



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

October 27, 2006

Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$4,821,400 for the year ended June 30, 2006, a 99 percent increase over 2005. The receipts included \$638,204 in property tax, \$600,430 from tax increment financing, \$591,402 from charges for service, \$475,109 from operating grants, contributions and restricted interest, \$74,575 from local option sales tax, \$42,996 from unrestricted interest on investments, \$2,231,163 from bond and loan proceeds, \$138,183 from the sale of assets and \$29,338 from other general receipts.

Disbursements for the year totaled \$4,705,973, a 93 percent increase over the prior year, and included \$761,810 for public safety, \$699,851 for debt service and \$311,379 for public works. Also, disbursements for business type activities totaled \$2,549,034.

The significant increase in receipts and disbursements is due primarily to the water improvement project activity.

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

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CITY OF WEST BRANCH

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

JUNE 30, 2006

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**City of West Branch
Officials**

(Before January 2006)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Sandra Hatfield	Mayor	Jan 2006
Mark Worrell	Mayor Pro tem	Jan 2008
Bob Caldwell	Council Member	Jan 2006
Tom Dean	Council Member	Jan 2006
Howard Moss	Council Member	Jan 2008
Bill Krall	Council Member	Jan 2008
Ty Doermann	Administrator/Clerk	Indefinite
Angie Klinkkammer	Treasurer	Indefinite
Deb Fiderlein	Office Assistant	Indefinite
Bruce Goddard	Attorney	Indefinite

(After January 2006)

Sandra Hatfield	Mayor	Jan 2010
Mark Worrell	Mayor Pro tem	Jan 2008
Bill Krall	Council Member	Jan 2008
Howard Moss	Council Member	Jan 2008
Ken Peplow	Council Member	Jan 2010
Todd Stoolman	Council Member	Jan 2010
Ty Doermann	Administrator/Clerk	Indefinite
Angie Klinkkammer	Treasurer	Resigned
Betty Ellerhoff (Appointed)	Treasurer	Indefinite
Deb Fiderlein	Administrative Assistant	Indefinite
Bruce Goddard	Attorney	Indefinite

City of West Branch



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of West Branch, 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 of West Branch's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of West Branch as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 12, 2006 on our consideration of the City of West Branch's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of West Branch's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4 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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 12, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of West Branch 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

- Receipts of the City's governmental activities increased 15%, or approximately \$300,000, from fiscal 2005 to fiscal 2006. Property tax increased approximately \$41,000, tax increment financing increased \$66,000 and loan proceeds increased \$135,000.
- Disbursements of the City's governmental activities increased 13%, or approximately \$242,000, in fiscal 2006 over fiscal 2005. Public safety disbursements increased \$422,000 while debt service disbursements decreased \$152,000.
- The City's total cash basis net assets increased nine percent, or approximately \$115,000, from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities increased approximately \$97,000 and the assets of the business type activities increased by approximately \$18,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental 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 U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government and debt service. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund and 4) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

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

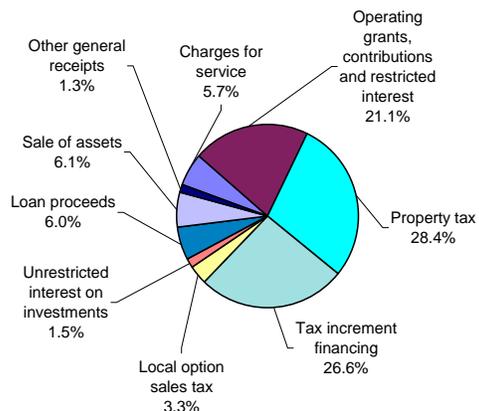
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

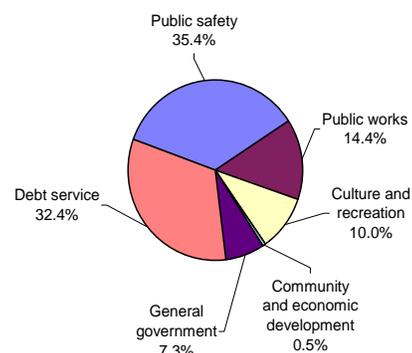
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased \$97,000 from a year ago, from \$925,800 to approximately \$1,022,800. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended	
	June 30,	
	2006	2005
Receipts:		
Program receipts:		
Charges for service	\$ 128,864	104,117
Operating grants, contributions and restricted interest	475,109	571,408
General receipts:		
Property tax	638,204	597,246
Tax increment financing	600,430	534,506
Local option sales tax	74,575	111,635
Unrestricted interest on investments	34,227	6,593
Loan proceeds	135,000	-
Other general receipts	29,338	28,873
Sale of assets	138,183	-
Total receipts	2,253,930	1,954,378
Disbursements:		
Public safety	761,810	340,295
Public works	311,379	348,924
Culture and recreation	216,177	199,374
Community and economic development	10,215	12,271
General government	157,507	162,454
Debt service	699,851	851,535
Total disbursements	2,156,939	1,914,853
Increase in cash basis net assets	96,991	39,525
Cash basis net assets beginning of year	925,800	886,275
Cash basis net assets end of year	\$1,022,791	925,800

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased by 15%, or approximately \$300,000. The total cost of all programs and services increased by approximately \$242,000, or 13%. The significant increase in receipts was primarily due to the sale of a fire truck for \$138,183 and loan proceeds of \$135,000. The increase in disbursements was primarily due to the purchase of a fire truck for \$216,000.

The City increased property tax rates for 2006 by an average of .4%. This increase, coupled with the increase in property valuations of approximately 6.3%, increased the City's property tax receipts by approximately \$41,000 in 2006. Based on increases in the total assessed valuation and a new debt service levy, property tax receipts are budgeted to increase by an additional \$204,446 next year.

The cost of all governmental activities this year was \$2,156,939 compared to \$1,914,853 last year. However, as shown in the Statement of Activities and Net Assets on pages 14 and 15, the amount taxpayers ultimately financed for these activities was only \$1,552,966 because some of the cost was paid by those who directly benefited from the programs (\$128,864) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$475,109). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2006 from approximately \$1.95 million to approximately \$2.25 million, principally due to increases in loan proceeds and the sale of assets. The City paid for the remaining "public benefit" portion of governmental activities with \$1,238,634 in levied taxes, \$74,575 in local option sales tax, \$135,000 of loan proceeds and \$63,565 in other receipts, such as interest and miscellaneous receipts.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended	
	June 30,	
	2006	2005
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 277,192	246,131
Sewer	185,346	175,742
General receipts:		
Unrestricted interest on investments	8,769	3,749
Bond proceeds	2,096,163	44,535
Total receipts	<u>2,567,470</u>	<u>470,157</u>
Disbursements:		
Water	2,376,038	372,546
Sewer	172,996	148,704
Total disbursements	<u>2,549,034</u>	<u>521,250</u>
Increase (decrease) in cash basis net assets	18,436	(51,093)
Cash basis net assets beginning of year	<u>340,369</u>	<u>391,462</u>
Cash basis net assets end of year	<u>\$ 358,805</u>	<u>340,369</u>

Total business type activities receipts for the fiscal year were \$2,567,470 compared to \$470,157 last year. The increase was due primarily to the receipt of bond proceeds in 2006. The cash balance increased by approximately \$18,000 over the prior year. Total disbursements for the fiscal year increased by 389% to \$2,549,973, primarily due to the water main extension and water tower construction projects during fiscal 2006.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of West Branch completed the year, its governmental funds reported a combined cash balance of \$1,022,791, an increase of \$96,991 from last year's total of \$925,800. The following are reasons for significant changes in cash balances, if any, of the major funds from the prior year.

- The General Fund cash balance decreased \$53,173 from the prior year to \$291,842. The decrease was due in part to the increase in public safety disbursements, including fire truck repairs of \$136,000.
- The Road Use Tax Fund cash balance increased by \$39,115 to \$210,474 due to an overall decrease in disbursements.
- The Economic Development Fund was new in fiscal year 2006 and had an ending balance of \$138,935.
- The Urban Renewal Tax Increment Fund cash balance decreased \$24,846 to \$24,084. The decrease was due to payoff of the TIF revenue debt during fiscal 2006.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$1,374 to \$157,824. During the year, the City received \$2,096,163 of bond proceeds and expended \$2,114,516 for the water improvement project.
- The Sewer Fund cash balance increased by \$17,062 to \$200,981 due to increased sewer rates, residential and business growth and a minor sewer line replacement project that did not get completed.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was approved on December 19, 2005 to provide for additional disbursements in certain City departments. The second amendment was approved on April 17, 2006 to adjust receipts for the inclusion of proceeds from a bank loan and the sale of a fire truck and increase disbursements for the purchase of a fire truck.

The City's receipts were \$100,008 less than budgeted. This was primarily due to the City receiving less in miscellaneous funds than anticipated.

Total disbursements were \$199,255 less than the amended budget. This was primarily due to costs paid for the water main extension and water tower construction projects being less than anticipated through June 30, 2006. Construction will continue during fiscal 2007.

DEBT ADMINISTRATION

At June 30, 2006, the City had \$2,447,259 in bonds and other long-term debt outstanding, compared to \$357,802 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2006	2005
General obligation bonds	\$1,740,000	61,935
Urban renewal tax increment revenue capital loan notes	-	85,000
Loan agreements	280,561	202,267
Revenue bonds	426,698	8,600
Total	\$ 2,447,259	357,802

Debt increased as a result of issuing general obligation bonds and revenue bonds for the water main extension and water tower projects.

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 \$2,020,561 is significantly below its constitutional debt limit of \$5.9 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Numerous issues were taken into account when adopting the budget for fiscal year 2007. Amounts available for appropriation in the operating budget are \$3,020,111, a decrease of 37% from the final 2006 budget. Property taxes are expected to increase due to a debt service tax levy that was implemented in 2007. The debt service tax levy will be used to help pay for the 2006 debt incurred for the water project. Water rates are expected to remain constant since the rates were increased in 2006. Budgeted disbursements are expected to decrease by \$1,787,083. The decrease in disbursements is primarily due to the water project nearing completion. The City has added no major new programs/projects or incentives to the 2007 budget.

If these estimates are realized, the City's budgeted cash balance is expected to remain relatively unchanged by the close of 2007.

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 Ty Doermann, City Administrator/Clerk, 304 E. Main, P.O. Box 218, City of West Branch, Iowa 52358-0218.

Basic Financial Statements

City of West Branch

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2006

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 761,810	46,007	140,201
Public works	311,379	38,916	183,191
Culture and recreation	216,177	23,052	12,782
Community and economic development	10,215	-	138,935
General government	157,507	20,889	-
Debt service	699,851	-	-
Total governmental activities	<u>2,156,939</u>	<u>128,864</u>	<u>475,109</u>
Business type activities:			
Water	2,376,038	277,192	-
Sewer	172,996	185,346	-
Total business type activities	<u>2,549,034</u>	<u>462,538</u>	<u>-</u>
Total	<u>\$ 4,705,973</u>	<u>591,402</u>	<u>475,109</u>

General Receipts:

Property and other city tax levied for:
 General purposes
 Tax increment financing
Local option sales tax
Unrestricted interest on investments
Bond and loan proceeds
Sale of assets
Miscellaneous
 Total general receipts

Change in cash basis net assets
Cash basis net assets beginning of year
Cash basis net assets end of year

Cash Basis Net Assets

Restricted:
 Streets
 Urban renewal purposes
 Debt service
 Economic development
 Other purposes
Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
(575,602)	-	(575,602)
(89,272)	-	(89,272)
(180,343)	-	(180,343)
128,720	-	128,720
(136,618)	-	(136,618)
(699,851)	-	(699,851)
(1,552,966)	-	(1,552,966)
-	(2,098,846)	(2,098,846)
-	12,350	12,350
-	(2,086,496)	(2,086,496)
(1,552,966)	(2,086,496)	(3,639,462)
638,204	-	638,204
600,430	-	600,430
74,575	-	74,575
34,227	8,769	42,996
135,000	2,096,163	2,231,163
138,183	-	138,183
29,338	-	29,338
1,649,957	2,104,932	3,754,889
96,991	18,436	115,427
925,800	340,369	1,266,169
\$ 1,022,791	358,805	1,381,596
\$ 210,474	-	210,474
24,084	-	24,084
1,354	-	1,354
138,935	-	138,935
357,262	-	357,262
290,682	358,805	649,487
\$ 1,022,791	358,805	1,381,596

City of West Branch

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

As of and for the year ended June 30, 2006

	Special Revenue		
	General	Road Use Tax	Economic Development
Receipts:			
Property tax	\$ 496,047	-	-
Tax increment financing	-	-	-
Other city tax	20,135	-	-
Licenses and permits	22,731	-	-
Use of money and property	31,315	-	-
Intergovernmental	98,617	183,191	-
Charges for service	48,531	-	-
Miscellaneous	60,270	-	138,935
Total receipts	<u>777,646</u>	<u>183,191</u>	<u>138,935</u>
Disbursements:			
Operating:			
Public safety	648,185	-	-
Public works	132,428	144,076	-
Culture and recreation	187,180	-	-
Community and economic development	9,024	-	-
General government	134,285	-	-
Debt service	-	-	-
Total disbursements	<u>1,111,102</u>	<u>144,076</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(333,456)</u>	<u>39,115</u>	<u>138,935</u>
Other financing sources (uses):			
Sale of capital assets	138,183	-	-
Loan proceeds	135,000	-	-
Operating transfers in	7,100	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	<u>280,283</u>	<u>-</u>	<u>-</u>
Net change in cash balances	(53,173)	39,115	138,935
Cash balances beginning of year	345,015	171,359	-
Cash balances end of year	<u>\$ 291,842</u>	<u>210,474</u>	<u>138,935</u>
Cash Basis Fund Balances			
Reserved for debt service	\$ -	-	-
Unreserved:			
General fund	291,842	-	-
Special revenue funds	-	210,474	138,935
Permanent fund	-	-	-
Total cash basis fund balances	<u>\$ 291,842</u>	<u>210,474</u>	<u>138,935</u>

See notes to financial statements.

Urban Renewal Tax Increment	Nonmajor	Total
-	142,157	638,204
600,430	-	600,430
-	74,575	94,710
-	-	22,731
-	5,373	36,688
-	15,820	297,628
-	-	48,531
-	42,620	241,825
600,430	280,545	1,980,747
-	113,625	761,810
-	34,875	311,379
-	28,997	216,177
-	1,191	10,215
-	23,222	157,507
625,276	74,575	699,851
625,276	276,485	2,156,939
(24,846)	4,060	(176,192)
-	-	138,183
-	-	135,000
-	-	7,100
-	(7,100)	(7,100)
-	(7,100)	273,183
(24,846)	(3,040)	96,991
48,930	360,496	925,800
24,084	357,456	1,022,791
-	1,354	1,354
-	-	291,842
24,084	173,845	547,338
-	182,257	182,257
24,084	357,456	1,022,791

City of West Branch

City of West Branch

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

As of and for the year ended June 30, 2006

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 271,430	185,346	456,776
Miscellaneous	5,762	-	5,762
Total operating receipts	<u>277,192</u>	<u>185,346</u>	<u>462,538</u>
Operating disbursements:			
Business type activities	<u>220,743</u>	<u>126,746</u>	<u>347,489</u>
Excess of operating receipts over operating disbursements	<u>56,449</u>	<u>58,600</u>	<u>115,049</u>
Non-operating receipts (disbursements):			
Use of money and property	4,057	4,712	8,769
General obligation bond proceeds	1,678,065	-	1,678,065
Revenue bond proceeds	418,098		418,098
Purchase of capital assets	(2,114,516)		(2,114,516)
Debt service	<u>(40,779)</u>	<u>(46,250)</u>	<u>(87,029)</u>
Total non-operating receipts (disbursements)	<u>(55,075)</u>	<u>(41,538)</u>	<u>(96,613)</u>
Excess of receipts over disbursements	1,374	17,062	18,436
Cash balances beginning of year	<u>156,450</u>	<u>183,919</u>	<u>340,369</u>
Cash balances end of year	<u>\$ 157,824</u>	<u>200,981</u>	<u>358,805</u>
Cash Basis Fund Balances			
Unreserved	<u>\$ 157,824</u>	<u>200,981</u>	<u>358,805</u>

See notes to financial statements.

City of West Branch

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

The City of West Branch is a political subdivision of the State of Iowa located in Cedar and Johnson Counties. It was first incorporated in 1851 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of West Branch 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 West Branch (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Blended Component Units

The following component units are entities that are legally separate from the City, but are so intertwined with the City that they, in substance, are the same as the City. They are reported as part of the City and blended into the appropriate fund.

The West Branch Firefighters has been incorporated under the provisions of the Iowa Nonprofit Corporation Act, Chapter 504A of the Code of Iowa, for the purpose of aiding in the extinguishing of fires and performing such other duties as set forth by the Fire Department. In accordance with criteria set by the Governmental Accounting Standards Board, the West Branch Firefighters meets the definition of a component unit which should be blended. The financial activity for the account held by the component unit has been blended as a Special Revenue Fund of the City.

The Friends of the West Branch Public Library has been incorporated under the provisions of the Iowa Nonprofit Corporation Act, Chapter 504A of the Code of Iowa, for the purpose of aiding in the general operation of the West Branch Public Library. In accordance with criteria set by the Governmental Accounting Standards Board, the Friends of the West Branch Public Library meets the definition of a component unit which should be blended. The financial activity for the account held by the component unit has been blended as a Special Revenue Fund of the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Cedar County Assessor's Conference Board, Cedar County Joint E911 Service Board and Cedar County Emergency Management Agency.

B. Basis of Presentation

Government-wide Financial Statement – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Economic Development Fund is used for revolving loan(s) for new businesses and economic development of new business.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

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.

C. Measurement Focus and Basis of Accounting

The City of West Branch maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled 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.

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.

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

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for the general obligation water improvement bonds are as follows:

Fiscal Year Ended	Principal	Interest	Total
2007	\$ 69,000	52,200	121,200
2008	71,000	50,130	121,130
2009	73,000	48,000	121,000
2010	76,000	45,810	121,810
2011	78,000	43,530	121,530
2012-2016	426,000	181,140	607,140
2017-2021	495,000	113,250	608,250
2022-2025	452,000	34,410	486,410
Total	\$ 1,740,000	568,470	2,308,470

On June 2, 2005, the City entered into agreements with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of \$1,740,000 of general obligation water improvement bonds and \$860,000 of water revenue bonds, both with an interest rate of 3.0% per annum. The bonds were issued pursuant to the provisions of Chapter 384 and Section 384.24A of the Code of Iowa to pay the costs of constructing improvements and extensions to the City's water system. Upon request, the Trustee will reimburse the City for costs as they are incurred. Should the project cost less than the original bond amounts, the bonds and repayment schedules will be amended accordingly.

At June 30, 2006, the City had drawn \$1,740,000 of the general obligation water improvement bonds and \$426,698 of the water revenue bonds, including initiation fees of \$17,400 and \$8,600, respectively. Wells Fargo Bank Iowa, N.A. has the remaining balances of the water revenue bond issue held in trust, which the City will request as the projects progress. A formal repayment schedule for the water revenue bonds has not been adopted.

Revenue Bonds

The resolution providing for the issuance of the water revenue bonds issued under a loan agreement between the City of West Branch, the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. includes the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the water fund and the bond holders hold a lien on the future earnings of the fund.
- (b) Sufficient monthly transfers shall be made to a water revenue bond sinking account within the water fund for the purpose of making the bond principal and interest payments when due.
- (c) All funds remaining in the water account after making the required transfers shall be placed in a water revenue surplus account. As long as the sinking account has the full amount required to be deposited, the balance in the surplus account may be made available to the City as the Council may direct.

Transfers will be made upon finalization of the revenue bond repayment schedule.

(4) Loan Agreements

On May 13, 2002, the City entered into a loan agreement with a local bank not to exceed \$340,000. These funds were used to finance the construction of the sanitary sewer line replacement project. The loan bears 4.65% per annum interest and matures on July 5, 2009. The loan agreement was amended on July 1, 2003 for the amount actually borrowed of \$270,994 and to require annual principal and interest payments of \$46,250 beginning July 5, 2003. The loan will be repaid from future sewer utility revenues. Annual debt service requirements are as follows:

Year Ending June 30,	Interest Rate	Principal	Interest	Total
2007	4.65%	\$ 38,446	7,804	46,250
2008	4.65	40,259	5,991	46,250
2009	4.65	42,157	4,093	46,250
2010	4.65	44,689	2,105	46,794
Total		\$ 165,551	19,993	185,544

On August 4, 2005, the City entered into a loan agreement with a local bank not to exceed \$135,000. The funds were used to finance the purchase of a Fire Pumper/Rescue Truck. The loan bears 4.10% per annum interest and matures on August 1, 2008. The City was scheduled to make two annual payments of \$48,778 for principal and interest beginning August 1, 2006 and a final payment to be made on August 1, 2008. However, in June 2006, the City paid \$20,000 toward principal. The unpaid principal balance at June 30, 2006 was \$115,000. In July 2006, the City paid an additional \$80,000 toward principal and interest.

(5) 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 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$28,150, \$27,399 and \$25,930, respectively, equal to the required contributions for each year.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and comp 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.

Employees eligible for retirement will receive one-half of their accumulated sick leave balance. However, the employees must have earned the maximum days allowable before sick leave benefits under this plan are effective. No employees were eligible for sick leave benefits at June 30, 2006.

The City's approximate liability for earned vacation hours payable to employees at June 30, 2006, primarily relating to the General Fund, was \$37,000. This liability has been computed based on rates of pay in effect at June 30, 2006.

(7) 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: Krouth/Enlow	<u>\$ 7,100</u>

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

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Tax Increment Development Agreement

On February 3, 2003, the City entered into a tax increment development agreement with Procter and Gamble Hair Care, L.L.C. (P & G). Under the terms of the agreement, P & G will undertake an urban renewal project consisting of certain improvements to be completed in the West Branch Urban Renewal Area. The City agreed to rebate to P & G incremental property tax actually paid with respect to these improvements and received under Iowa Code Section 403.19 for a period of five years beginning with the tax year in which property taxes on the completed value of the improvements are first paid.

In addition, the City agreed to allow a schedule of exemption from property tax under Chapter 15.332 of the Code of Iowa from the time the improvements are first assessed, as follows:

Year 1 through 5	No exemption
Year 6	75% exemption
Year 7	60% exemption
Year 8	45% exemption
Year 9	30% exemption
Year 10	15% exemption

During the year ended June 30, 2006, \$534,138 of rebates were made to P & G. The total rebates made through the first two years of this agreement total \$918,368.

(10) Construction Contracts

On November 21, 2005, the City entered into construction contracts totaling \$1,226,765 for a water tower (\$672,150) and water main extension (\$554,615). At June 30, 2006, \$716,814 had been paid for work completed. The unpaid contract balances totaled \$509,951 and will be paid as work on the projects progresses.

On June 5, 2006, the City entered into a construction contract totaling \$284,800 for a maintenance building. At June 30, 2006, no payments have been made.

(11) Litigation

The City is currently a defendant in a lawsuit. The probability and amount of loss, if any, is undeterminable.

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 638,204	-	-
Tax increment financing	600,430	-	-
Other city tax	94,710	-	-
Licenses and permits	22,731	-	-
Use of money and property	36,688	8,769	2
Intergovernmental	297,628	-	15,820
Charges for service	48,531	456,776	-
Miscellaneous	241,825	5,762	41,719
Total receipts	<u>1,980,747</u>	<u>471,307</u>	<u>57,541</u>
Disbursements:			
Public safety	761,810	-	62,676
Public works	311,379	-	-
Culture and recreation	216,177	-	5,719
Community and economic development	10,215	-	-
General government	157,507	-	-
Debt service	699,851	-	-
Business type activities	-	2,549,034	-
Total disbursements	<u>2,156,939</u>	<u>2,549,034</u>	<u>68,395</u>
Excess (deficiency) of receipts over (under) disbursements	(176,192)	(2,077,727)	(10,854)
Other financing sources, net	273,183	2,096,163	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	96,991	18,436	(10,854)
Balances beginning of year	925,800	340,369	59,805
Balances end of year	<u>\$ 1,022,791</u>	<u>358,805</u>	<u>48,951</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
638,204	603,617	603,617	34,587
600,430	605,947	605,947	(5,517)
94,710	113,871	113,871	(19,161)
22,731	22,500	22,500	231
45,455	12,150	12,150	33,305
281,808	289,004	294,504	(12,696)
505,307	495,780	495,780	9,527
205,868	67,154	346,152	(140,284)
<u>2,394,513</u>	<u>2,210,023</u>	<u>2,494,521</u>	<u>(100,008)</u>
699,134	318,008	702,003	2,869
311,379	348,920	348,920	37,541
210,458	229,677	240,677	30,219
10,215	10,805	10,805	590
157,507	154,519	162,519	5,012
699,851	704,947	704,947	5,096
<u>2,549,034</u>	<u>2,666,962</u>	<u>2,666,962</u>	<u>117,928</u>
<u>4,637,578</u>	<u>4,433,838</u>	<u>4,836,833</u>	<u>199,255</u>
(2,243,065)	(2,223,815)	(2,342,312)	99,247
<u>2,369,346</u>	<u>2,225,000</u>	<u>2,225,000</u>	<u>144,346</u>
126,281	1,185	(117,312)	243,593
<u>1,206,364</u>	<u>1,272,212</u>	<u>1,272,212</u>	<u>(65,848)</u>
<u>1,332,645</u>	<u>1,273,397</u>	<u>1,154,900</u>	<u>177,745</u>

City of West Branch

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Permanent Funds and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$402,995. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements did not exceed the amounts budgeted.

Other Supplementary Information

City of West Branch

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

As of and for the year ended June 30, 2006

	Employee Benefits	Tort Liability	Friends of the Library	Special West Branch Firefighters
Receipts:				
Property tax	\$ 89,376	50,947	-	-
Other city tax	-	-	-	-
Use of money and property	-	-	-	2
Intergovernmental	-	-	-	15,820
Miscellaneous	-	-	2,599	39,120
Total receipts	89,376	50,947	2,599	54,942
Disbursements:				
Operating:				
Public safety	28,527	22,422	-	62,676
Public works	25,354	9,521	-	-
Culture and recreation	18,928	4,350	5,719	-
Community and economic development	-	-	-	-
General government	10,222	13,000	-	-
Debt service	-	-	-	-
Total disbursements	83,031	49,293	5,719	62,676
Excess (deficiency) of receipts over (under) disbursements	6,345	1,654	(3,120)	(7,734)
Other financing uses:				
Operating transfers out	-	-	-	-
Net change in cash balances	6,345	1,654	(3,120)	(7,734)
Cash balances beginning of year	46,728	16,670	40,953	18,852
Cash balances end of year	\$ 53,073	18,324	37,833	11,118
Cash Basis Fund Balances				
Reserved for debt service	\$ -	-	-	-
Unreserved:				
Special revenue funds	53,073	18,324	37,833	11,118
Permanent funds	-	-	-	-
Total cash basis fund balances	\$ 53,073	18,324	37,833	11,118

See accompanying independent auditor's report.

Revenue					Permanent		Total
Trees and More	Emergency Tax	Local Option Sales Tax	Krouth/Enlow	Debt Service	Krouth/Enlow Principal	Cemetery Perpetual Care	
-	1,834	-	-	-	-	-	142,157
-	-	74,575	-	-	-	-	74,575
-	-	-	4,623	-	744	4	5,373
-	-	-	-	-	-	-	15,820
-	-	-	-	-	-	901	42,620
-	1,834	74,575	4,623	-	744	905	280,545
-	-	-	-	-	-	-	113,625
-	-	-	-	-	-	-	34,875
-	-	-	-	-	-	-	28,997
1,191	-	-	-	-	-	-	1,191
-	-	-	-	-	-	-	23,222
-	-	74,575	-	-	-	-	74,575
1,191	-	74,575	-	-	-	-	276,485
(1,191)	1,834	-	4,623	-	744	905	4,060
-	-	-	(7,100)	-	-	-	(7,100)
(1,191)	1,834	-	(2,477)	-	744	905	(3,040)
31	7,997	-	47,303	1,354	93,470	87,138	360,496
(1,160)	9,831	-	44,826	1,354	94,214	88,043	357,456
-	-	-	-	1,354	-	-	1,354
(1,160)	9,831	-	44,826	-	-	-	173,845
-	-	-	-	-	94,214	88,043	182,257
(1,160)	9,831	-	44,826	1,354	-	88,043	357,456

City of West Branch
Schedule of Indebtedness
Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Water improvement	Jun 2, 2005	3.00%	\$ 1,740,000
Total			
Urban renewal tax increment revenue capital loan notes			
	Dec 1, 1996	6.30 – 6.75%	\$ 310,000
Loan agreements:			
Sanitary sewer line replacement	May 13, 2002	4.65%	\$ 270,994
Fire pumper/Rescue truck	Aug 4, 2005	4.10	135,000
Total			
Revenue bonds:			
Water	Jun 2, 2005	3.00%	\$ 860,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
61,935	1,678,065	-	1,740,000	33,335
85,000	-	85,000	-	5,737
202,267	-	36,706	165,561	9,544
-	135,000	20,000	115,000	-
\$ 202,267	135,000	56,706	280,561	9,544
8,600	418,098	-	426,698	950

Schedule 3

City of West Branch

Bond Maturities

June 30, 2006

Year Ending June 30,	General Obligation Bonds	
	Water Improvement	
	Issued Jun 2, 2005	
	Interest Rates	Amount
2007	3.00%	\$ 69,000
2008	3.00	71,000
2009	3.00	73,000
2010	3.00	76,000
2011	3.00	78,000
2012	3.00	80,000
2013	3.00	83,000
2014	3.00	85,000
2015	3.00	88,000
2016	3.00	90,000
2017	3.00	93,000
2018	3.00	96,000
2019	3.00	99,000
2020	3.00	102,000
2021	3.00	105,000
2022	3.00	108,000
2023	3.00	111,000
2024	3.00	115,000
2025	3.00	118,000
Total		<u>\$ 1,740,000</u>

See accompanying independent auditor's report.

City of West Branch

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Four Years

	2006	2005	2004	2003
Receipts:				
Property tax	\$ 638,204	597,246	574,476	525,954
Tax increment financing	600,430	534,506	181,065	186,835
Other city tax	94,710	132,729	164,757	155,630
Licenses and permits	22,731	19,569	34,348	56,078
Use of money and property	36,688	13,843	13,089	42,428
Intergovernmental	297,628	294,124	307,252	770,726
Charges for service	48,531	56,434	45,332	47,244
Miscellaneous	241,825	301,381	96,091	60,327
	<hr/>			
Total	\$ 1,980,747	1,949,832	1,416,410	1,845,222
<hr/>				
Disbursements:				
Operating:				
Public safety	\$ 761,810	340,295	438,184	316,924
Public works	311,379	348,924	342,145	402,599
Culture and recreation	216,177	199,374	224,135	198,601
Community and economic development	10,215	12,271	10,800	461,375
General government	157,507	162,454	165,493	276,432
Debt service	699,851	851,535	291,393	174,975
Capital projects	-	-	-	183,801
	<hr/>			
Total	\$ 2,156,939	1,914,853	1,472,150	2,014,707
<hr/>				

See accompanying independent auditor's report.

City of West Branch



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

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of West Branch, 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, and have issued our report thereon dated September 12, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of West Branch's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the 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 the internal control over financial reporting that, in our judgment, could adversely affect the City of West Branch's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings.

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 the internal control over financial reporting would not necessarily disclose all matters in the 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 do not consider the reportable condition described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of West Branch's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

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

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 West Branch and other parties to whom the City of West Branch may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 12, 2006

City of West Branch
Schedule of Findings
Year ended June 30, 2006

Findings Related to the Financial Statements:

REPORTABLE CONDITION:

- (A) Computer Controls – The City does not have a written disaster recovery plan to address critical applications, staff responsibilities, etc. regarding the use and operation of the City’s computer system in the event of a natural disaster or other emergency situations.

Recommendation – The City should establish a written disaster recovery plan.

Response – The City will establish a recovery plan for use and operation of computer systems during FY07.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

City of West Branch
Schedule of Findings
Year ended June 30, 2006

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2006 did not exceed the amounts budgeted.
- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (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 insure the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were published, they did not include a total of disbursements from each fund as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should publish a total of disbursements from each fund as required by Chapter 372.13(6) of the Code of Iowa.

Response – This has already been corrected. These sections of the City bills were accidentally removed during file transfer from one computer to another.

Conclusion – Response accepted.

- (7) Deposits an Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.
- (8) Financial Condition – At June 30, 2006, the City had a deficit balance in the Special Revenue, Trees and More Fund of \$1,160.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – The City publicized the tree program and it was taken real advantage of which caused the deficit. The City will put a better limit on funds available to the public for the tree program.

Conclusion – Response accepted.

City of West Branch

Staff

This audit was performed by:

Michelle B. Meyer, CPA, Manager
John G. Vanis, CGFM, Senior Auditor
Shannon M. Hoffman, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State