



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

December 6, 2005

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

The City's receipts totaled \$2,424,535 for the year ended June 30, 2005, a 30 percent increase from 2004. The receipts included \$597,246 in property tax, \$534,506 from tax increment financing, \$525,990 from charges for service, \$571,408 from operating grants, contributions and restricted interest, \$111,635 from local option sales tax, \$10,342 from unrestricted interest on investments, \$44,535 from bond proceeds and \$28,873 from other general receipts.

Disbursements for the year totaled \$2,436,103, a 31 percent increase from the prior year, and included \$851,535 for debt service, \$348,924 for public works and \$340,295 for public safety. Also, disbursements for business type activities totaled \$521,250.

The significant increase in receipts and disbursements is due primarily to increases in tax increment financing and related disbursements under a tax increment development agreement, a water improvement project and the collection and repayment of Community Development Block Grant funds to the State of Iowa.

A copy of the report is available for review in the City Clerk's office, 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, 2005

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City of West Branch

Officials

<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

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, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City 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.

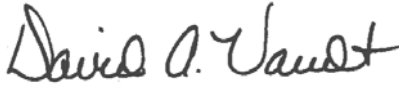
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

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, 2005, 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.

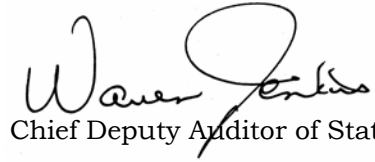
In accordance with Government Auditing Standards, we have also issued our report dated September 9, 2005 on our consideration of the City of West Branch's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied 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, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Auditor of State



Chief Deputy Auditor of State

September 9, 2005

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

2005 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 37%, or approximately \$527,000, from fiscal 2004 to fiscal 2005. Property tax decreased approximately \$4,000, tax increment financing increased \$353,000 and intergovernmental receipts decreased approximately \$13,000.
- Disbursements of the City's governmental activities increased 30%, or approximately \$443,000, in fiscal 2005 from fiscal 2004. Debt service disbursements increased \$560,000.
- The City's total cash basis net assets decreased less than one percent, or approximately \$12,000, from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities increased approximately \$40,000 and the assets of the business type activities decreased by approximately \$51,000.

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, 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?" 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.

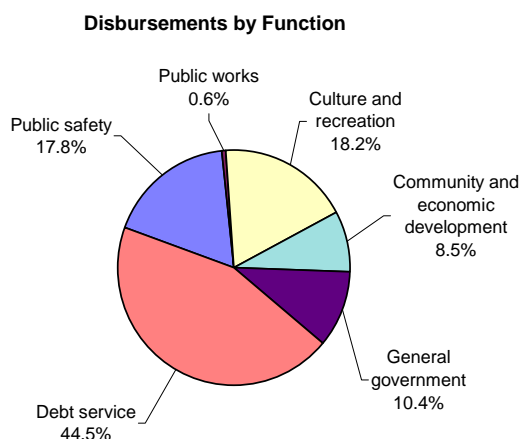
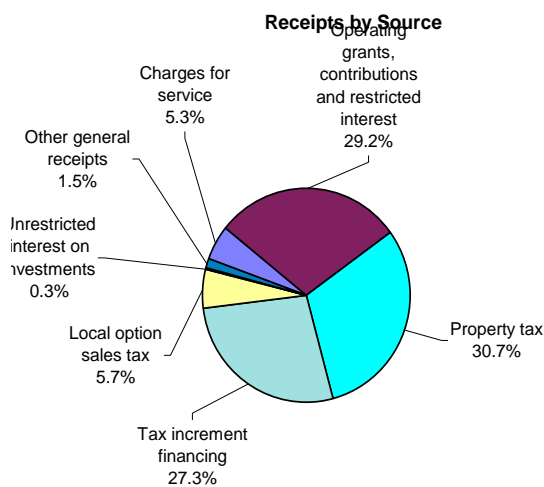
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

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 \$39,525 from a year ago, from \$886,275 to \$925,800. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2005	2004
Receipts:		
Program receipts:		
Charges for service	\$ 104,117	157,367
Operating grants, contributions and restricted interest	571,408	326,719
General receipts:		
Property tax	597,246	601,097
Tax increment financing	534,506	181,065
Local option sales tax	111,635	118,743
Unrestricted interest on investments	6,593	5,172
Bank loan proceeds	-	10,000
Other general receipts	28,873	26,887
Total receipts	<u>1,954,378</u>	<u>1,427,050</u>
Disbursements:		
Public safety	340,295	438,184
Public works	348,924	342,145
Culture and recreation	199,374	224,135
Community and economic development	12,271	10,800
General government	162,454	165,493
Debt service	851,535	291,393
Total disbursements	<u>1,914,853</u>	<u>1,472,150</u>
Increase (decrease) in cash basis net assets	39,525	(45,100)
Cash basis net assets beginning of year	886,275	931,375
Cash basis net assets end of year	<u>\$ 925,800</u>	<u>886,275</u>



The City's total receipts for governmental activities increased by 37%, or approximately \$527,000. The total cost of all programs and services increased by approximately \$443,000, or 30%. The significant increase in receipts and disbursements was primarily due to an increase in tax increment financing and related disbursements under a TIF tax rebate agreement with the Procter and Gamble Company.

The City decreased property tax rates for 2005 by an average of .5%. This decrease, coupled with the increase in property valuations, raised the City's property tax receipts by approximately \$23,000 in 2005. Based on increases in the total assessed valuation, property tax receipts are budgeted to increase by an additional \$24,000 next year.

The cost of all governmental activities this year was \$1,914,853 compared to \$1,472,150 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 \$1,239,328 because some of the cost was paid by those who directly benefited from the programs (\$104,117) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$571,408). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2005 from approximately \$1.43 million to approximately \$1.95 million, principally due to an increase in tax increment financing. The City paid for the remaining "public benefit" portion of governmental activities with \$1,131,752 in levied taxes, \$111,635 in local option sales tax and \$35,466 in other receipts, such as interest and miscellaneous receipts.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended	
	June 30,	
	2005	2004
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 246,131	250,279
Sewer	175,742	180,149
General receipts:		
Unrestricted interest on investments	3,749	1,933
Bond proceeds	44,535	-
Total receipts	<u>470,157</u>	<u>432,361</u>
Disbursements:		
Water	372,546	237,667
Sewer	148,704	155,996
Total disbursements	<u>521,250</u>	<u>393,663</u>
Increase (decrease) in cash basis net assets	(51,093)	38,698
Cash basis net assets beginning of year	<u>391,462</u>	<u>352,764</u>
Cash basis net assets end of year	<u>\$ 340,369</u>	<u>391,462</u>

Total business type activities receipts for the fiscal year were \$470,157 compared to \$432,361 last year. The increase was due primarily to the receipt of bond proceeds in 2005. The cash balance decreased by approximately \$51,000 from the prior year because of a water project. Total disbursements for the fiscal year increased by 32.4% to \$521,250, primarily due to water project activity in fiscal 2005.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of West Branch completed the year, its governmental funds reported a combined cash balance of \$925,800, an increase of \$39,525 from last year’s total of \$886,275. 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 increased \$5,173 from the prior year to \$345,015.
- The Road Use Tax Fund cash balance decreased by \$4,718 to \$171,359 during the fiscal year.
- The Urban Renewal Tax Increment Fund cash balance decreased \$24,545 to \$48,930. The decrease was due to payments made under a TIF tax rebate agreement exceeding current year collections.
- The Permanent Fund cash balance of \$93,470 did not change from the prior year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$79,386 to \$156,450, due primarily to costs related to a water project.
- The Sewer Fund cash balance increased by \$28,293 to \$183,919 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 one time. The amendment was approved on April 18, 2005 and resulted in an increase in operating disbursements of \$320,654 related to debt service requirements and the water project.

DEBT ADMINISTRATION

At June 30, 2005, the City had \$357,802 in bonds and other long-term debt, compared to \$560,963 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2005	2004
General obligation bonds	\$ 61,935	120,000
Urban renewal tax increment revenue capital loan notes	85,000	130,000
Loan agreements	202,267	282,296
Lease purchase agreement	-	28,667
Revenue bonds	8,600	-
Total	\$ 357,802	560,963

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 \$146,935 is significantly below its constitutional debt limit of \$5.5 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Numerous issues were taken into account when adopting the budget for fiscal year 2006. Amounts available for appropriation in the operating budget are \$4,433,838, an increase of 48% over the final 2005 budget. Property tax (benefiting from the 2006 rate increase and increases in assessed valuations) and proceeds from urban renewal tax increment financing are expected to lead this increase. The City will use these increases in receipts to finance programs we currently offer and to defray a portion of the costs of carrying out a major urban renewal project of the City. Budgeted disbursements are expected to rise by approximately \$2,073,000. Increased wage and cost-of-living adjustments, maintenance, increases in the urban renewal project and a major water system improvement project represent the largest increases. The City has added no major new programs or initiatives to the 2006 budget.

If these estimates are realized, the City's budgeted cash balance is expected to remain relatively unchanged by the close of 2006.

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, 2005

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 340,295	19,986	146,937
Public works	348,924	34,063	185,473
Culture and recreation	199,374	24,513	63,498
Community and economic development	12,271	-	-
General government	162,454	25,555	-
Debt service	851,535	-	175,500
Total governmental activities	<u>1,914,853</u>	<u>104,117</u>	<u>571,408</u>
Business type activities:			
Water	372,546	246,131	-
Sewer	148,704	175,742	-
Total business type activities	<u>521,250</u>	<u>421,873</u>	<u>-</u>
Total	<u>\$ 2,436,103</u>	<u>525,990</u>	<u>571,408</u>

General Receipts:

- Property and other tax city tax levied for:
 - General purposes
 - Tax increment financing
- Local option sales tax
- Unrestricted interest on investments
- Bond proceeds
- 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
 - 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
(173,372)	-	(173,372)
(129,388)	-	(129,388)
(111,363)	-	(111,363)
(12,271)	-	(12,271)
(136,899)	-	(136,899)
(676,035)	-	(676,035)
(1,239,328)	-	(1,239,328)
-	(126,415)	(126,415)
-	27,038	27,038
-	(99,377)	(99,377)
(1,239,328)	(99,377)	(1,338,705)
597,246	-	597,246
534,506	-	534,506
111,635	-	111,635
6,593	3,749	10,342
-	44,535	44,535
28,873	-	28,873
1,278,853	48,284	1,327,137
39,525	(51,093)	(11,568)
886,275	391,462	1,277,737
\$ 925,800	340,369	1,266,169
\$ 171,359	-	171,359
48,930	-	48,930
1,354	-	1,354
359,142	-	359,142
345,015	340,369	685,384
\$ 925,800	340,369	1,266,169

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, 2005

	Special Revenue		
	General	Road Use Tax	Urban Renewal Tax Increment
Receipts:			
Property tax	\$ 466,156	-	-
Tax increment financing	-	-	534,506
Other city tax	21,094	-	-
Licenses and permits	19,569	-	-
Use of money and property	9,897	-	-
Intergovernmental	97,225	181,923	-
Charges for service	56,434	-	-
Miscellaneous	41,981	-	-
Total receipts	<u>712,356</u>	<u>181,923</u>	<u>534,506</u>
Disbursements:			
Operating:			
Public safety	247,901	-	-
Public works	130,824	186,641	-
Culture and recreation	173,868	-	-
Community and economic development	9,818	-	-
General government	143,974	-	-
Debt service	-	-	564,400
Total disbursements	<u>706,385</u>	<u>186,641</u>	<u>564,400</u>
Excess (deficiency) of receipts over (under) disbursements	<u>5,971</u>	<u>(4,718)</u>	<u>(29,894)</u>
Other financing sources (uses):			
Sale of capital assets	4,546	-	-
Operating transfers in	5	-	5,349
Operating transfers out	(5,349)	-	-
Total other financing sources (uses)	<u>(798)</u>	<u>-</u>	<u>5,349</u>
Net change in cash balances	5,173	(4,718)	(24,545)
Cash balances beginning of year	<u>339,842</u>	<u>176,077</u>	<u>73,475</u>
Cash balances end of year	<u>\$ 345,015</u>	<u>171,359</u>	<u>48,930</u>
Cash Basis Fund Balances			
Reserved for debt service	\$ -	-	-
Unreserved:			
General fund	345,015	-	-
Special revenue funds	-	171,359	48,930
Permanent fund	-	-	-
Total cash basis fund balances	<u>\$ 345,015</u>	<u>171,359</u>	<u>48,930</u>

See notes to financial statements.

<u>Permanent</u>		
<u>Krouth/Enlow Principal</u>	<u>Nonmajor</u>	<u>Total</u>
-	131,090	597,246
-	-	534,506
-	111,635	132,729
-	-	19,569
-	3,946	13,843
-	14,976	294,124
-	-	56,434
-	259,400	301,381
-	521,047	1,949,832
-	92,394	340,295
-	31,459	348,924
-	25,506	199,374
-	2,453	12,271
-	18,480	162,454
-	287,135	851,535
-	457,427	1,914,853
-	63,620	34,979
-	-	4,546
-	-	5,354
-	(5)	(5,354)
-	(5)	4,546
-	63,615	39,525
93,470	203,411	886,275
93,470	267,026	925,800
-	1,354	1,354
-	-	345,015
-	178,534	398,823
93,470	87,138	180,608
93,470	267,026	925,800

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, 2005

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 223,050	175,742	398,792
Miscellaneous	23,081	-	23,081
Total operating receipts	246,131	175,742	421,873
Operating disbursements:			
Business type activities	328,011	148,704	476,715
Excess (deficiency) of operating receipts over (under) operating disbursements	(81,880)	27,038	(54,842)
Non-operating receipts (disbursements):			
Use of money and property	2,494	1,255	3,749
General obligation bond proceeds	44,535	-	44,535
Purchase of capital assets	(44,535)	-	(44,535)
Total non-operating receipts (disbursements)	2,494	1,255	3,749
Excess (deficiency) of receipts over (under) disbursements	(79,386)	28,293	(51,093)
Cash balances beginning of year	235,836	155,626	391,462
Cash balances end of year	\$ 156,450	183,919	340,369
Cash Basis Fund Balances			
Unreserved	\$ 156,450	183,919	340,369

See notes to financial statements.

City of West Branch

Notes to Financial Statements

June 30, 2005

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

Permanent Fund:

The Krouth/Enlow Principal Fund is used to account for funds received in trust when the Enlow Library became a public library. Only the interest earnings may be spent on operations of the public library.

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, 2005, disbursements exceeded the amounts budgeted in the community and economic development and debt service functions.

(2) Cash and Pooled Investments

The City’s deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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.

Beginning in April 2005, the City utilized a sweep account that was invested in a repurchase agreement. The underlying collateral has not been identified and the City did not take delivery of the underlying collateral for the repurchase agreement. The investments were purchased daily.

Interest rate and custodial credit risk: The City’s investment policy limits the investment of operating funds (funds reasonably expected to be expended during a current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and uses of the City.

Since the underlying collateral has not been identified for the repurchase agreement, it is not possible to determine the interest rate risk and custodial credit risk associated with the repurchase agreement.

Concentration of credit risk: The City’s investment policy has the following limitations: no more than 10% of the investment portfolio may be invested in prime banker’s acceptances, commercial paper or other short-term corporate debt, no more than 5% of the investment portfolio may be invested in the securities of a single issuer and no more than 5% of all amounts invested shall be invested in paper and debt rated in the second highest classification. When possible, it is the City’s policy to diversify its investment portfolio to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, specific issuer or a specific class of securities.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for urban renewal tax increment revenue capital loan notes are as follows:

Year Ending June 30,	Interest Rate	Urban Renewal Tax Increment Revenue Capital Loan Notes		
		Principal	Interest	Total
2006	6.75%	\$ 85,000	5,738	90,738

The urban renewal tax increment revenue capital loan notes were issued for the purpose of paying costs of an urban renewal project and funding a previously determined finding by the City Council pursuant to Chapter 15A of the Code of Iowa regarding incentives to Sauer-Sundstrand. The notes are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and there will be a first lien on the future revenues thereof. The proceeds of the urban renewal tax increment revenue capital loan notes shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The resolution providing for the issuance of the notes requires the City to establish a sinking fund to pay the interest and principal coming due during the fiscal year. The City accounts for this activity within the Special Revenue, Urban Renewal Tax Increment Fund. The notes are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

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, 2005, the City had drawn \$61,935 and \$8,600, respectively, including initiation fees of \$17,400 and \$8,600 of the respective amounts approved. Wells Fargo Bank Iowa, N.A. has the remaining balances of each issue held in trust, which the City will request as the projects progress. Formal repayment schedules have not been adopted.

(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 will be 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. The City is scheduled to make 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
2006	4.65%	\$ 36,716	9,534	46,250
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		\$ 202,267	29,527	231,794

(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 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 contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$27,399, \$25,930 and \$23,248, respectively, equal to the required contributions for each year.

(6) 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.

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, 2005.

The City's approximate liability for earned vacation hours payable to employees at June 30, 2005, primarily relating to the General Fund, was \$34,000. This liability has been computed based on rates of pay in effect at June 30, 2005.

(7) Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue:		
Urban Renewal Tax		
Increment	General	\$ 5,349
General	Permanent:	
	Cemetery Perpetual Care	5
Total		<u>\$ 5,354</u>

The transfer from the General Fund to the Urban Renewal Tax Increment Fund was to correct a posting error from the fiscal year ended June 30, 2004. Also, the Cemetery Perpetual Care Fund transferred interest to the General Fund where it is used for cemetery operations in accordance with Chapter 566.16 of the Code of Iowa.

(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) Community Development Block Grant (CDBG)

The Iowa Department of Economic Development (DED) and the City entered into a grant agreement on November 21, 2001 for \$450,000 as part of DED’s CDBG program. The City subsequently entered into a loan agreement with Plastic Products Company, Inc. The loan agreement has two components: (1) a \$225,000 direct loan and (2) a \$225,000 forgivable loan. The City received the funds from DED on August 22, 2002 and then loaned \$450,000 to the business.

A letter dated April 26, 2004 from DED to the City documented the reduction of the grant award from \$450,000 to \$274,500 based upon the actual number of full time equivalent positions created by Plastic Products Company, Inc. DED requested repayment of \$175,500 from the City/Plastic Products Company, Inc. On July 9, 2004, Plastic Products Company, Inc. refunded \$175,500 to the City which, in turn, returned the funds to DED. The structure of the loan agreement is now as follows: (1) \$137,250 loan and (2) \$137,250 forgivable loan.

(10) 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, 2005, \$384,230 of rebates were made to P & G.

(11) Construction Contracts

On March 7, 2005, the City entered into a construction contract totaling \$577,200 for a water treatment facility. At June 30, 2005, \$44,535 had been paid for work completed. The unpaid contract balance totaled \$532,965 and will be paid as work on the project progresses.

On April 4, 2005, the City entered into a construction contract totaling \$746,231 for drilling a new water well. At June 30, 2005, no payments had been made on this contract.

(12) Subsequent event

On May 2, 2005, the City accepted the low bid of \$349,995 for a fire truck. To finance the fire truck, the City sold one fire truck for \$135,000 to a local community, planned to borrow \$135,000 from a local bank and will use other local sources.

On July 18, 2005, the City held a public hearing to enter into a bank loan for \$135,000 to finance the fire truck. The loan will bear interest at 4.10% per annum and matures on August 1, 2008.

City of West Branch

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, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 597,246	-	-
Tax increment financing	534,506	-	-
Other city tax	132,729	-	-
Licenses and permits	19,569	-	-
Use of money and property	13,843	3,749	2
Intergovernmental	294,124	-	14,976
Charges for service	56,434	398,792	-
Miscellaneous	301,381	23,081	82,340
Total receipts	1,949,832	425,622	97,318
Disbursements:			
Public safety	340,295	-	45,125
Public works	348,924	-	-
Culture and recreation	199,374	-	4,541
Community and economic development	12,271	-	-
General government	162,454	-	-
Debt service	851,535	-	-
Business type activities	-	521,250	-
Total disbursements	1,914,853	521,250	49,666
Excess (deficiency) of receipts over (under) disbursements	34,979	(95,628)	47,652
Other financing sources, net	4,546	44,535	-
Excess (deficiency) of receipts and other other financing sources over (under) disbursements and other financing uses	39,525	(51,093)	47,652
Balances beginning of year	886,275	391,462	12,153
Balances end of year	\$ 925,800	340,369	59,805

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
597,246	563,578	563,578	33,668
534,506	549,798	564,452	(29,946)
132,729	113,090	288,590	(155,861)
19,569	20,500	20,500	(931)
17,590	34,650	34,650	(17,060)
279,148	278,433	278,433	715
455,226	496,542	621,542	(166,316)
242,122	80,099	80,099	162,023
<u>2,278,136</u>	<u>2,136,690</u>	<u>2,451,844</u>	<u>(173,708)</u>
295,170	296,694	296,694	1,524
348,924	355,611	361,111	12,187
194,833	221,275	221,275	26,442
12,271	9,405	9,405	(2,866)
162,454	163,239	163,239	785
851,535	646,798	836,952	(14,583)
521,250	443,284	568,284	47,034
<u>2,386,437</u>	<u>2,136,306</u>	<u>2,456,960</u>	<u>70,523</u>
(108,301)	384	(5,116)	(103,185)
49,081	-	-	49,081
(59,220)	384	(5,116)	(54,104)
1,265,584	1,006,694	1,006,694	258,890
<u>1,206,364</u>	<u>1,007,078</u>	<u>1,001,578</u>	<u>204,786</u>

City of West Branch

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

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 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 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 \$320,654. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the community and economic development and debt service functions.

Other Supplementary Information

City of West Branch

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

As of and for the year ended June 30, 2005

	Employee Benefits	Tort Liability	Community Development Block Grant	Friends of the Library	Special Volunteer Fire Department
Receipts:					
Property tax	\$ 92,075	37,292	-	-	-
Other city tax	-	-	-	-	-
Use of money and property	-	-	-	-	2
Intergovernmental	-	-	-	-	14,976
Miscellaneous	-	-	175,500	45,494	36,846
Total receipts	92,075	37,292	175,500	45,494	51,824
Disbursements:					
Operating:					
Public safety	30,115	17,154	-	-	45,125
Public works	24,459	7,000	-	-	-
Culture and recreation	18,783	2,182	-	4,541	-
Community and economic development	-	-	-	-	-
General government	9,490	8,990	-	-	-
Debt service	-	-	175,500	-	-
Total disbursements	82,847	35,326	175,500	4,541	45,125
Excess (deficiency) of receipts over (under) disbursements	9,228	1,966	-	40,953	6,699
Other financing uses:					
Operating transfers out	-	-	-	-	-
Net change in cash balances	9,228	1,966	-	40,953	6,699
Cash balances beginning of year	37,500	14,704	-	-	12,153
Cash balances end of year	\$ 46,728	16,670	-	40,953	18,852
Cash Basis Fund Balances					
Reserved for debt service	\$ -	-	-	-	-
Unreserved:					
Special revenue funds	46,728	16,670	-	40,953	18,852
Permanent fund	-	-	-	-	-
Total cash basis fund balances	\$ 46,728	16,670	-	40,953	18,852

See accompanying independent auditor's report.

Revenue					Permanent		
Trees and More	Emergency Tax	Local Option Sales Tax	Krouth/Enlow	Debt Service	Cemetery Perpetual Care	Total	
-	1,723	-	-	-	-	131,090	
-	-	111,635	-	-	-	111,635	
-	-	-	3,940	-	4	3,946	
-	-	-	-	-	-	14,976	
-	-	-	-	-	1,560	259,400	
-	1,723	111,635	3,940	-	1,564	521,047	
-	-	-	-	-	-	92,394	
-	-	-	-	-	-	31,459	
-	-	-	-	-	-	25,506	
2,453	-	-	-	-	-	2,453	
-	-	-	-	-	-	18,480	
-	-	111,635	-	-	-	287,135	
2,453	-	111,635	-	-	-	457,427	
(2,453)	1,723	-	3,940	-	1,564	63,620	
-	-	-	-	-	(5)	(5)	
(2,453)	1,723	-	3,940	-	1,559	63,615	
2,484	6,274	-	43,363	1,354	85,579	203,411	
31	7,997	-	47,303	1,354	87,138	267,026	
-	-	-	-	1,354	-	1,354	
31	7,997	-	47,303	-	-	178,534	
-	-	-	-	-	87,138	87,138	
31	7,997	-	47,303	1,354	87,138	267,026	

City of West Branch
Schedule of Indebtedness
Year ended June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Essential corporate purpose	Dec 1, 1996	4.25 – 4.70%	\$ 645,000
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%	\$ 31,000
Loan agreements:			
Sanitary sewer line replacement	May 13, 2002	4.65%	\$ 270,994
Fire truck	Apr 23, 2003	3.00	35,000
Police vehicle	Jul 8, 2003	2.75	10,000
Total			
Lease purchase agreement:			
Snow removal equipment	Feb 13, 2001	5.34%	\$ 146,000
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
120,000	-	120,000	-	5,640
-	61,935	-	61,935	-
<u>\$ 120,000</u>	<u>61,935</u>	<u>120,000</u>	<u>61,935</u>	<u>5,640</u>
<u>130,000</u>	<u>-</u>	<u>45,000</u>	<u>85,000</u>	<u>8,730</u>
237,296	-	35,029	202,267	11,221
35,000	-	35,000	-	1,251
10,000	-	10,000	-	277
<u>\$ 282,296</u>	<u>-</u>	<u>80,029</u>	<u>202,267</u>	<u>12,749</u>
<u>28,667</u>	<u>-</u>	<u>28,667</u>	<u>-</u>	<u>1,532</u>
<u>-</u>	<u>8,600</u>	<u>-</u>	<u>8,600</u>	<u>-</u>

Schedule 3

City of West Branch

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

For the Last Three Years

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

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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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, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated September 9, 2005. 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 certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of 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 conditions are 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 conditions described above to be material weaknesses.

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.

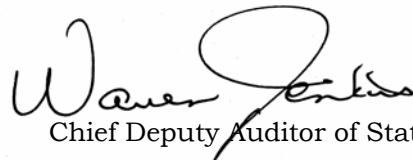
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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.



Auditor of State



Chief Deputy Auditor of State

September 9, 2005

City of West Branch
Schedule of Findings
Year ended June 30, 2005

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITION:

(A) Computer Controls – The City does not have written policies and procedures regarding the use and operation of the City’s computer system. The following were noted:

- The computer system does not prompt/require the user to change their passwords every 60 to 90 days.
- The City does not have a written disaster recovery plan to address critical applications, staff responsibilities, etc. in the event of a natural disaster or other emergency situations.

Recommendation – The City should establish written policies and procedures regarding the use and operation of its computer system. These policies and procedures should, at a minimum, address the conditions identified above.

Response – The City is purchasing new computers to be installed by October 7, 2005 and will have prompt password changes installed or turned on.

The City will continue to work on this and draft a policy for natural disaster or emergency situations. We have been talking with the Library about this.

Conclusion – Response accepted.

(B) Volunteer Fire Department Disbursements – Certain disbursements were not supported by invoices and/or other supporting documentation. Also, we noted cash withdrawals from the checking account for prizes and fund raising services. These withdrawals were not supported by invoices or any other documentation.

Recommendation – All volunteer fire department disbursements should be made through the issuance of a department check and all disbursements should be supported by invoices and other supporting documentation. Cash withdrawals should be prohibited.

Response – We will have the Fire Department write rules and regulations into their by-laws that pertain to issuance of checks, disbursements and prohibit cash withdrawals.

Conclusion – Response accepted.

City of West Branch

Schedule of Findings

Year ended June 30, 2005

Other Findings Related to Statutory Reporting:

- (1) Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
- (2) Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the community and economic development and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The local option sales tax increased dramatically because of local sales and the City estimated low. The dues increased for economic development and a new cable company came into town and the City had to incur expenses. We will make note to review these funds as fiscal year end comes closer. Both events were unforeseen.

Conclusion – Response accepted.

- (3) Questionable Disbursements – No disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (6) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were published, they did not include a summary of receipts as required by Chapter 372.13(6) of the Code of Iowa.

The Library Board went into closed session on January 10, 2005 and June 6, 2005. However, the minutes record did not document the specific information regarding the closed session as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law. Additionally, Library Board minutes were not always signed.

City of West Branch

Schedule of Findings

Year ended June 30, 2005

Recommendation – The City should publish a summary of receipts as required by Chapter 372.13(6) of the Code of Iowa. The Library should enter into closed session as required by Chapter 21 of the Code of Iowa. Also, the Library minutes should be signed to authenticate the record.

Response – The City has new staff and will inform them that receipts need to be published in the minutes. City will inform the Library that the Code Section needs to be published on the agenda and in the minutes when the possibility of a closed session arises. We will also inform the Library that minutes should be signed to authenticate the record.

Conclusion – Response accepted.

- (8) Deposits and Investments – Except as noted below, deposits and investments were in compliance with Chapters 12B and 12C of the Code of Iowa and the City's investment policy.

During the year ended June 30, 2005, City funds were invested in a repurchase agreement. In accordance with Chapter 12B.10(4)(e), the City may only invest in repurchase agreements whose underlying collateral consists of the investments allowed by statute if the City takes delivery of the underlying collateral, either directly or through an authorized custodian.

The underlying collateral has not been identified and the City did not take delivery of the underlying collateral for the repurchase agreement.

Recommendation – The City should consult legal counsel to resolve this matter.

Response – Legal counsel recommended getting out of sweeps account and City contacted US Bank and has been removed from sweeps program.

Conclusion – Response accepted.

- (9) Payment of General Obligation Bonds – Certain general obligation bonds were paid from the Special Revenue, Urban Renewal Tax Increment Fund. Chapter 384.4 of the Code of Iowa states in part “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund.”

Recommendation – The City should transfer from the Special Revenue, Urban Renewal Tax Increment Fund to the Debt Service, General Obligation Bonds Fund for future funding contributions. Payments of the bonds should then be disbursed from the Debt Service Fund.

Response – The City will set up a Debt Service Fund to make these payments from or transfer funds into.

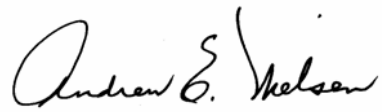
Conclusion – Response accepted.

City of West Branch

Staff

This audit was performed by:

Cynthia L. Weber, CPA, Manager
John G. Vanis, CGFM, Senior Auditor
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Andrew E. Nielsen, CPA
Deputy Auditor of State