

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

JUNE 30, 2005

- 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>
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 2006
Brian Miller	Attorney	January 2006



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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, 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 Sheffield's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 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 my audit provides a reasonable basis for my 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 my 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 Sheffield 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, I have also issued my report dated December 7, 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, contracts and other matters. The purpose of that report is to describe the scope of my 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 my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 24 through 26 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 required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sheffield's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 (which is not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5 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.



December 7, 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, 2005. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

Revenues of the City's governmental activities increased less than 1%, or approximately \$4,000 from fiscal 2004 to fiscal 2005. Charges for services increased approximately \$16,000 and other general receipts decreased \$20,000.

Disbursements decreased 4.1%, or approximately \$21,000, in fiscal 2005 from fiscal 2004. Public safety, culture and recreation and community and economic development disbursements increased (decreased) approximately \$(34,000), \$5,000 and \$(17,000), respectively.

The City's total cash basis net assets increased 1.6%, or approximately \$12,000, from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities increased approximately \$15,000 and the assets of the business type activities decreased by approximately \$3,000.

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 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.

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.

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 increased slightly from a year ago, increasing from \$407,000 to \$422,000. 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,	
	2005	2004
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 43	\$ 27
Operating grants, contributions and restricted interest	103	114
Capital grants, contributions and restricted assets	6	-
General receipts:		
Property tax	307	293
Local option sales tax	25	22
Grants and contributions not restricted to specific purposes	-	3
Unrestricted investment earnings	3	4
Other general receipts	14	34
Total receipts and transfers	<u>\$ 501</u>	<u>\$ 497</u>
Disbursements:		
Public safety	\$ 110	\$ 144
Public works	94	97
Culture and recreation	158	153
Community and economic development	-	17
General government	56	53
Debt service	68	43
Total disbursements	<u>\$ 486</u>	<u>\$ 507</u>
Increase (decrease) in cash basis net assets	\$ 15	\$ (10)
Cash basis net assets beginning of year	<u>407</u>	<u>417</u>
Cash basis net assets end of year	<u>\$ 422</u>	<u>\$ 407</u>

The City's total receipts for governmental activities increased by less than 1%, or \$4,000. The total cost of all programs and services decreased by approximately \$21,000, or 4.1%, with no new programs added this year. The decrease in disbursements was primarily the result of decreased public safety disbursements.

The cost of all governmental activities this year was \$486,000 compared to \$507,000 last year. However, as shown in the Statement of Activities and Net Assets on pages 9-12, the amount taxpayers ultimately financed for these activities was only \$332,000 because some of the cost was paid by those directly benefited from the programs (\$43,000) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest \$(103,000). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$332,000 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,	
	2005	2004
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 77	\$ 79
Sewer	81	82
Other	1	1
General receipts:		
Local option sales tax	31	33
Unrestricted interest on investments	1	1
Total receipts	\$ 191	\$ 196
Disbursements and transfers:		
Water	\$ 97	\$ 81
Sewer	96	114
Other	1	1
Total disbursements and transfers	\$ 194	\$ 196
Increase (decrease) in cash balance	\$ (3)	\$ -
Cash basis net assets beginning of year	384	384
Cash basis net assets end of year	\$ 381	\$ 384

Total business type activities receipts for the fiscal year were \$191,000 compared to \$196,000 last year. This decrease was due primarily to a decrease in water and sewer receipts. Total disbursements for the fiscal year decreased by 1.5% to a total of \$194,000 because of lower operating costs in 2005.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Sheffield completed the year, its governmental funds reported a combined fund balance of \$422,974, an increase of \$15,528 from last year's total of \$407,446. 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 \$81,043 from the prior year to \$110,863. This decrease was due mainly to revenues being less than operating disbursements.

The Road Use Tax Fund cash balance increased by \$35,414 to \$77,171 during the fiscal year. This increase was attributable to timing of the completion of certain road projects for the upcoming fiscal year.

At the end of the fiscal year, the Tax Increment Financing Fund cash balance was \$139,711, an increase of \$76,609 from the previous year.

The Employee Benefits Fund cash balance increased by \$20,903 to \$36,678 in 2005 due to an increase in property taxes.

The Debt Service Fund cash balance decreased by \$43,460 to \$7,423 due primarily to decreased property taxes.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance decreased by \$8,489 to \$63,960, due primarily to an increase in operating expenses.

The Sewer Fund cash balance increased by \$5,622 to \$32,508, due primarily to a decrease in operating expenses.

DEBT ADMINISTRATION

At June 30, 2005, the City had approximately \$302,000 in bonds and other long-term debt, compared to approximately \$360,000 last year, as follows:

Outstanding Debt at Year-End
(Expressed in Thousands)

	June 30,	
	2005	2004
General obligation bonds	\$ 295	\$ 345
Notes payable	7	15
Total	<u>\$ 302</u>	<u>\$ 360</u>

The City did not incur any new debt during 2005. 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 \$295,000 is significantly below its constitutional debt limit of \$1,723,846.

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.

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, 2005

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges for Service</u>	<u>Contributions and Restricted Interest</u>	<u>Contributions and Restricted Interest</u>
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public safety	\$ 109,662	\$ 11,980	\$ -	\$ -
Public works	94,125	3,605	77,326	-
Culture and recreation	157,783	27,596	25,467	5,585
General government	55,496	-	-	-
Debt service	<u>67,700</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 484,766</u>	<u>\$ 43,181</u>	<u>\$ 102,793</u>	<u>\$ 5,585</u>
Business type activities:				
Water	\$ 96,618	\$ 77,145	\$ -	\$ -
Sewer rental	96,387	80,794	-	-
Other	<u>224</u>	<u>825</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>\$ 193,229</u>	<u>\$ 158,764</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u>\$ 677,995</u>	<u>\$ 201,945</u>	<u>\$ 102,793</u>	<u>\$ 5,585</u>

(Continued)

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

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (97,682)	\$ -	\$ (97,682)
(13,194)	-	(13,194)
(99,135)	-	(99,135)
(55,496)	-	(55,496)
<u>(67,700)</u>	<u>-</u>	<u>(67,700)</u>
\$ (333,207)	\$ -	\$ (333,207)
\$ -	\$ (19,473)	\$ (19,473)
-	(15,593)	(15,593)
<u>-</u>	<u>601</u>	<u>601</u>
\$ -	\$ (34,465)	\$ (34,465)
\$ (333,207)	\$ (34,465)	\$ (367,672)

CITY OF SHEFFIELD, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

General Receipts:

Property tax levied for:
 General purposes
 Tax increment financing
 Debt service
Local option sales tax
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>
\$ 205,814	\$ -	\$ 205,814
100,009	-	100,009
840	-	840
24,780	30,900	55,680
2,791	1,299	4,090
<u>14,501</u>	<u>-</u>	<u>14,501</u>
<u>\$ 348,735</u>	<u>\$ 32,199</u>	<u>\$ 380,934</u>
\$ 15,528	\$ (2,266)	\$ 13,262
<u>407,446</u>	<u>383,732</u>	<u>791,178</u>
<u>\$ 422,974</u>	<u>\$ 381,466</u>	<u>\$ 804,440</u>
\$ 139,711	\$ -	\$ 139,711
7,423	-	7,423
164,977	284,998	449,975
<u>110,863</u>	<u>96,468</u>	<u>207,331</u>
<u>\$ 422,974</u>	<u>\$ 381,466</u>	<u>\$ 804,440</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, 2005

	<u>General</u>	<u>Special Revenue</u>	
		<u>Road Use Tax</u>	<u>Tax Increment Financing</u>
RECEIPTS:			
Property tax	\$ 147,801	\$ -	\$ -
Tax increment financing collections	-	-	100,009
Other city tax	24,780	-	-
Use of money and property	2,791	-	-
Licenses and permits	2,205	-	-
Intergovernmental	37,929	77,326	-
Charges for service	27,596	-	-
Miscellaneous	20,899	-	-
Total receipts	<u>\$ 264,001</u>	<u>\$ 77,326</u>	<u>\$ 100,009</u>
DISBURSEMENTS:			
Operating:			
Public Safety	\$ 98,342	\$ -	\$ -
Public works	34,126	41,912	-
Culture and recreation	150,823	-	-
General government	54,753	-	-
Debt service	-	-	-
Total disbursements	<u>\$ 338,044</u>	<u>\$ 41,912</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (74,043)</u>	<u>\$ 35,414</u>	<u>\$ 100,009</u>
Other financing sources (uses):			
Operating transfers in	\$ -	\$ -	\$ -
Operating transfers out	(7,000)	-	(23,400)
Total other financing sources (uses)	<u>\$ (7,000)</u>	<u>\$ -</u>	<u>\$ (23,400)</u>
Net change in cash balances	\$ (81,043)	\$ 35,414	\$ 76,609
Cash balances beginning of year	191,906	41,757	63,102
Cash balances end of year	<u>\$ 110,863</u>	<u>\$ 77,171</u>	<u>\$ 139,711</u>
Cash Basis Fund Balances:			
Reserved:			
Debt service	\$ -	\$ -	\$ -
Unreserved:			
General fund	110,863	-	-
Special revenue funds	-	77,171	139,711
Permanent fund	-	-	-
Total cash basis fund balances	<u>\$ 110,863</u>	<u>\$ 77,171</u>	<u>\$ 139,711</u>

See Notes to Financial Statements.

<u>Employee Benefits</u>	<u>Debt Service</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
\$ 58,013	\$ 840	\$ -	\$ 206,654
-	-	-	100,009
-	-	-	24,780
-	-	-	2,791
-	-	-	2,205
-	-	-	115,255
-	-	-	27,596
-	-	105	21,004
<u>\$ 58,013</u>	<u>\$ 840</u>	<u>\$ 105</u>	<u>\$ 500,294</u>
\$ 11,320	\$ -	\$ -	\$ 109,662
18,087	-	-	94,125
6,960	-	-	157,783
743	-	-	55,496
-	67,700	-	67,700
<u>\$ 37,110</u>	<u>\$ 67,700</u>	<u>\$ -</u>	<u>\$ 484,766</u>
<u>\$ 20,903</u>	<u>\$ (66,860)</u>	<u>\$ 105</u>	<u>\$ 15,528</u>
\$ -	\$ 23,400	\$ 7,000	\$ 30,400
-	-	-	(30,400)
<u>\$ -</u>	<u>\$ 23,400</u>	<u>\$ 7,000</u>	<u>\$ -</u>
\$ 20,903	\$ (43,460)	\$ 7,105	\$ 15,528
15,775	50,883	44,023	407,446
<u>\$ 36,678</u>	<u>\$ 7,423</u>	<u>\$ 51,128</u>	<u>\$ 422,974</u>
\$ -	\$ 7,423	\$ -	\$ 7,423
-	-	-	110,863
36,678	-	28,650	282,210
-	-	22,478	22,478
<u>\$ 36,678</u>	<u>\$ 7,423</u>	<u>\$ 51,128</u>	<u>\$ 422,974</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, 2005

	Enterprise Funds		
	Water	Sewer Rental	Sewer Improvement
Operating receipts:			
Charges for service	\$ 77,145	\$ 80,794	\$ -
Operating disbursements:			
Business type activities	96,618	96,387	-
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ (19,473)	\$ (15,593)	\$ -
Non-operating receipts:			
Other city tax	\$ 10,300	\$ 20,600	\$ -
Interest on investments	684	615	-
Total non-operating receipts	\$ 10,984	\$ 21,215	\$ -
Net change in cash balances	\$ (8,489)	\$ 5,622	\$ -
Cash balances beginning of year	72,449	26,886	250,000
Cash balances end of year	\$ 63,960	\$ 32,508	\$ 250,000
Cash Basis Fund Balances			
Reserved for other	\$ -	\$ -	\$ 250,000
Unreserved	63,960	32,508	-
Total cash basis fund balances	\$ 63,960	\$ 32,508	\$ 250,000

See Notes to Financial Statements.

<u>Nonmajor Enterprise Funds</u>	<u>Total</u>
\$ 825	\$ 158,764
224	193,229
<u>\$ 601</u>	<u>\$ (34,465)</u>
\$ -	\$ 30,900
-	1,299
<u>\$ -</u>	<u>\$ 32,199</u>
\$ 601	\$ (2,266)
34,397	383,732
<u>\$ 34,998</u>	<u>\$ 381,466</u>
\$ 34,998	\$ 284,998
-	96,468
<u><u>\$ 34,998</u></u>	<u><u>\$ 381,466</u></u>

CITY OF SHEFFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

(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.

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.

CITY OF SHEFFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

(1) Summary of Significant Accounting Policies - continued

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 Employee Benefits Fund is used to account for property taxes levied for employee benefits.

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

The City reports the following major proprietary funds:

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

The Sewer 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.

CITY OF SHEFFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

(1) Summary of Significant Accounting Policies - continued

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, 2005, disbursements exceeded the amount budgeted in the public works function prior to the amendment of the budget.

(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.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the 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 use of the City.

Credit risk - The City's investment in the Iowa Public Agency Investment Trust is unrated.

CITY OF SHEFFIELD, IOWA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2005

(3) **Bonds Payable**

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

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2006	\$ 50,000	\$ 15,250
2007	50,000	12,800
2008	55,000	10,350
2009	35,000	7,700
2010	35,000	5,775
2011	35,000	3,850
2012	35,000	1,925
Total	<u>\$295,000</u>	<u>\$ 57,650</u>

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>	<u>3-17-03</u>
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, 2005:	
Number of payments remaining	2
Outstanding balance	\$ 7,542

(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 6.16% and 9.23%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2005, was \$14,129, which was equal to the required contribution for the year.

CITY OF SHEFFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

(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, 2005, primarily relating to the General Fund, is \$2,830. This liability has been computed based on rates of pay as of June 30, 2005.

(6) **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, 2005 were \$16,962.

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, 2005

(6) **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, 2005, 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, 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>
General	Special Revenue:	
	Fire Improvement	\$ 7,000
Debt Service	Special Revenue:	
	Tax Increment Financing	<u>23,400</u>
Total		<u>\$ 30,400</u>

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

(8) **Commitments**

On April 5, 2005, the City approved 2005 Street Improvement projects of \$19,279. As of June 30, 2005 no payments had been made.

On May 3, 2005 the City in partnership with Franklin County entered into a contract for the construction of a Maintenance Facility in the amount of \$284,565. As of June 30, 2005 no payments had been made.

CITY OF SHEFFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

(9) **Subsequent Events**

On August 9, 2005 the City approved a 28E agreement with Franklin County for the 2005 Maintenance Facility. This agreement states that the City is responsible for two-thirds of all expenses for the construction of the building.

On September 6, 2005 the City approved issuance of \$50,000 Urban Renewal Capital Loan Notes.

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, 2005

	<u>Governmental Funds Actual</u>	<u>Proprietary Funds Actual</u>	<u>Less Funds Not Required to be Budgeted</u>
RECEIPTS:			
Property tax	\$ 206,654	\$ -	\$ -
Tax increment financing collections	100,009	-	-
Other city tax	24,780	30,900	-
Licenses and permits	2,205	-	-
Use of money and property	2,791	1,299	-
Intergovernmental	115,255	-	-
Charges for service	27,596	158,764	-
Miscellaneous	21,004	-	105
Total receipts	<u>\$ 500,294</u>	<u>\$ 190,963</u>	<u>\$ 105</u>
DISBURSEMENTS:			
Public safety	\$ 109,662	\$ -	\$ -
Public works	94,125	-	-
Culture and recreation	157,783	-	-
Community and economic development	-	-	-
General government	55,496	-	-
Debt service	67,700	-	-
Business type activities	-	193,229	-
Total disbursements	<u>\$ 484,766</u>	<u>\$ 193,229</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ 15,528	\$ (2,266)	\$ 105
Balance beginning of year	<u>407,446</u>	<u>383,732</u>	<u>22,373</u>
Balance end of year	<u>\$ 422,974</u>	<u>\$ 381,466</u>	<u>\$ 22,478</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>	
\$ 206,654	\$ 183,531	\$ 183,531	\$ 23,123
100,009	23,400	23,400	76,609
55,680	35,445	35,445	20,235
2,205	3,000	3,000	(795)
4,090	23,300	23,300	(19,210)
115,255	115,400	115,400	(145)
186,360	192,700	192,700	(6,340)
20,899	15,000	35,000	(14,101)
<u>\$ 691,152</u>	<u>\$ 591,776</u>	<u>\$ 611,776</u>	<u>\$ 79,376</u>
\$ 109,662	\$ 132,200	\$ 139,200	\$ 29,538
94,125	68,700	100,700	6,575
157,783	122,900	161,900	4,117
-	23,400	23,400	23,400
55,496	67,000	67,000	11,504
67,700	44,300	67,700	-
193,229	192,000	202,000	8,771
<u>\$ 677,995</u>	<u>\$ 650,500</u>	<u>\$ 761,900</u>	<u>\$ 83,905</u>
\$ 13,157	\$ (58,724)	\$ (150,124)	\$ 163,281
<u>768,805</u>	<u>633,223</u>	<u>633,223</u>	<u>135,582</u>
<u>\$ 781,962</u>	<u>\$ 574,499</u>	<u>\$ 483,099</u>	<u>\$ 298,863</u>

CITY OF SHEFFIELD, IOWA
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 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 \$111,400. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amount budgeted in the public works function prior to amendment.

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, 2005

	Special		
	Handicap Access	Swimming Pool Improvements	Capital Improvement Reserve
RECEIPTS:			
Miscellaneous	\$ -	\$ -	\$ -
DISBURSEMENTS:			
None	-	-	-
Excess of receipts over disbursements	\$ -	\$ -	\$ -
Other financing sources (uses):			
Operating transfers in	-	-	-
Net change in cash balances	\$ -	\$ -	\$ -
Cash balances beginning of year	7,250	400	12,000
Cash balances end of year	<u>7,250</u>	<u>400</u>	<u>12,000</u>
Cash Basis Fund Balances:			
Unreserved:			
Special revenue funds	\$ 7,250	\$ 400	\$ 12,000
Permanent fund	-	-	-
Total cash basis fund balances	<u>7,250</u>	<u>400</u>	<u>12,000</u>

Accompanying Independent Auditor's Report

<u>Revenue</u>	<u>Permanent Cemetery Perpetual Care</u>	<u>Total</u>
<u>Fire Improvement</u>		
\$ -	\$ 105	\$ 105
-	-	-
\$ -	\$ 105	\$ 105
<u>7,000</u>	<u>-</u>	<u>7,000</u>
\$ 7,000	\$ 105	\$ 7,105
<u>2,000</u>	<u>22,373</u>	<u>44,023</u>
<u>\$ 9,000</u>	<u>\$ 22,478</u>	<u>\$ 51,128</u>
\$ 9,000	\$ -	\$ 28,650
-	22,478	22,478
<u>\$ 9,000</u>	<u>\$ 22,478</u>	<u>\$ 51,128</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, 2005

	<u>Enterprise Funds</u>		<u>Total</u>
	<u>Water Improvement</u>	<u>Water Deposit</u>	
Operating Receipts:			
Charges for service	\$ -	\$ 825	\$ 825
Operating Disbursements:			
Business type activities	<u>-</u>	<u>224</u>	<u>224</u>
Net change in cash balances	\$ -	\$ 601	\$ 601
Cash balances beginning of year	<u>25,000</u>	<u>9,397</u>	<u>34,397</u>
Cash balances end of year	<u>\$ 25,000</u>	<u>\$ 9,998</u>	<u>\$ 34,998</u>
Cash Basis Fund Balances:			
Reserved for other	<u>\$ 25,000</u>	<u>\$ 9,998</u>	<u>\$ 34,998</u>

See Accompanying Independent Auditor's Report.

CITY OF SHEFFIELD, IOWA
 SCHEDULE OF INDEBTEDNESS
 YEAR ENDED JUNE 30, 2005

<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>
\$ 85,000	\$ -	\$ 20,000	\$ 65,000	\$ 3,400	\$ -
260,000	-	30,000	230,000	14,300	-
<u>\$345,000</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$295,000</u>	<u>\$ 17,700</u>	<u>\$ -</u>
\$ 14,755	\$ -	\$ 7,213	\$ 7,542	\$ 585	\$ -
<u>\$359,755</u>	<u>\$ -</u>	<u>\$ 57,213</u>	<u>\$302,542</u>	<u>\$ 18,285</u>	<u>\$ -</u>

CITY OF SHEFFIELD, IOWA
BOND MATURITIES
JUNE 30, 2005

<u>Year</u> <u>Ending</u> <u>June 30,</u>	<u>GENERAL OBLIGATION BONDS</u>				
	Essential		Essential		<u>Total</u>
	Corporate Purpose		Corporate Purpose		
	Issued April 1, 2001		Issued August 1, 2002		
<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>		
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		\$230,000		\$ 65,000	\$295,000

See Accompanying Independent Auditor's Report.

CITY OF SHEFFIELD, IOWA
 SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
 ALL GOVERNMENTAL FUNDS
 FOR THE LAST TWO YEARS

	<u>2005</u>	<u>2004</u>
Receipts:		
Property tax	\$ 206,654	\$ 234,816
Tax increment financing collections	100,009	57,913
Other city tax	24,780	21,886
Licenses and permits	2,205	2,065
Use of money and property	2,791	3,581
Intergovernmental	115,255	113,452
Charges for service	27,596	27,392
Miscellaneous	<u>21,004</u>	<u>35,120</u>
Total	<u>\$ 500,294</u>	<u>\$ 496,225</u>
Disbursements:		
Operating:		
Public safety	\$ 109,662	\$ 144,562
Public works	94,125	96,602
Culture and recreation	157,783	152,616
General government	55,496	52,927
Debt service	<u>67,700</u>	<u>59,675</u>
Total	<u>\$ 484,766</u>	<u>\$ 506,382</u>

See Accompanying Independent Auditor's Report.



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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:

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, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated December 7, 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 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 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 opinions on the financial statements and not to provide an opinion 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 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. 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-05 is a material weakness.

Compliance and Other Matters

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 or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters 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, 2005 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.

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.



December 7, 2005

CITY OF SHEFFIELD, IOWA
Schedule of Findings
Year Ended June 30, 2005

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-05 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 segregation of duties is difficult with a limited number of office employees. 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-05 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.

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable

CITY OF SHEFFIELD, IOWA
Schedule of Findings
Year Ended June 30, 2005

Part IV: Other Findings Related to Statutory Reporting:

- IV-A-05 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.
- IV-B-05 Certified Budget - Disbursements during the year ended June 30, 2005, exceeded the amount budgeted in the public works function prior to amending. 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-05 Questionable Disbursements - No disbursements were noted that I believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-D-05 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- IV-E-05 Business Transactions - No business transactions between the City and City officials or employees were noted.
- IV-F-05 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-05 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.
- IV-H-05 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.
- IV-I-05 Annual Report - The City Annual Financial Report for the year ended June 30, 2005, was not filed on a timely basis in accordance with Chapter 384.22 of the Code of Iowa.
- Recommendation - The City should take the necessary steps to insure the City Annual Financial Report is completed in timely manner.
- Response - We will do this in the future.
- Conclusion - Response accepted.

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