

CITY OF SHEFFIELD, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

- Prepared By -

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CITY OF SHEFFIELD, IOWA

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CITY OF SHEFFIELD, IOWA

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
(Before January 2004)		
James Saylor	Mayor	January 2004
Dave O'Connor	Mayor pro tem	January 2004
Pat Mondt	Council Member	January 2004
Norene Schwierjohann	Council Member	January 2004
Shirley Brady	Council Member	January 2006
Richard Froning	Council Member	January 2006
Debra Hartman, CMC	Clerk/Treasurer	January 2004
James Drew	Attorney	January 2004

(After January 2004)

James Saylor	Mayor	January 2006
Dave O'Connor	Mayor pro tem	January 2008
Pat Mondt	Council Member	January 2008
Norene Schwierjohann	Council Member	January 2008
Shirley Brady	Council Member	January 2006
Richard Froning	Council Member	January 2006
Debra Hartman, CMC	Clerk/Treasurer	January 2005
Brian Miller	Attorney	January 2005

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

I 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 Sheffield, Iowa, as of and for the year ended June 30, 2004, 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 Sheffield's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I 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. I believe that my audit provides a reasonable basis for my opinion.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sheffield as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting as described in Note 1.

As described in Note 9, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences.

In accordance with Government Auditing Standards, I have also issued my report dated January 10, 2005 on my consideration of the City of Sheffield's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Sheffield's basic financial statements. 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 my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

January 10, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Sheffield 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, 2004. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

Revenues of the City's governmental activities decreased 16.6%, or approximately \$99,000 from fiscal 2003 to fiscal 2004. Property tax increased approximately \$72,000 and intergovernmental revenues decreased \$54,000.

Disbursements decreased 18.8%, or approximately \$117,000, in fiscal 2004 from fiscal 2003. Public safety, culture and recreation and community and economic development disbursements increased (decreased) approximately \$(38,000), \$35,000 and \$(83,000), respectively.

The City's total cash basis net assets decreased 1.3%, or approximately \$10,000, from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities decreased approximately \$10,000 and the assets of the business type activities decreased by approximately \$300.

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 Statement tells how governmental services were financed in the short term as well as what remains for future spending. The Fund financial statement reports 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.

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Other Supplementary Information provides detailed information about the nonmajor governmental and proprietary 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, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased slightly from a year ago, decreasing from \$417,000 to \$407,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

(Expressed in Thousands)

	Year ended June 30,	
	2004	2003
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 27	\$ 24
Operating grants, contributions and restricted interest	114	168
General receipts:		
Property tax	293	221
Local option sales tax	22	19
Grants and contributions not restricted to specific purposes	3	2
Unrestricted investment earnings	4	8
Bond proceeds	-	122
Other general receipts	34	32
Total receipts and transfers	<u>\$ 497</u>	<u>\$ 596</u>
Disbursements:		
Public safety	\$ 144	\$ 182
Public works	97	115
Culture and recreation	153	118
Community and economic development	17	100
General government	53	39
Debt service	43	18
Capital projects	-	52
Total disbursements	<u>\$ 507</u>	<u>\$ 624</u>
Increase (decrease) in cash basis net assets	\$ (10)	\$ (28)
Cash basis net assets beginning of year	<u>417</u>	<u>445</u>
Cash basis net assets end of year	<u>\$ 407</u>	<u>\$ 417</u>

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The City's total receipts for governmental activities decreased by 16.6%, or \$99,000. The total cost of all programs and services decreased by approximately \$117,000, or 18.8%, with no new programs added this year. The significant decrease in receipts was primarily the result of bond proceeds received in 2003.

The cost of all governmental activities this year was \$507,000 compared to \$624,000 last year. However, as shown in the Statement of Activities and Net Assets on pages 10-13, the amount taxpayers ultimately financed for these activities was only \$365,000 because some of the cost was paid by those directly benefited from the programs (\$27,000) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest \$(114,000). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$315,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

Year ended June 30,
2004 2003

Receipts:

Program receipts:

Charges for service:

Water	\$ 79	\$ 78
Sewer	82	78
Other	1	1

General receipts:

Local option sales tax	33	29
Unrestricted interest on investments	1	-
Other general receipts	-	2
Total receipts	<u>\$ 196</u>	<u>\$ 188</u>

Disbursements and transfers:

Water	\$ 81	\$ 75
Sewer	114	112
Other	1	-
Total disbursements and transfers	<u>\$ 196</u>	<u>\$ 187</u>

Increase in cash balance	\$ -	\$ 1
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Cash basis net assets beginning of year	<u>384</u>	<u>383</u>
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Cash basis net assets end of year	<u>\$ 384</u>	<u>\$ 384</u>
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Total business type activities receipts for the fiscal year were \$196,000 compared to \$188,000 last year. This increase was due primarily to an increase in water and sewer receipts from a new housing project from the prior year. Total disbursements for the fiscal year increased by 4.8% to a total of \$196,000 because of higher demand for water and sewer services in 2004.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Sheffield completed the year, its governmental funds reported a combined fund balance of \$407,446, a decrease of \$10,157 from last year's total of \$417,603. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance decreased \$77,113 from the prior year to \$191,906. This decrease was due mainly to grant revenue and bond proceeds received in 2003.

The Road Use Tax Fund cash balance increased by \$11,567 to \$41,757 during the fiscal year. This increase was attributable to timing of the completion of certain road projects for the upcoming fiscal year.

The Tax Increment Financing Fund was established in the previous fiscal year to account for urban renewal projects within the City's business district. At the end of the fiscal year, the cash balance was \$63,102, an increase of \$40,913 from the previous year.

The Debt Service Fund cash balance increased by \$17,404 to \$50,883 during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance increased by \$9,315 to \$72,449, due primarily to an increase in the sale of water.

The Sewer Fund cash balance decreased by \$9,748 to \$26,886, due primarily to an increase in personal services.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$360,000 in bonds and other long-term debt, compared to approximately \$407,000 last year, as follows:

Outstanding Debt at Year-End
(Expressed in Thousands)

	June 30,	
	2004	2003
General obligation bonds	\$ 345	\$ 385
Notes payable	15	22
Total	<u>\$ 360</u>	<u>\$ 407</u>

The City did not incur any new debt during 2004. Principal and interest payments were made as scheduled. 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 \$345,000 is significantly below its constitutional debt limit of \$1,655,500.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Sheffield's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. The City has a new housing development near the golf course. Of the forty available lots, approximately ten houses have been built to date.

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 Deb Hartman, City Clerk, City of Sheffield.

CITY OF SHEFFIELD, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public safety	\$ 144,562	\$ 11,980	\$ -	\$ -
Public works	96,602	6,125	77,457	-
Culture and recreation	152,616	9,287	34,312	-
Community and economic development	17,000	-	-	-
General government	52,927	-	2,500	-
Debt service	<u>42,675</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental Activities	<u>\$ 506,382</u>	<u>\$ 27,392</u>	<u>\$ 114,269</u>	<u>\$ -</u>
Business type activities:				
Water	\$ 80,859	\$ 79,229	\$ -	\$ -
Sewer rental	114,430	82,363	-	-
Sewer improvement	-	-	-	-
Other	<u>646</u>	<u>750</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>\$ 195,935</u>	<u>\$ 162,342</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u>\$ 702,317</u>	<u>\$ 189,734</u>	<u>\$ 114,269</u>	<u>\$ -</u>

(Continued)

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

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (132,582)	\$ -	\$ (132,582)
(13,020)	-	(13,020)
(109,017)	-	(109,017)
(17,000)	-	(17,000)
(50,427)	-	(50,427)
<u>(42,675)</u>	<u>-</u>	<u>(42,675)</u>
<u>\$ (364,721)</u>	<u>\$ -</u>	<u>\$ (364,721)</u>
\$ -	\$ (1,630)	\$ (1,630)
-	(32,067)	(32,067)
-	-	-
<u>-</u>	<u>104</u>	<u>104</u>
<u>\$ -</u>	<u>\$ (33,593)</u>	<u>\$ (33,593)</u>
<u>\$ (364,721)</u>	<u>\$ (33,593)</u>	<u>\$ (398,314)</u>

	<u>Program Receipts</u>		
	<u>Charges</u> for <u>Service</u>	<u>Contributions</u> and Restricted <u>Interest</u>	<u>Contributions</u> and Restricted <u>Interest</u>
<u>Disbursements</u>			

General Receipts:

Property tax levied for:
 General purposes
 Tax increment financing
 Debt service
Local option sales tax
Grants and contributions not restricted to specific purpose
Unrestricted interest on investments
Miscellaneous

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

 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**

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ 174,737	\$ -	\$ 174,737
57,913	-	57,913
60,079	-	60,079
21,886	32,829	54,715
2,448	-	2,448
3,581	435	4,016
<u>33,920</u>	<u>-</u>	<u>33,920</u>
<u>\$ 354,564</u>	<u>\$ 33,264</u>	<u>\$ 387,828</u>
\$ (10,157)	\$ (329)	\$ (10,486)
417,603	384,061	801,664
<u>\$ 407,446</u>	<u>\$ 383,732</u>	<u>\$ 791,178</u>

\$ 63,102	\$ -	\$ 63,102
50,883	-	50,883
126,555	284,397	410,952
<u>166,906</u>	<u>99,335</u>	<u>266,241</u>
<u>\$ 407,446</u>	<u>\$ 383,732</u>	<u>\$ 791,178</u>

CITY OF SHEFFIELD, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Special Revenue</u>	
		<u>Road Use Tax</u>	<u>Tax Increment Financing</u>
RECEIPTS:			
Property tax	\$ 156,692	\$ -	\$ -
Tax increment financing collections	-	-	57,913
Other city tax	21,886	-	-
Use of money and property	3,581	-	-
Licenses and permits	2,065	-	-
Intergovernmental	35,995	77,457	-
Charges for service	27,392	-	-
Miscellaneous	35,000	-	-
Total receipts	<u>\$ 282,611</u>	<u>\$ 77,457</u>	<u>\$ 57,913</u>
DISBURSEMENTS:			
Operating:			
Public Safety	\$ 126,700	\$ -	\$ -
Public works	30,712	65,890	-
Culture and recreation	139,117	-	-
General government	51,574	-	-
Debt service	-	-	17,000
Total disbursements	<u>\$ 348,103</u>	<u>\$ 65,890</u>	<u>\$ 17,000</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (65,492)</u>	<u>\$ 11,567</u>	<u>\$ 40,913</u>
Other financing sources (uses):			
Operating transfers in	\$ -	\$ -	\$ -
Operating transfers out	(11,621)	-	-
Total other financing sources (uses)	<u>\$ (11,621)</u>	<u>\$ -</u>	<u>\$ -</u>
Net change in cash balances	\$ (77,113)	\$ 11,567	\$ 40,913
Cash balances beginning of year	<u>269,019</u>	<u>30,190</u>	<u>22,189</u>
Cash balances end of year	<u>\$ 191,906</u>	<u>\$ 41,757</u>	<u>\$ 63,102</u>

(Continued)

<u>Debt Service</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
\$ 60,079	\$ 18,045	\$ 234,816
-	-	57,913
-	-	21,886
-	-	3,581
-	-	2,065
-	-	113,452
-	-	27,392
-	120	35,120
<u>\$ 60,079</u>	<u>\$ 18,165</u>	<u>\$ 496,225</u>
\$ -	\$ 17,862	\$ 144,562
-	-	96,602
-	13,499	152,616
-	1,353	52,927
42,675	-	59,675
<u>\$ 42,675</u>	<u>\$ 32,714</u>	<u>\$ 506,382</u>
<u>\$ 17,404</u>	<u>\$ (14,549)</u>	<u>\$ (10,157)</u>
\$ -	\$ 11,621	\$ 11,621
-	-	(11,621)
<u>\$ -</u>	<u>\$ 11,621</u>	<u>\$ -</u>
\$ 17,404	\$ (2,928)	\$ (10,157)
<u>33,479</u>	<u>62,726</u>	<u>417,603</u>
<u>\$ 50,883</u>	<u>\$ 59,798</u>	<u>\$ 407,446</u>

CITY OF SHEFFIELD, IOWA
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Special Revenue</u>	
		<u>Road Use Tax</u>	<u>Tax Increment Financing</u>
Cash Basis Fund Balances:			
Reserved:			
Debt service	\$ -	\$ -	\$ -
Unreserved:			
General fund	191,906	-	-
Special revenue funds	-	41,757	63,102
Permanent fund	-	-	-
	<hr/>	<hr/>	<hr/>
Total cash basis fund balances	<u>\$ 191,906</u>	<u>\$ 41,757</u>	<u>\$ 63,102</u>

See Notes to Financial Statements.

<u>Debt Service</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
\$ 50,883	\$ -	\$ 50,883
-	-	191,906
-	37,425	142,284
-	22,373	22,373
<u>\$ 50,883</u>	<u>\$ 59,798</u>	<u>\$ 407,446</u>

CITY OF SHEFFIELD, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer Rental</u>	<u>Sewer Improvement</u>
Operating receipts:			
Charges for service	\$ 79,229	\$ 82,363	\$ -
Operating disbursements:			
Business type activities	<u>80,859</u>	<u>114,430</u>	<u>-</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ <u>(1,630)</u>	\$ <u>(32,067)</u>	\$ <u>-</u>
Non-operating receipts (disbursements):			
Other city tax	\$ 10,943	\$ 21,886	\$ -
Interest on investments	<u>2</u>	<u>433</u>	<u>-</u>
Total non-operating receipts (disbursements)	\$ <u>10,945</u>	\$ <u>22,319</u>	\$ <u>-</u>
Net change in cash balances	\$ 9,315	\$ (9,748)	\$ -
Cash balances beginning of year	<u>63,134</u>	<u>36,634</u>	<u>250,000</u>
Cash balances end of year	<u>\$ 72,449</u>	<u>\$ 26,886</u>	<u>\$ 250,000</u>
Cash Basis Fund Balances			
Reserved for other	\$ -	\$ -	\$ 250,000
Unreserved	<u>72,449</u>	<u>26,886</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 72,449</u>	<u>\$ 26,886</u>	<u>\$ 250,000</u>

See Notes to Financial Statements.

<u>Nonmajor Enterprise Funds</u>	<u>Total</u>
\$ 750	\$ 162,342
<u>646</u>	<u>195,935</u>
\$ <u>104</u>	\$ <u>(33,593)</u>
\$ -	\$ 32,829
<u>-</u>	<u>435</u>
\$ <u>104</u>	\$ <u>33,264</u>
\$ 104	\$ (329)
<u>34,293</u>	<u>384,061</u>
<u>\$ 34,397</u>	<u>\$ 383,732</u>
\$ 34,397	\$ 284,397
<u>-</u>	<u>99,335</u>
<u>\$ 34,397</u>	<u>\$ 383,732</u>

CITY OF SHEFFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(1) Summary of Significant Accounting Policies

The City of Sheffield is a political subdivision of the State of Iowa located in Franklin County. It was first incorporated April 8, 1876 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Sheffield 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. The City has no component unit which meet the Governmental Accounting Standards Board Criteria.

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 Franklin County Assessor's Conference Board and Franklin County Emergency Management Commission.

B. Basis of Presentation

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

CITY OF SHEFFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(1) Summary of Significant Accounting Policies - continued

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

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

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

CITY OF SHEFFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(1) Summary of Significant Accounting Policies - continued

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

The Sewer Improvement Fund is used to account for monies received and held by the City to fund future capital improvements to the sewer system.

C. Measurement Focus and Basis of Accounting

The City of Sheffield 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.

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, 2004, disbursements exceeded amounts budgeted in the debt service function.

(2) Cash and Investments

The City's deposits in banks at June 30, 2004 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.

CITY OF SHEFFIELD, IOWA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2004

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligations bonds are as follows:

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2005	\$ 50,000	\$ 17,700
2006	50,000	15,250
2007	50,000	12,800
2008	55,000	10,350
2009	35,000	7,700
2010-2012	<u>105,000</u>	<u>11,550</u>
Total	<u>\$345,000</u>	<u>\$ 75,350</u>

The Code of Iowa requires that principal and interest on general obligation Bonds be paid from the Debt Service Fund. However, during the year, \$17,000 of bond principal and interest was paid from the Tax Increment Financing fund.

The resolutions providing for the issuance of the general obligation bonds include the following provision:

At the option of the City, the essential corporate purpose bonds issue of April 1, 2001 and August 1, 2002, are subject to redemption and prepayment on any date, in whole or from time to time in part, in any order of maturity and within an annual maturity by lot, at a price of par plus accrued interest to call date, by giving proper notice.

The City has also entered into the following loan agreement with the United Bank and Trust Company, Sheffield, Iowa:

<u>Date of Loan</u>	3-17-03
Original amount	\$21,538
Interest rate	4.5%
Payment dates	Semi-annual
Payment amount	\$3,899
Maturity date	5-1-06
Collateral	Police car
At June 30, 2004:	
Number of payments remaining	4
Outstanding balance	\$14,755

CITY OF SHEFFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(4) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2004, was \$13,869, which was equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, comp time and sick leave hours for subsequent use. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable, comp time payable, and sick leave payable to employees at June 30, 2004, primarily relating to the General Fund, is \$2,564. This liability has been computed based on rates of pay as of June 30, 2004.

(6) Commitments

At June 30, 2004, the following construction commitment had been made:

<u>Project</u>	<u>Total Contract</u>	<u>Costs Incurred to Date</u>
Street repairs	<u>\$ 23,000</u>	<u>\$ -</u>

CITY OF SHEFFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(7) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 490 members include various governmental entities throughout the State of Iowa. The Pool was formed in August, 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2004 were \$17,143.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$50,000 each accident, each location, with excess coverage reinsured on an individual-member basis. All property risks are also reinsured on an individual-member basis.

CITY OF SHEFFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(7) **Risk Management** - continued

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

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

The City also carries commercial insurance purchased from other insurers for coverage associated with public employee dishonesty coverage and workers compensation coverage. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage during the fiscal year ended June 30, 2004.

(8) **Litigation**

The City is currently involved in pending litigation. The City attorney cannot determine a range of potential loss, if any, at this time.

(9) **Accounting Change**

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

CITY OF SHEFFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(9) **Accounting Change** - continued

The government-wide financial statement reports the City's governmental and business type activities.

(10) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Capital Projects	General	<u>\$ 11,621</u>

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

Required Supplementary Information

CITY OF SHEFFIELD, IOWA
 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, 2004

	<u>Governmental Funds Actual</u>	<u>Proprietary Funds Actual</u>	<u>Less Funds Not Required to be Budgeted</u>
RECEIPTS:			
Property tax	\$ 234,816	\$ -	\$ -
Tax increment financing collections	57,913	-	-
Other city tax	21,886	32,829	-
Licenses and permits	2,065	-	-
Use of money and property	3,581	435	-
Intergovernmental	113,452	-	-
Charges for service	27,392	162,342	-
Miscellaneous	35,120	-	120
Total receipts	<u>\$ 496,225</u>	<u>\$ 195,606</u>	<u>\$ 120</u>
DISBURSEMENTS:			
Public safety	\$ 144,562	\$ -	\$ -
Public works	96,602	-	-
Culture and recreation	152,616	-	-
Community and economic development	-	-	-
General government	52,927	-	-
Debt service	59,675	-	-
Business type activities	-	195,935	-
Total disbursements	<u>\$ 506,382</u>	<u>\$ 195,935</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ (10,157)	\$ (329)	\$ 120
Balance beginning of year	<u>417,603</u>	<u>384,061</u>	<u>22,253</u>
Balance end of year	<u>\$ 407,446</u>	<u>\$ 383,732</u>	<u>\$ 22,373</u>

See Accompanying Independent Auditor's Report.

<u>Net</u>	<u>Budgeted Amounts</u>		<u>Final to Net Variance</u>
	<u>Original</u>	<u>Final</u>	
\$ 234,816	\$ 221,405	\$ 221,405	\$ 13,411
57,913	-	-	57,913
54,715	31,021	31,021	23,694
2,065	1,700	1,700	365
4,016	29,100	29,100	(25,084)
113,452	113,561	113,561	(109)
189,734	186,550	186,550	3,184
35,000	17,000	65,700	(30,700)
<u>\$ 691,711</u>	<u>\$ 600,337</u>	<u>\$ 649,037</u>	<u>\$ 42,674</u>
\$ 144,562	\$ 138,350	\$ 166,350	\$ 21,788
96,602	102,400	154,400	57,798
152,616	172,000	195,700	43,084
-	19,000	19,000	19,000
52,927	62,000	82,000	29,073
59,675	40,675	40,675	(19,000)
195,935	212,100	212,100	16,165
<u>\$ 702,317</u>	<u>\$ 746,525</u>	<u>\$ 870,225</u>	<u>\$ 167,908</u>
\$ (10,606)	\$ (146,188)	\$ (221,188)	\$ 210,582
<u>779,411</u>	<u>761,617</u>	<u>761,617</u>	<u>17,794</u>
<u>\$ 768,805</u>	<u>\$ 615,429</u>	<u>\$ 540,429</u>	<u>\$ 228,376</u>

CITY OF SHEFFIELD, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
JUNE 30, 2004

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 Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and nonprogram. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$123,700. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amount budgeted in the debt service function.

Other Supplementary Information

CITY OF SHEFFIELD, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	Special		
	Employee Benefit	Handicap Access	Swimming Pool Improvements
RECEIPTS:			
Property tax	\$ 18,045	\$ -	\$ -
Miscellaneous	-	-	-
Total receipts	\$ 18,045	\$ -	\$ -
DISBURSEMENTS:			
Operating:			
Public safety	\$ 17,862	\$ -	\$ -
Culture and recreation	13,499	-	-
General government	1,353	-	-
Total disbursements	\$ 32,714	\$ -	\$ -
Excess (deficiency) of receipts over (under) disbursements	\$ (14,669)	\$ -	\$ -
Other financing sources (uses):			
Operating transfers in	-	-	-
Net change in cash balances	\$ (14,669)	\$ -	\$ -
Cash balances beginning of year	30,444	7,250	400
Cash balances end of year	\$ 15,775	\$ 7,250	\$ 400
Cash Basis Fund Balances:			
Unreserved:			
Special revenue funds	\$ 15,775	\$ 7,250	\$ 400
Permanent fund	-	-	-
Total cash basis fund balances	\$ 15,775	\$ 7,250	\$ 400

Accompanying Independent Auditor's Report

<u>Revenue</u>			<u>Permanent Cemetery Perpetual Care</u>	<u>Total</u>
<u>Capital Improvement Reserve</u>	<u>Fire Improvement</u>	<u>Capital Projects</u>		
\$ -	\$ -	\$ -	\$ -	\$ 18,045
-	-	-	120	120
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 120</u>	<u>\$ 18,165</u>
\$ -	\$ -	\$ -	\$ -	\$ 17,862
-	-	-	-	13,499
-	-	-	-	1,353
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,714</u>
\$ -	\$ -	\$ -	\$ 120	\$ (14,549)
-	-	11,621	-	11,621
\$ -	\$ -	\$ 11,621	\$ 120	\$ (2,928)
12,000	2,000	(11,621)	22,253	62,726
<u>\$ 12,000</u>	<u>\$ 2,000</u>	<u>\$ -</u>	<u>\$ 22,373</u>	<u>\$ 59,798</u>
\$ 12,000	\$ 2,000	\$ -	\$ -	\$ 37,425
-	-	-	22,373	22,373
<u>\$ 12,000</u>	<u>\$ 2,000</u>	<u>\$ -</u>	<u>\$ 22,373</u>	<u>\$ 59,798</u>

CITY OF SHEFFIELD, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	<u>Water Improvement</u>	<u>Water Deposit</u>	<u>Total</u>
Operating Receipts:			
Charges for service	\$ -	\$ 750	\$ 750
Operating Disbursements:			
Business type activities	<u>-</u>	<u>646</u>	<u>\$ 646</u>
Net change in cash balances	\$ -	\$ 104	\$ 104
Cash balances beginning of year	<u>25,000</u>	<u>9,293</u>	<u>34,293</u>
Cash balances end of year	<u>\$ 25,000</u>	<u>\$ 9,397</u>	<u>\$ 34,397</u>
Cash Basis Fund Balances:			
Reserved for other	<u>\$ 25,000</u>	<u>\$ 9,397</u>	<u>\$ 34,397</u>

See Accompanying Independent Auditor's Report.

CITY OF SHEFFIELD, IOWA
 SCHEDULE OF INDEBTEDNESS
 YEAR ENDED JUNE 30, 2004

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Bonds:			
Essential Corporate Purpose	08-01-02	4.00%	\$100,000
Essential Corporate Purpose	04-01-01	5.50	310,000
Notes Payable:			
Police Car	03-17-03	4.55	\$ 21,538
 Total indebtedness			

Accompanying Independent Auditor's Report.

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$100,000	\$ -	\$ 15,000	\$ 85,000	\$ 4,000	\$ -
<u>285,000</u>	<u>-</u>	<u>25,000</u>	<u>260,000</u>	<u>15,675</u>	<u>-</u>
<u>\$385,000</u>	<u>\$ -</u>	<u>\$ 40,000</u>	<u>\$345,000</u>	<u>\$ 19,675</u>	<u>\$ -</u>
\$ 21,538	\$ -	\$ 6,783	\$ 14,755	\$ 1,016	\$ -
<u>\$406,538</u>	<u>\$ -</u>	<u>\$ 46,783</u>	<u>\$359,755</u>	<u>\$ 20,691</u>	<u>\$ -</u>

CITY OF SHEFFIELD, IOWA
 BOND MATURITIES
 JUNE 30, 2004

Year Ending June 30,	GENERAL OBLIGATION BONDS				
	Essential Corporate Purpose		Essential Corporate Purpose		Total
	Issued April 1, 2001		Issued August 1, 2002		
	Interest Rate	Amount	Interest Rate	Amount	
2005	5.50%	\$ 30,000	4.00%	\$ 20,000	\$ 50,000
2006	5.50	30,000	4.00	20,000	50,000
2007	5.50	30,000	4.00	20,000	50,000
2008	5.50	30,000	4.00	25,000	55,000
2009	5.50	35,000	-	-	35,000
2010	5.50	35,000	-	-	35,000
2011	5.50	35,000	-	-	35,000
2012	5.50	35,000	-	-	35,000
Total		<u>\$260,000</u>		<u>\$ 85,000</u>	<u>\$345,000</u>

See Accompanying Independent Auditor's Report.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

To the Honorable Mayor and
Members of the City Council:

I have audited the financial statements of the City of Sheffield, Iowa, as of and for the year ended June 30, 2004, and have issued my report thereon dated January 10, 2005. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Sheffield's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004, are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved except items IV-B-04 and IV-I-04.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Sheffield's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City of Sheffield's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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. My 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, of the reportable conditions described above, I believe item II-A-04 is a material weakness. Prior year reportable conditions have been resolved except for items II-A-04 and II-B-04.

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

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

January 10, 2005

CITY OF SHEFFIELD, IOWA
Schedule of Findings
Year Ended June 30, 2004

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements, which 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.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-04 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that certain accounting functions are not properly segregated.

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

Response - We will review procedures and make changes to improve internal control where possible.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

II-B-04 Posting of Financial Transactions - Receipts and disbursements were not always posted to the correct account.

Recommendation - More care should be exercised when posting transactions to reduce the incidence of mispostings.

Response - In the future, more care will be exercised when posting transactions.

Conclusion - Response accepted.

CITY OF SHEFFIELD, IOWA
Schedule of Findings
Year Ended June 30, 2004

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable

Part IV: Other Findings Related to Statutory Reporting:

- IV-A-04 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, 2004.
- IV-B-04 Certified Budget - Disbursements during the year ended June 30, 2004, exceeded the amount budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.
- Recommendation - The budget should have been amended in accordance with Chapter 384.14 of the Code of Iowa before disbursements were allowed to exceed the budget.
- Response - We will do this in the future.
- Conclusion - Response accepted.
- IV-C-04 Questionable Disbursements - No disbursements that I believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- IV-D-04 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- IV-E-04 Business Transactions - No business transactions between the City and City officials or employees were noted.
- IV-F-04 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 that the coverage is adequate for current operations.
- IV-G-04 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.
- IV-H-04 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

CITY OF SHEFFIELD, IOWA
Schedule of Findings
Year Ended June 30, 2004

Part IV: Other Findings Related to Statutory Reporting: - continued

IV-I-04 Debt Service Fund - I noted that \$17,000 of general obligation debt was paid by the Tax Increment Financing Fund, and not from the Debt Service Fund, as required by Chapter 384.4 of the Code of Iowa.

Recommendation - The City should make general obligation debt payments from the Debt Service Fund as required by the Code.

Response - We will do this.

Conclusion - Response accepted.

Sheffield Press
Sheffield, IA 50475

N E W S R E L E A S E

FOR RELEASE February 3, 2005

Larry Pump, CPA, Charles City, Iowa, today released an audit report on the City of Sheffield for the year ended June 30, 2004.

The City has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

Larry Pump, CPA reported that the City's receipts totaled \$691,831 for the year ended June 30, 2004. The receipts included \$234,816 in property taxes, \$57,913 from tax increment financing, \$189,734 from charges for service, \$114,269 from operating grants, contributions and restricted interest, \$54,715 from local option sales tax, \$4,016 from unrestricted investment earnings and \$36,368 from other general receipts.

Disbursements for the year totaled \$702,317. The disbursements included \$144,562 for public safety, \$96,602 for public works, \$152,616 for culture and recreation and \$195,935 for business type activities.

A copy of the audit report is available for review in the office of the Auditor of State and the City Clerk's office.

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February 3, 2005

Office of Auditor of State
State of Iowa
State Capitol Building
Des Moines, IA 50319

RE: Audit of the City of Sheffield for the fiscal year ended June 30, 2004

Gentlemen:

I have enclosed a copy of the news release, a copy of my bill to the City, and two copies of the Audit Report. I will appreciate your comments and suggestions.

Sincerely yours,

Larry Pump, CPA

jlp
enclosures

January 26, 2005

Debra Hartman, CMC
City of Sheffield
309 Gilman
Sheffield, IA 50475

Dear Deb:

Enclosed are your copies of the audit report. I will see you at the Council meeting on Wednesday evening.

Sincerely,

Larry Pump, CPA

jlp
enclosures

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