

CITY OF BELMOND, IOWA

FINANCIAL STATEMENTS

JUNE 30, 2006

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Officials

Name	Title	Term Expires
Elected Officials		
Before January, 2006		
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
Beginning January 1, 2006		
Jerry A. Greenwood	Mayor	January, 2008
Harlan Tulp	Council member	January, 2010
Sidney Swenson	Council member	January, 2010
Earl Kalkwarf	Council member	January, 2010
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, 2006 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, 2006, 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, 2006, 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, 2006 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 other matters. 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 21 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, 2005 (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 a qualified opinion on the financial statements and supplemental data for the year ended June 30, 2005, and unqualified opinions on those financial statements and supplemental data for the years ended June 30, 2003 and 2004. Other supplemental information included on Pages 22 through 26 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, 2006

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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 49.9%, or approximately \$870,000, from fiscal 2005 to fiscal 2006. The increase was due to the facts that the City sold property for \$11,661 and issued bonds for \$850,000.
- Disbursements increased 2.3%, or approximately \$68,000, in fiscal 2006 from fiscal 2005. Most program areas decreased except for debt service, which increased for refunding of general obligation debt which was offset by decreases in capital projects.
- The City's total cash basis net assets increased 15%, or approximately \$155,000, from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities increased approximately \$124,000 and the assets of the business-type activities increased by approximately \$31,000.

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 is 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 increased from a year ago, increasing from \$763,601 to \$887,700. 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,	
	2006	2005
Receipts and Transfers:		
Program Receipts:		
Charges for service	\$ 129,260	\$ 122,196
Operating grants, contributions and restricted interest	317,993	245,756
Capital grants, contributions and restricted interest	46,590	73,712
General Receipts:		
Property tax	827,252	831,165
Local option sales tax	157,800	204,538
Grants and contributions not restricted to specific purposes	35,813	17,557
Unrestricted investment earnings	13,410	12,012
Other general receipts	45,180	73,808
Refunding bond proceeds	850,000	—
Transfers, net	<u>188,249</u>	<u>161,018</u>
Total Receipts and Transfers	<u>2,611,547</u>	<u>1,741,762</u>
Disbursements:		
Public safety	374,039	329,833
Public works	267,905	193,829
Health and social services	625	12,125
Culture and recreation	321,933	252,874
Community and economic development	30,618	41,922
General government	164,758	175,801
Debt service	1,294,286	476,996
Capital projects	<u>33,284</u>	<u>1,024,701</u>
Total Disbursements	<u>2,487,448</u>	<u>2,508,081</u>
Increase (Decrease) in Cash Basis Net Assets	124,099	(766,319)
Cash Basis Net Assets - Beginning of Year	<u>763,601</u>	<u>1,529,920</u>
Cash Basis Net Assets - End of Year	<u>\$ 887,700</u>	<u>\$ 763,601</u>

The City's total receipts for governmental activities increased by 49.9%, or \$869,785. The total cost of all programs and services decreased approximately \$21,000, or less than 1%, with no new programs added this year. The significant increase in receipts was primarily due to the issuance of general obligation refunding capital loan notes.

The City increased property tax rates for 2006 by an average of 0.8%. Because of a change in valuation, the City's property tax receipts decreased by approximately \$4,000 in 2006. Based on the total assessed valuation, property tax receipts are budgeted to increase slightly next year.

The cost of all governmental activities this year was \$2,487,448 compared to \$2,508,081 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 \$1,993,605 because some of the cost was paid by those directly benefited from the programs (\$129,260) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$364,583). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2006 from approximately \$442,000 to approximately \$494,000 principally due to more contributions being made in the current year. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$827,000 in property 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,	
	2006	2005
Receipts:		
Program Receipts:		
Charges for Service and Miscellaneous:		
Water	\$ 305,206	\$ 296,104
Sewer	352,511	294,140
Landfill	74,991	72,792
General Receipts:		
Unrestricted investment earnings	7,317	4,127
Total Receipts	740,025	667,163
 Disbursements:		
Water	286,286	212,881
Sewer	169,809	155,148
Landfill	64,425	64,110
Transfers	188,249	161,018
Total Disbursements and Transfers	708,769	593,157
 Increase in Cash Basis Net Assets	31,256	74,006
 Cash Basis Net Assets - Beginning of Year	293,689	219,683
 Cash Basis Net Assets - End of Year	\$ 324,945	\$ 293,689

Total business-type activities receipts for the fiscal year were \$740,025 compared to \$667,163 last year. This significant increase was due primarily to the increases in the rates for services. The cash balance increased by approximately \$31,000 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 19.5% to a total of \$708,769.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Belmont completed the year, its governmental funds reported a combined fund balance of \$887,700, an increase of \$124,099 from last year's total of \$763,601. 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 \$8,800 from the prior year to \$378,167. This increase was mainly due to an increase in contributions received.
- The Road Use Tax Fund cash balance increased by approximately \$2,000 to \$6,098 during the fiscal year. This increase was due to a slight increase in funds received from the state and less transfers to pay street improvements.
- The Local Option Sales Tax Fund cash balance increased by approximately \$102,000 from the prior year as we are anticipating the need to have additional funds available for capital projects.
- The Economic Development Fund cash balance increased by \$9,341 to \$88,994 as a result of loan repayments and promotional t-shirt sales.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

- The Water Fund cash balance increased by approximately \$20,000 to \$229,722 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 \$2,885 to \$25,334 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 15, 2006 to decrease disbursements in certain City departments and increase it for others.

DEBT ADMINISTRATION

At June 30, 2006, the City had \$2,906,675 in bonds and other long-term debt, compared to \$3,220,675 last year, as shown below.

	Outstanding Debt at Year End	
	Year Ended June 30,	
	2006	2005
General obligation bonds	\$ 2,645,000	\$ 2,925,000
Urban renewal tax increment financing revenue bonds	<u>261,675</u>	<u>295,675</u>
Total	<u>\$ 2,906,675</u>	<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 \$2,906,675 is below its constitutional debt limit of \$4,635,511 at June 30, 2006.

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 2007 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 3.17%. In addition, the employees were granted a 3% wage increase for the fiscal year beginning July 1, 2006. 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 2007. Amounts available for appropriation in the operating budget are \$8,520,182. Included in this amount are \$625,777 of fund transfers between different funds of the City. Net of transfers total amounts available for appropriation are \$7,894,405, an increase of 257% from the final 2006 budget. Budgeted disbursements (net of transfers between different funds of the City) are expected to increase by \$2,825,187 from the 2006 budget. The increase is due to the City having planned to reconstruct a portion of 1st Street, SE, construct the entrance to the Industrial Park and build a new water plant.

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, Belmond, Iowa 50421-0192.

Basic Financial Statements

Statement of Activities and Net Assets - Cash Basis

Year Ended June 30, 2006

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.....	\$ 374,039	\$ 16,912	\$ 2,048	\$ —	\$ (355,079)	\$ —	\$ (355,079)
Public Works.....	267,905	6,536	214,337	—	(47,032)	—	(47,032)
Health and Social Services.....	625	—	—	—	(625)	—	(625)
Culture and Recreation.....	321,933	60,419	101,608	46,133	(113,773)	—	(113,773)
Community and Economic Development	30,618	20,400	—	—	(10,218)	—	(10,218)
General Government.....	164,758	24,993	—	—	(139,765)	—	(139,765)
Debt Service.....	1,294,286	—	—	—	(1,294,286)	—	(1,294,286)
Capital Projects	33,284	—	—	457	(32,827)	—	(32,827)
Total Governmental Activities	<u>2,487,448</u>	<u>129,260</u>	<u>317,993</u>	<u>46,590</u>	<u>(1,993,605)</u>	<u>—</u>	<u>(1,993,605)</u>
Business-Type Activities							
Water.....	286,286	305,206	—	—	—	18,920	18,920
Sewer.....	169,809	352,511	—	—	—	182,702	182,702
Landfill.....	64,425	74,991	—	—	—	10,566	10,566
Total Business-Type Activities	<u>520,520</u>	<u>732,708</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>212,188</u>	<u>212,188</u>
Total.....	<u>\$ 3,007,968</u>	<u>\$ 861,968</u>	<u>\$ 317,993</u>	<u>\$ 46,590</u>	<u>(1,993,605)</u>	<u>212,188</u>	<u>(1,781,417)</u>
General Receipts							
Property Taxes Levied For							
General purposes.....					474,284	—	474,284
Tax increment financing.....					28,059	—	28,059
Debt service.....					181,622	—	181,622
Employee benefits.....					143,132	—	143,132
Emergency.....					155	—	155
Other city tax.....					33,519	—	33,519
Local option sales tax.....					157,800	—	157,800
Sale of land and equipment.....					11,661	—	11,661
Refunding bond proceeds.....					850,000	—	850,000
Grants and contributions not restricted to specific purpose.....					35,813	—	35,813
Unrestricted interest on investments.....					13,410	7,317	20,727
Transfers.....					188,249	(188,249)	—
Total General Receipts and Transfers					<u>2,117,704</u>	<u>(180,932)</u>	<u>1,936,772</u>
Increase in Cash Basis Net Assets.....					<u>124,099</u>	<u>31,256</u>	<u>155,355</u>
Cash Basis Net Assets - Beginning of Year					763,601	293,689	1,057,290
Cash Basis Net Assets - End of Year					<u>\$ 887,700</u>	<u>\$ 324,945</u>	<u>\$ 1,212,645</u>
Cash Basis Net Assets							
Restricted							
Streets.....					\$ 6,098	\$ —	\$ 6,098
Urban renewal purposes.....					2,005	—	2,005
Debt service.....					—	—	—
Other purposes.....					473,184	—	473,184
Unrestricted.....					406,413	324,945	731,358
Total Cash Basis Net Assets					<u>\$ 887,700</u>	<u>\$ 324,945</u>	<u>\$ 1,212,645</u>

See accompanying notes to the financial statements.

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

Year Ended June 30, 2006

	General	Special Revenue			Debt Service	Other Nonmajor Governmental Funds	Total
		Road Use Tax	Local Option Sales Tax	Economic Development			
Receipts							
Property tax	\$ 474,284	\$ —	\$ —	\$ —	\$ 181,622	\$ 143,287	\$ 799,193
TIF collections	—	—	—	—	—	28,059	28,059
Other city tax	36,264	—	157,800	—	7,535	6,038	207,637
Licenses and permits.....	6,178	—	—	—	—	—	6,178
Use of money and property	12,746	—	3,580	1,896	185	3,865	22,272
Intergovernmental.....	32,921	214,337	—	—	—	—	247,258
Charges for service	37,609	—	—	—	—	—	37,609
Miscellaneous.....	127,747	—	—	24,081	—	61,603	213,431
Total Receipts	727,749	214,337	161,380	25,977	189,342	242,852	1,561,637
Disbursements							
Operating							
Public Safety.....	371,694	—	—	—	—	2,345	374,039
Public Works.....	44,575	223,330	—	—	—	—	267,905
Health and Social Services.....	625	—	—	—	—	—	625
Culture and Recreation.....	305,096	—	—	—	—	16,837	321,933
Community and Economic Development	9,572	—	—	16,636	—	4,410	30,618
General Government.....	159,583	—	—	—	—	5,175	164,758
Debt Service	—	—	—	—	1,250,227	44,059	1,294,286
Capital Projects	—	—	—	—	—	33,284	33,284
Total Disbursements	891,145	223,330	—	16,636	1,250,227	106,110	2,487,448
Receipts Over (Under) Disbursements.....	(163,396)	(8,993)	161,380	9,341	(1,060,885)	136,742	(925,811)
Other Financing Sources (Uses)							
Refunding bond proceeds	—	—	—	—	850,000	—	850,000
Sale of land and equipment.....	2,503	—	—	—	—	9,158	11,661
Operating transfers in.....	169,679	13,134	—	—	205,424	55,340	443,577
Operating transfers out.....	—	(2,000)	(59,175)	—	—	(194,153)	(255,328)
Total Other Financing Sources (Uses)	172,182	11,134	(59,175)	—	1,055,424	(129,655)	1,049,910
Increase (Decrease) in Cash Balances.....	8,786	2,141	102,205	9,341	(5,461)	7,087	124,099
Cash Balances - Beginning of Year.....	369,381	3,957	99,321	79,653	2,678	208,611	763,601
Cash Balances - End of Year	\$ 378,167	\$ 6,098	\$ 201,526	\$ 88,994	\$ (2,783)	\$ 215,698	\$ 887,700
Cash Basis Fund Balances							
Unreserved							
General fund.....	\$ 378,167	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 378,167
Special revenue funds.....	—	6,098	201,526	88,994	—	129,206	425,824
Debt service.....	—	—	—	—	(2,783)	—	(2,783)
Capital projects fund.....	—	—	—	—	—	31,029	31,029
Permanent fund	—	—	—	—	—	55,463	55,463
Total Cash Basis Fund Balances	\$ 378,167	\$ 6,098	\$ 201,526	\$ 88,994	\$ (2,783)	\$ 215,698	\$ 887,700

See accompanying notes to financial statements.

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

Year Ended June 30, 2006

	Water	Sewer	Nonmajor Proprietary Funds	Total
Operating Receipts				
Use of money and property	\$ 5,666	\$ 662	\$ 989	\$ 7,317
Charges for service	279,215	351,851	74,667	705,733
Miscellaneous.....	<u>23,211</u>	<u>660</u>	<u>3,104</u>	<u>26,975</u>
Total Operating Receipts.....	<u>308,092</u>	<u>353,173</u>	<u>78,760</u>	<u>740,025</u>
Operating Disbursements				
Business-type activities	<u>286,099</u>	<u>169,809</u>	<u>64,612</u>	<u>520,520</u>
Operating Receipts Over Operating Disbursements				
	<u>21,993</u>	<u>183,364</u>	<u>14,148</u>	<u>219,505</u>
Operating Financing Sources (Uses)				
Operating transfers in.....	—	—	—	—
Operating transfers out.....	<u>(2,000)</u>	<u>(186,249)</u>	<u>—</u>	<u>(188,249)</u>
Total Other Financing Uses	<u>(2,000)</u>	<u>(186,249)</u>	<u>—</u>	<u>(188,249)</u>
Increase (Decrease) in Cash Balances..				
Cash Balances - Beginning of Year.....	<u>209,729</u>	<u>28,219</u>	<u>55,741</u>	<u>293,689</u>
Cash Balances - End of Year	<u>\$ 229,722</u>	<u>\$ 25,334</u>	<u>\$ 69,889</u>	<u>\$ 324,945</u>
Cash Basis Fund Balances				
Unreserved	<u>\$ 229,722</u>	<u>\$ 25,334</u>	<u>\$ 69,889</u>	<u>\$ 324,945</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 2005 tax return includes total receipts of \$26,823, cash disbursements of \$15,795, a beginning balance of \$81,859 and an ending balance of \$92,887. 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, 2006 were \$481,287.

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 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, 2006, the City exceeded the amounts budgeted in the debt service function.

(2) Deposits and Investments

The City's deposits in banks at June 30, 2006 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, 2006.

(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 (TIF) Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 260,000	\$ 105,880	\$ 151,675	\$ 13,084	\$ 411,675	\$ 118,964
2008	275,000	95,490	50,000	5,500	325,000	100,990
2009	285,000	84,155	60,000	3,000	345,000	87,155
2010	300,000	71,669	—	—	300,000	71,669
2011	315,000	58,208	—	—	315,000	58,208
2012-16	780,000	163,252	—	—	780,000	163,252
2017-19	430,000	29,418	—	—	430,000	29,418
	<u>\$ 2,645,000</u>	<u>\$ 608,072</u>	<u>\$ 261,675</u>	<u>\$ 21,584</u>	<u>\$ 2,906,675</u>	<u>\$ 629,656</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.

During the year ended June 30, 2006, the City advance refunded a general obligation debt issue in order to take advantage of lower interest rates. The total amount of the refunding bonds issued was \$850,000 which was forwarded to a bond escrow agent to defease the debt and repay it as it comes due in the future. The refunding bonds resulted in an economic gain of approximately \$10,000 and increased future debt service payments by approximately \$17,000.

Notes to the Financial Statements

(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 3.7% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll. 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 years ended June 30, 2006, 2005 and 2004 were \$36,983, \$35,174 and \$34,286, 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, 2006, primarily relating to the General Fund is as follows:

Type of Benefit	June 30, 2006
Vacation.....	<u>\$ 25,215</u>

This liability has been computed based on rates of pay as of June 30, 2006.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer To	Transfer From	Amount
General	Special Revenue	
	Group Insurance	\$ 59,138
	Workers Compensation	22,930
	Employee Retirement	49,322
	Emergency	289
	Enterprise	
	Sewer Rental	<u>38,000</u>
		<u>169,679</u>

Notes to the Financial Statements

(6) Interfund Transfers

Transfer To	Transfer From	Amount
Special Revenue Road Use Tax	Special Revenue Employee Retirement	<u>\$ 13,134</u>
Special Revenue Employee Benefits	Special Revenue Road Use Tax Group Insurance Enterprise Water Sewer Rental	<u>2,000</u> <u>8,000</u> <u>2,000</u> <u>2,000</u> <u>14,000</u>
Debt Service	Special Revenue Local Option Sales Tax Enterprise Sewer Rental	<u>59,175</u> <u>146,249</u> <u>205,424</u>
Special Revenue TIF Sinking Fund	Special Revenue Urban Renewal Tax Increment	<u>40,310</u>
Capital Projects Pool	Special Revenue Memorial Park	<u>1,030</u>
Total		<u>\$ 443,577</u>

(7) Related Entities

The City had business transactions totaling \$3,277 between the City and City officials during the year ended June 30, 2006.

(8) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 531 members include various governmental entities throughout the State of Iowa. The Pool was formed in August, 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Notes to the Financial Statements

(8) Risk Management

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300% of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2006 were \$42,287.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

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

The City also carries commercial insurance purchased from other insurers for coverage associated with worker's compensation and airport liability. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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 \$28,826 at June 30, 2006. 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 \$35,761 at June 30, 2006.

The City is also obligated to remit a share of the operating and administration costs. During the year ended June 30, 2006, 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) Deficit Balance

The Debt Service and Capital Projects - Pool Funds had deficit balances of \$2,783 and \$3,170, respectively, at June 30, 2006. The deficit balances were a result of insufficient transfers. The deficits will be eliminated with additional transfers.

(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 \$199,974 was outstanding at June 30, 2006. 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.

(12) Commitments

At June 30, 2006, the City had entered into contracts totaling approximately \$57,000 for repair and painting of the City's water towers.

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, 2006

	Govern- mental Funds Actual	Propri- etary Funds Actual	Net	Budget Amounts		Final to Actual Variance
				Original	Final	
Receipts						
Property taxes	\$ 799,193	\$ —	\$ 799,193	\$ 808,455	\$ 785,643	\$ 13,550
TIF collections	28,059	—	28,059	24,500	28,365	(306)
Other city tax	207,637	—	207,637	196,832	142,165	65,472
Licenses and permits	6,178	—	6,178	4,460	5,310	868
Use of money and property	22,272	7,317	29,589	41,290	25,065	4,524
Intergovernmental	247,258	—	247,258	242,900	244,173	3,085
Charges for service	37,609	705,733	743,342	743,026	757,037	(13,695)
Miscellaneous	213,431	26,975	240,406	125,570	223,058	17,348
Total Receipts	<u>1,561,637</u>	<u>740,025</u>	<u>2,301,662</u>	<u>2,187,033</u>	<u>2,210,816</u>	<u>90,846</u>
Disbursements						
Public Safety	374,039	—	374,039	390,469	406,981	32,942
Public Works	267,905	—	267,905	269,606	279,888	11,983
Health and Social Services	625	—	625	7,125	1,625	1,000
Culture and Recreation	321,933	—	321,933	274,672	367,985	46,052
Community and Economic Development	30,618	—	30,618	63,300	72,078	41,460
General Government	164,758	—	164,758	191,191	170,944	6,186
Debt Service	1,294,286	—	1,294,286	482,801	439,557	(854,729)
Capital Projects	33,284	—	33,284	235,920	50,425	17,141
Business-type activities	—	520,520	520,520	705,924	559,252	38,732
Total Disbursements	<u>2,487,448</u>	<u>520,520</u>	<u>3,007,968</u>	<u>2,621,008</u>	<u>2,348,735</u>	<u>(659,233)</u>
Receipts Over (Under)						
Disbursements	(925,811)	219,505	(706,306)	(433,975)	(137,919)	(568,387)
Other Financing Sources, Net	<u>1,049,910</u>	<u>(188,249)</u>	<u>861,661</u>	<u>1,255,700</u>	<u>(480,230)</u>	<u>1,341,891</u>
Receipts and Other Financing Sources Over (Under)						
Disbursements and Other Financing Uses	124,099	31,256	155,355	821,725	(618,149)	773,504
Balances - Beginning of Year	<u>763,601</u>	<u>293,689</u>	<u>1,057,290</u>	<u>988,919</u>	<u>2,046,212</u>	<u>(988,922)</u>
Balances - End of Year	<u>\$ 887,700</u>	<u>\$ 324,945</u>	<u>\$ 1,212,645</u>	<u>\$ 1,810,644</u>	<u>\$ 1,428,063</u>	<u>\$(215,418)</u>

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 \$272,273. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the debt service function.

Other Supplementary Information 

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

Year Ended June 30, 2006

	Special Revenue										Capital Projects				Permanent	Total	
	Employee Benefits	Emergency	Urban Renewal Tax Increment	Community Room	Housing Assistance	TIF Sinking Fund	Memorial Park Fund	Veterans Memorial Fund	Restitution Fund	Christmas Decoration Fund	Fire Station	Library	Streets	Industrial Park	Pool		Cemetery Perpetual Care
Receipts																	
Property tax.....	\$ 143,132	\$ 155	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 143,287	
TIF collections.....	—	—	28,059	—	—	—	—	—	—	—	—	—	—	—	—	28,059	
Other city tax.....	6,038	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6,038	
Use of money and property.....	660	—	21	1,029	—	716	190	60	83	239	—	190	297	380	—	3,865	
Miscellaneous.....	6,554	—	6,835	—	—	—	10,772	—	—	34,861	—	156	—	—	2,125	61,603	
Total Receipts.....	156,384	155	34,915	1,029	—	716	10,962	60	83	35,100	—	346	297	380	300	242,852	
Disbursements																	
Operating																	
Public Safety.....	—	—	—	—	—	—	—	—	2,345	—	—	—	—	—	—	2,345	
Culture and Recreation.....	—	—	—	—	—	—	16,837	—	—	—	—	—	—	—	—	16,837	
Community and Economic Development.....	—	—	4,410	—	—	—	—	—	—	—	—	—	—	—	—	4,410	
General Government.....	5,175	—	—	—	—	—	—	—	—	—	—	—	—	—	—	5,175	
Debt Service.....	—	—	—	—	—	44,059	—	—	—	—	—	—	—	—	—	44,059	
Capital Projects.....	—	—	—	—	—	—	—	—	—	1,225	4,116	8,104	15,339	4,500	—	33,284	
Total Disbursements.....	5,175	—	4,410	—	—	44,059	16,837	—	2,345	1,225	4,116	8,104	15,339	4,500	—	106,110	
Receipts Over (Under) Disbursements.....	151,209	155	30,505	1,029	—	(43,343)	(5,875)	60	(2,262)	35,100	(1,225)	(3,770)	(7,807)	(14,959)	(4,200)	2,125	136,742
Other Financing Sources (Uses)																	
Sale of land and equipment.....	—	—	9,158	—	—	—	—	—	—	—	—	—	—	—	—	9,158	
Operating transfers in.....	14,000	—	—	—	—	40,310	—	—	—	—	—	—	—	1,030	—	55,340	
Operating transfers out.....	(152,524)	(289)	(40,310)	—	—	—	(1,030)	—	—	—	—	—	—	—	—	(194,153)	
Total Other Financing Sources (Uses).....	(138,524)	(289)	(31,152)	—	—	40,310	(1,030)	—	—	—	—	—	—	1,030	—	(129,655)	
Increase (Decrease) in Cash Balances.....	12,685	(134)	(647)	1,029	—	(3,033)	(6,905)	60	(2,262)	35,100	(1,225)	(3,770)	(7,807)	(14,959)	(3,170)	2,125	7,087
Cash Balances - Beginning of Year.....	36,109	134	2,652	1,022	26,085	4,644	14,382	2,619	5,666	—	1,225	12,930	15,365	32,440	—	53,338	208,611
Cash Balances - End of Year ..	\$ 48,794	\$ —	\$ 2,005	\$ 2,051	\$ 26,085	\$ 1,611	\$ 7,477	\$ 2,679	\$ 3,404	\$ 35,100	\$ —	\$ 9,160	\$ 7,558	\$ 17,481	\$ (3,170)	\$ 55,463	\$ 215,698
Cash Basis Fund Balances																	
Unreserved																	
Special Revenue Funds.....	\$ 48,794	\$ —	\$ 2,005	\$ 2,051	\$ 26,085	\$ 1,611	\$ 7,477	\$ 2,679	\$ 3,404	\$ 35,100	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 129,206	
Capital Projects Funds.....	—	—	—	—	—	—	—	—	—	—	9,160	7,558	17,481	(3,170)	—	31,029	
Permanent Fund.....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	55,463	55,463	
Total Cash Basis Fund Balances.....	\$ 48,794	\$ —	\$ 2,005	\$ 2,051	\$ 26,085	\$ 1,611	\$ 7,477	\$ 2,679	\$ 3,404	\$ 35,100	\$ —	\$ 9,160	\$ 7,558	\$ 17,481	\$ (3,170)	\$ 55,463	\$ 215,698

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

Year Ended June 30, 2006

	Customer Deposits	Landfill	Total
Operating Receipts			
Use of money and property	\$ —	\$ 989	\$ 989
Charges for service	—	74,667	74,667
Miscellaneous.....	<u>2,780</u>	<u>324</u>	<u>3,104</u>
Total Operating Receipts	<u>2,780</u>	<u>75,980</u>	<u>78,760</u>
Operating Disbursements			
Business-type activities	<u>187</u>	<u>64,425</u>	<u>64,612</u>
Increase in Cash Balances	2,593	11,555	14,148
Cash Balances - Beginning of Year.....	<u>23,890</u>	<u>31,851</u>	<u>55,741</u>
Cash Balances - End of Year	<u>\$ 26,483</u>	<u>\$ 43,406</u>	<u>\$ 69,889</u>
Cash Basis Fund Balances			
Unreserved	<u>\$ 26,483</u>	<u>\$ 43,406</u>	<u>\$ 69,889</u>

Schedule of Indebtedness

Year Ended June 30, 2006

	Amount Originally Issued	Date of Issue	Interest Rates	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation Bonds									
Sewer treatment plant	\$ 1,300,000	12-1-95	4.90 - 5.50%	\$ 850,000	\$ —	\$ 850,000	\$ —	\$ 22,273	\$ —
City Hall	200,000	9-1-99	4.50	40,000	—	40,000	—	1,800	—
Fire station.....	400,000	4-15-02	4.50	315,000	—	45,000	270,000	14,175	—
Street improvement	1,800,000	3-20-03	1.65 - 4.55	1,720,000	—	90,000	1,630,000	60,333	—
G.O. Refunding Capital Loan Bonds	850,000	12-1-05	4.15 - 5.50	—	850,000	105,000	745,000	18,971	—
Total General Obligation Bonds.....				<u>\$ 2,925,000</u>	<u>\$ 850,000</u>	<u>\$ 1,130,000</u>	<u>\$ 2,645,000</u>	<u>\$ 117,552</u>	<u>\$ —</u>
Urban Renewal Tax Increment Financing (TIF) Revenue Bonds									
Dumond Estates	\$ 400,000	2-18-98	5.00%	<u>\$ 295,675</u>	<u>\$ —</u>	<u>\$ 34,000</u>	<u>\$ 261,675</u>	<u>\$ 10,059</u>	<u>\$ —</u>

Schedule of Bond and Note Maturities

At June 30, 2006

Year Ending June 30,	General Obligation Notes						Total	Urban Renewal Tax Increment (TIF) Revenue Bond Dumond Estates Issued 2-18-98	
	Fire Station Issued 4-15-02		Street Improvement Issued 3-20-03		Refunding Capital Loan Issued 12-1-05			Interest Rates	Amount
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount			
2007.....	4.50%	\$ 50,000	2.05%	\$ 100,000	5.05%	\$ 110,000	\$ 260,000	5.00%	\$ 151,675
2008.....	4.50	50,000	2.45	110,000	5.20	115,000	275,000	5.00	50,000
2009.....	4.50	55,000	2.85	110,000	5.30	120,000	285,000	5.00	60,000
2010.....	4.50	55,000	3.05	115,000	5.40	130,000	300,000	—	—
2011.....	4.50	60,000	3.35	120,000	5.50	135,000	315,000	—	—
2012.....	—	—	3.55	125,000	4.15	135,000	260,000	—	—
2013.....	—	—	3.75	130,000	—	—	130,000	—	—
2014.....	—	—	3.95	130,000	—	—	130,000	—	—
2015.....	—	—	4.05	130,000	—	—	130,000	—	—
2016.....	—	—	4.15	130,000	—	—	130,000	—	—
2017.....	—	—	4.30	140,000	—	—	140,000	—	—
2018.....	—	—	4.45	140,000	—	—	140,000	—	—
2019.....	—	—	4.55	150,000	—	—	150,000	—	—
Totals.....		\$ 270,000		\$ 1,630,000		\$ 745,000	\$ 2,645,000		\$ 261,675

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

Years Ended June 30, 2003 Through 2006

	2006	2005	2004	2003
Receipts				
Property taxes	\$ 799,193	\$ 803,228	\$ 803,321	\$ 796,224
Tax increment financing	28,059	27,919	22,691	15,546
Other city taxes.....	207,637	255,355	219,182	205,314
Licenses and permits.....	6,178	5,070	4,898	4,528
Use of money and property	22,272	16,687	27,916	20,212
Intergovernmental.....	247,258	246,822	253,600	306,244
Charges for service	37,609	43,958	34,395	35,427
Special assessments.....	—	18	1,992	465
Miscellaneous.....	<u>213,431</u>	<u>142,723</u>	<u>200,382</u>	<u>818,850</u>
Total Receipts	<u>\$ 1,561,637</u>	<u>\$ 1,541,780</u>	<u>\$ 1,568,377</u>	<u>\$ 2,202,810</u>
Disbursements				
Public safety	\$ 374,039	\$ 329,833	\$ 327,588	\$ 354,663
Public works	267,905	193,829	170,322	199,377
Health and social services.....	625	12,125	6,050	6,000
Culture and recreation	321,933	252,874	220,778	271,263
Community and economic development	30,618	41,922	25,854	12,124
General government.....	164,758	175,801	161,260	158,339
Debt service.....	1,294,286	476,996	488,721	469,445
Capital projects.....	33,284	1,024,701	1,086,378	161,687
Nonprogram.....	<u>—</u>	<u>—</u>	<u>9,054</u>	<u>7,772</u>
Total Disbursements	<u>\$ 2,487,448</u>	<u>\$ 2,508,081</u>	<u>\$ 2,496,005</u>	<u>\$ 1,640,670</u>

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

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

We have audited the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Belmond, Iowa, for the year ended June 30, 2006, and have issued our report thereon dated July 21, 2006. 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.

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 an opinion 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 a reportable condition. 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.

06-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 reportable 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 06-IC-1 described above is a material weakness.

Compliance and Other Matters

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*.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 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 following comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 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 06-C-9 (TIF Urban Renewal Notes) which is repeated below.

06-C-1 Certified Budget - Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the Debt Service function. 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.

06-C-2 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion.

06-C-3 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

06-C-4 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	\$ 2,756
Earl Kalkwarf, Council Member	Tree removal	350
Bradley Bloemke, Council Member, owner of Bloemke Pharmacy	Film processing	127
Larry Lohse, Police Reserve Officer, owner of Lohse Locksmith	Locksmith services	44

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.

06-C-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 that the coverage is adequate for current operations.

06-C-6 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

06-C-7 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.

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

06-C-9 TIF 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 TIF Urban Renewal Project. Some of the TIF revenue was not used to fund the sinking fund or pay principal due. The lender has the first right to the funds, and TIF 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 TIF 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 TIF 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.

06-C-10 Economic Development - All disbursements for economic development appeared to meet public purpose.

06-C-11 Financial Condition - The Debt Service and Capital Projects - Pool Funds had deficit balances at June 30, 2006 of \$2,783 and \$3,170, respectively.

Auditor's Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

City's Response - The deficits were due to insufficient transfers. The deficits will be eliminated.

Auditor's Conclusion - Response accepted.

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, 2006