	\$ 14,382	\$ 2,619	\$ 5,666	\$ —	\$ —	\$ —	\$ —	\$ 93,313
Capital projects funds.....	—	—	—	—	—	—	—	—	—	1,225	12,930	32,440	—	46,595
Permanent fund.....	—	—	—	—	—	—	—	—	—	—	—	—	53,338	53,338
Total Cash Basis Fund Balances	\$ 36,109	\$ 134	\$ 2,652	\$ 1,022	\$ 26,085	\$ 4,644	\$ 14,382	\$ 2,619	\$ 5,666	\$ 1,225	\$ 12,930	\$ 32,440	\$ 53,338	\$ 193,246

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

Year Ended June 30, 2005

	Customer Deposits	Landfill	Total
Operating Receipts			
Use of money and property	\$ —	\$ 502	\$ 502
Charges for service	—	72,026	72,026
Miscellaneous.....	751	15	766
Total Operating Receipts	<u>751</u>	<u>72,543</u>	<u>73,294</u>
Operating Disbursements			
Business-type activities	<u>110</u>	<u>64,000</u>	<u>64,110</u>
Increase in Cash Balances	641	8,543	9,184
Cash Balances - Beginning of Year.....	<u>23,249</u>	<u>23,308</u>	<u>46,557</u>
Cash Balances - End of Year	<u>\$ 23,890</u>	<u>\$ 31,851</u>	<u>\$ 55,741</u>
Cash Basis Fund Balances			
Unreserved	<u>\$ 23,890</u>	<u>\$ 31,851</u>	<u>\$ 55,741</u>

Schedule of Indebtedness

Year Ended June 30, 2005

	Amount Originally Issued	Date of Issue	Interest Rates
General Obligation Bonds			
Sewer treatment plant.....	\$1,300,000	12-1-95	4.90 - 5.50%
City Hall.....	200,000	9-1-99	4.50
Fire station	400,000	4-15-02	4.50
Street improvement.....	1,800,000	3-20-03	1.65 - 4.55
Total General Obligation Bonds.....			
Urban Renewal Tax Increment Financing (T.I.F.) Revenue Bonds			
Dumond Estates.....	\$ 400,000	2-18-98	5.00%

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 970,000	\$ —	\$ 120,000	\$ 850,000	\$ 47,435	\$ —
80,000	—	40,000	40,000	3,600	—
360,000	—	45,000	315,000	16,200	—
<u>1,800,000</u>	<u>—</u>	<u>80,000</u>	<u>1,720,000</u>	<u>61,615</u>	<u>—</u>
<u>\$ 3,210,000</u>	<u>\$ —</u>	<u>\$ 285,000</u>	<u>\$ 2,925,000</u>	<u>\$ 128,850</u>	<u>\$ —</u>
<u>\$ 347,000</u>	<u>\$ —</u>	<u>\$ 51,325</u>	<u>\$ 295,675</u>	<u>\$ 11,821</u>	<u>\$ —</u>

Schedule of Bond and Note Maturities

At June 30, 2005

Year Ending June 30,	General Obligation Bonds			
	Sewer Treatment Plant		City Hall	
	Issued 12-1-95		Issued 9-1-99	
	Interest Rates	Amount	Interest Rates	Amount
2006.....	4.90%	\$ 125,000	4.50%	\$ 40,000
2007.....	5.05	130,000	—	—
2008.....	5.20	140,000	—	—
2009.....	5.30	145,000	—	—
2010.....	5.40	150,000	—	—
2011.....	5.50	160,000	—	—
2012.....	—	—	—	—
2013.....	—	—	—	—
2014.....	—	—	—	—
2015.....	—	—	—	—
2016.....	—	—	—	—
2017.....	—	—	—	—
2018.....	—	—	—	—
2019.....	—	—	—	—
Totals		<u>\$ 850,000</u>		<u>\$ 40,000</u>

General Obligation Bonds					Urban Renewal Tax Increment Financing (T.I.F.) Revenue Bond Dumond Estates Issued 2-18-98	
Fire Station Issued 4-15-02		Street Improvement Issued 3-20-03		Total	Interest Rates	Amount
Interest Rates	Amount	Interest Rates	Amount			
4.50%	\$ 45,000	1.65%	\$ 90,000	\$ 300,000	5.00%	\$ 135,675
4.50	50,000	2.05	100,000	280,000	5.00	50,000
4.50	50,000	2.45	110,000	300,000	5.00	50,000
4.50	55,000	2.85	110,000	310,000	5.00	60,000
4.50	55,000	3.05	115,000	320,000	—	—
4.50	60,000	3.35	120,000	340,000	—	—
—	—	3.55	125,000	125,000	—	—
—	—	3.75	130,000	130,000	—	—
—	—	3.95	130,000	130,000	—	—
—	—	4.05	130,000	130,000	—	—
—	—	4.15	130,000	130,000	—	—
—	—	4.30	140,000	140,000	—	—
—	—	4.45	140,000	140,000	—	—
—	—	4.55	150,000	150,000	—	—
	<u>\$ 315,000</u>		<u>\$ 1,720,000</u>	<u>\$ 2,925,000</u>		<u>\$ 295,675</u>

Schedule of Receipts by Source and Disbursements by Function All Governmental Funds

Years Ended June 30, 2002 Through 2005

	2005	2004	2003	2002
Receipts				
Property taxes	\$ 803,228	\$ 803,321	\$ 796,224	\$ 855,132
Tax increment financing	27,919	22,691	15,546	15,016
Other city taxes.....	255,355	219,182	205,314	151,030
Licenses and permits.....	5,070	4,898	4,528	5,997
Use of money and property	16,687	27,916	20,212	26,920
Intergovernmental.....	246,822	253,600	306,244	313,782
Charges for service	43,958	34,395	35,427	33,612
Special assessments.....	18	1,992	465	965
Miscellaneous.....	<u>142,723</u>	<u>200,382</u>	<u>818,850</u>	<u>174,742</u>
Total Receipts	<u>\$ 1,541,780</u>	<u>\$ 1,568,377</u>	<u>\$ 2,202,810</u>	<u>\$ 1,577,196</u>
Disbursements				
Public safety	\$ 329,833	\$ 327,588	\$ 354,663	\$ 308,419
Public works	193,829	170,322	199,377	211,692
Health and social services.....	12,125	6,050	6,000	6,000
Culture and recreation	252,874	220,778	271,263	246,023
Community and economic development	41,922	25,854	12,124	35,124
General government.....	175,801	161,260	158,339	152,053
Debt service.....	476,996	488,721	469,445	544,036
Capital projects.....	1,024,701	1,086,378	161,687	205,027
Nonprogram.....	<u>—</u>	<u>9,054</u>	<u>7,772</u>	<u>3,000</u>
Total Disbursements	<u>\$ 2,508,081</u>	<u>\$ 2,496,005</u>	<u>\$ 1,640,670</u>	<u>\$ 1,711,374</u>

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting

To the Honorable Mayor and
Members of the City Council
City of Belmond, Iowa

We have audited the financial statements of the City of Belmond, Iowa, for the year ended June 30, 2005, and have issued our report thereon dated July 21, 2005. Our report expressed a qualified opinion on the financial statements which were prepared in conformity with a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance 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 noncompliance that are required to be reported under *Government Auditing Standards*.

The following comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 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. Prior year statutory comments have all been resolved, except comment 05-C-9 (T.I.F. Urban Renewal Notes) which is repeated below.

- 05-C-1 Official Depositories** - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
- 05-C-2 Certified Budget** - Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the Capital Projects and Business-Type Activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered under an annual or continuing appropriation.

Auditor's 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.

City's Response - The budget will be amended in the future, if applicable.

Auditor's Conclusion - Response accepted.

05-C-3 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion.

05-C-4 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

05-C-5 Business Transactions - Business transactions between the City and City officials or employees were as follows:

Name, Title and Business Connection	Transaction Description	Amount
Harlan Tulp, Council Member, owner of H & K Plumbing & Heating	Plumbing repair	\$4,233
Earl Kalkwarf, Council Member Sid Swenson, Council Member, owner of Sid Swenson Signs	Tree removal	113
Bradley Bloemke, Council Member, owner of Bloemke Pharmacy	Signs	2,691
Larry Lohse, Police Reserve Officer, owner of Lohse Locksmith	Film processing	137
	Locksmith services	100

In accordance with Chapter 362.5 of the Code of Iowa, the above transactions do not appear to represent conflicts of interest since total transactions with Council Members Kalkwarf and Bloemke and Police Reserve Officer Lohse were less than \$1,500 during the fiscal year. The transaction with Council Member Tulp does not represent a conflict of interest since it was competitively bid. Although the transaction with Council Member Swenson was not competitively bid, it does not appear to represent a conflict of interest since there are no local competitors.

05-C-6 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

05-C-7 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not. Although minutes of Council proceedings were published, we noted several instances where the minutes were not published within 15 days as required by Chapter 372.13(6) of the Code of Iowa. We also noted the vote of each member to enter a closed session and the final actions taken were not properly documented in the minutes.

Auditor's Recommendation - The City should publish minutes and document closed sessions as required.

City's Response - We will publish minutes and document closed sessions as required.

Auditor's Conclusion - Response accepted.

05-C-8 Revenue Notes - The City appears to be in compliance with revenue note resolutions.

05-C-9 T.I.F. Urban Renewal Notes

Prior Year Finding and Recommendation - The sinking fund is not adequately funded and the City did not pay a portion of the principal that was due on the notes. The notes are not general obligations of the City, but have the first lien on revenue from the T.I.F. Urban Renewal Project. Some of the T.I.F. revenue was not used to fund the sinking fund or pay principal due. The lender has the first right to the funds, and T.I.F. revenue should not be used for other purposes until the sinking fund is adequately funded and payments are current. The City should adequately fund the sinking fund if possible and first use the revenue from the T.I.F. Urban Renewal Project to make the necessary transfers of principal and interest into these accounts before making other disbursements.

Current Year Finding - We found that the same conditions existed.

Auditor's Recommendation - We reiterate the prior year recommendation.

City's Response - The City will use future T.I.F. revenue to pay minor maintenance costs and the remaining revenue will be used to fund the proper sinking fund accounts.

Auditor's Conclusion - Response accepted.

05-C-10 Deposits and Investments - We noted no instances of noncompliance with deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

05-C-11 Economic Development - All disbursements for economic development appeared to meet public purpose.

05-C-12 Tax Increment Debt Certificate - The Tax Increment Debt Certificate was timely filed by December 1; however, we noted that the cash balance as of December 1 was not subtracted from total outstanding debt prior to completing the certificate in accordance with Chapter 403.19(5) of the Code of Iowa.

Auditor's Recommendation - The December 1 cash balance in the T.I.F. fund should be subtracted from total outstanding debt prior to completing the tax increment debt certificate.

City's Response - The City will comply with Chapter 403.19(5) of the Code of Iowa.

Auditor's Conclusion - Response accepted.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

The prior year reportable condition has not been resolved and is repeated below.

05-IC-1 Segregation of Duties

Prior Year Finding and Recommendation - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that incompatible duties are being performed by the same person. We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Current Year Finding - We found that the same conditions existed.

Auditor's Recommendation - We reiterate the prior year recommendation.

City's Response - The City is aware of the lack of segregation of duties and has considered alternatives to improve this situation.

Auditor's Conclusion - Response accepted.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition 05-IC-1 described above is a material weakness.

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 Belmond, Iowa, and other parties to whom the City may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
July 21, 2005