



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE _____ February 14, 2007

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

The City's receipts totaled \$18,199,785 for the year ended June 30, 2006, a 103% increase over the prior year. The receipts included \$1,965,527 in property tax, \$1,132,882 from tax increment financing, \$3,066,389 from charges for service, \$853,980 from operating grants, contributions and restricted interest, \$398,236 from capital grants, contributions and restricted interest, \$771,498 from local option sales tax, \$249,674 from unrestricted interest on investments and \$9,761,599 from bond and loan proceeds. The significant increase in receipts is due primarily to the receipt of bond proceeds related to the construction of the water treatment plant and elevated storage facility.

Disbursements for the year totaled \$14,929,054, a 13% increase over the prior year, and included \$3,282,679 for capital projects, \$1,382,022 for debt service and \$1,134,340 for public safety. Disbursements for business type activities totaled \$6,756,213. The increase in disbursements is due primarily to the construction of a water treatment plant and elevated storage facility.

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

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CITY OF NEVADA

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

JUNE 30, 2006

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City of Nevada

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
Patrick Sheets	Mayor	Jan 2006
Dean Handsaker	Mayor Pro tem	Jan 2006
William Huls	Council Member	Jan 2006
Walt McDonald	Council Member	Jan 2006
Elisa Gibson	Council Member	(resigned Dec 2005)
Gearold E. Gull II	Council Member	Jan 2008
William Tufford	Council Member	Jan 2008
(After January 2006)		
Gearold E. Gull II	Mayor	Jan 2010
Walt McDonald	Mayor Pro tem	Jan 2010
Brian Hanson (appointed)	Council Member	Nov 2007
Gary Makovec (appointed)	Council Member	Nov 2007
William Tufford	Council Member	Jan 2008
Gary G. Gardner	Council Member	Jan 2010
Andrew Kelly	Council Member	Jan 2010
David Haugland	City Administrator	Indefinite
Teresa Peterson-Smith	City Clerk	Indefinite
Don Juhl	Attorney	Indefinite

City of Nevada



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Nevada, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Nevada's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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

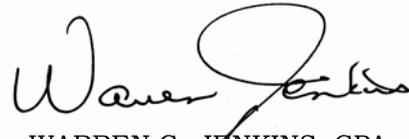
In accordance with Government Auditing Standards, we have also issued our report dated October 3, 2006 on our consideration of the City of Nevada's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 13 and 34 through 36 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Nevada's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 3, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Nevada provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- Total receipts of the City increased 103%, or \$9,247,306, from fiscal year 2005 to fiscal year 2006, due in large part to the bond proceeds from the State Revolving Fund for the construction of the water treatment plant and elevated storage facility in the amount of \$8,475,027. Charges for service increased by 21.86%, or \$550,106, a combination of increased fees for the water utility, establishment of a sanitation utility and increased fees for programs. Operating grants decreased by 20.59%, or \$221,407. Capital grants decreased by \$99,631, or 20.01%. Tax increment financing increased by \$110,798, or 10.84%. Bond and loan proceeds increased by \$8,741,089, or 856.54%. Unrestricted interest increased by 81.52%, or \$112,127, due to increased interest rates for funds on hand.
- Disbursements increased 13%, or \$1,687,993, in fiscal year 2006 over fiscal year 2005. Public safety disbursements increased by \$228,139, or 25.18%, due to the down payment on a new platform truck for the fire department. Public works disbursements decreased by \$118,450, or 16.05%. Community and economic development disbursements decreased 29.63%, or \$133,003, due to economic development agreement payments not requested timely. Debt service increased by \$217,004, or 18.63%. Capital projects increased 190.66%, or \$2,153,292. Water increased 10.77%, or \$555,938, due to continued construction of the water treatment plant. Sewer disbursements decreased by 40.49%, or \$657,039. The City also established a sanitation fund during the fiscal year and the fund reported disbursements of \$70,488.
- The City's total cash basis net assets increased by 47.22%, or \$3,270,731, from June 30 2005 to June 30, 2006. Of this amount, the net assets of the governmental activities decreased by \$1,046,381 and the net assets of the business type activities increased by \$4,317,112.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information that 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 taxes, road use taxes, state and federal grants, and user fees finance most of these activities.
- Business Type Activities include the water system, sanitary sewer system and the new sanitation utility, including all capital projects associated with these activities. These activities are financed primarily by user charges. During fiscal year 2006, loan proceeds from the State Revolving Fund also financed the capital projects for these activities.

Fund Financial Statements

The City has two kinds of funds:

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

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

2) Proprietary funds account for the City's Enterprise Funds and the Internal Service 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 sanitation funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

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

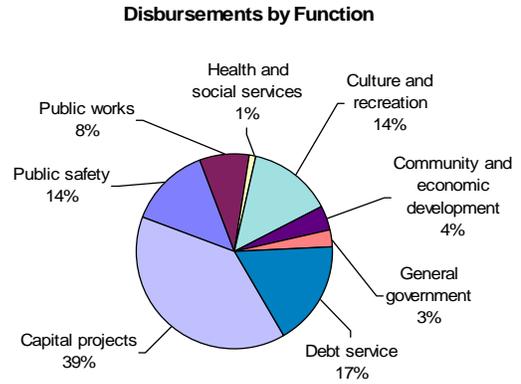
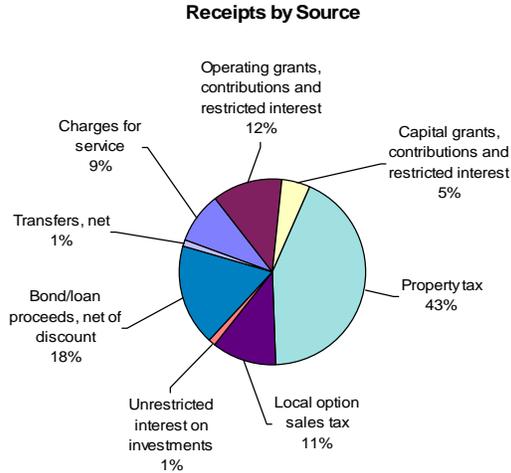
Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Governmental Activities

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$5,742,293 to \$4,695,912. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2006	2005
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 646	464
Operating grants, contributions and restricted interest	854	1,061
Capital grants, contributions and restricted interest	333	216
General receipts:		
Property tax	3,098	2,928
Local option sales tax	772	704
Unrestricted interest on investments	96	59
Bond/loan proceeds, net of discount	1,287	1,020
Miscellaneous	-	56
Sale of property	-	2
Transfers, net	41	60
Total receipts and transfers	7,127	6,570
Disbursements:		
Public safety	1,134	906
Public works	620	738
Health and social services	78	74
Culture and recreation	1,123	1,137
Community and economic development	316	449
General government	237	238
Debt service	1,382	1,165
Capital projects	3,283	1,129
Payments to refunding bond agent	-	618
Total disbursements	8,173	6,454
Increase (decrease) in cash basis net assets	(1,046)	116
Cash basis net assets beginning of year	5,742	5,626
Cash basis net assets end of year	\$ 4,696	5,742



The City's total receipts for governmental activities increased by 8.47%, or \$556,223. Charges for service increased by \$182,482. This includes increases in public safety of \$119,352 due to permit fee increases and fines, culture and recreation of \$35,783 due to increased user fees and general government of \$33,481. The total cost of all programs and services increased by \$2,336,625, or 40.04%. The increase in disbursements was primarily in public safety (down payment on platform truck of \$152,507 and the purchase of two police vehicles for \$40,366) and capital projects (Lincoln Highway/600th Avenue Turn Lanes for \$1,337,648 and the Four-Plex Ball Fields for \$1,249,349).

The City held property tax rates for 2006 at \$14.88108 per \$1,000 of taxable valuation (2005 – \$14.87863). The City's property tax rates have not increased significantly in ten years. The tax increment valuation has increased steadily for the last eight years from \$15,797,290 to the current \$35,698,599.

The cost of all governmental activities this year was \$8,172,841. However, as shown in the Statement of Activities and Net Assets on pages 16-17, the amount taxpayers ultimately financed for these activities was only \$6,339,965 because some of the cost was paid by those directly benefiting from the programs (\$646,290) or by other governments and organizations that subsidized certain programs with grants, contributions and unrestricted interest (\$1,186,586). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, were \$1,832,876. The City paid for the remaining "public benefit" portion of governmental activities with \$6,339,965 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Business Activities

Total business type activities receipts for the 2006 fiscal year were \$11,114,214. Receipts increased from the previous year due to adjustments in water rates to finance the new water treatment plant and the receipt of State Revolving Loan funds for the construction of the water treatment plant and elevated storage facility. Total business type activities disbursements for the 2006 fiscal year were \$6,756,213, compared to \$6,786,826 last year. The disbursements increased in the water utility and decreased in the sewer utility due to the construction projects. The sanitation utility was also established in July of 2005. The cash balance increased by \$4,317,112 over the prior year due to the State Revolving Loan Fund proceeds.

Changes in Cash Basis Net Assets of Business Type Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2006	2005
Receipts:		
Program receipts:		
Charges for service	\$ 2,420	2,052
Operating grants, contributions and restricted interest	-	15
Capital grants, contributions and restricted interest	66	281
Sale of property	-	15
Unrestricted interest on investments	153	79
Bond proceeds	8,475	-
Total receipts	11,114	2,442
Disbursements and transfers:		
Water	5,720	5,164
Sewer	966	1,623
Sanitation	70	-
Transfers, net	41	60
Total disbursements and transfers	6,797	6,847
Increase (decrease) in cash basis net assets	4,317	(4,405)
Cash basis net assets beginning of year	1,185	5,590
Cash basis net assets end of year	\$ 5,502	1,185

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Nevada completed the year, its governmental funds reported a combined fund balance of \$4,697,492.

- The General Fund (General, Hotel/Motel and General Capital Revolving) cash balance decreased by \$128,924 from the prior year to \$1,843,908.
- The Road Use Tax Fund cash balance increased by \$58,840 to \$489,248 during the fiscal year. This decrease was primarily due to the transfer of \$25,778 from the Road Use Tax Transfer of Jurisdiction Account to the 6th Street Projects.
- The Local Option Sales and Services Tax Fund cash balance increased \$200,359 to \$823,831 during the fiscal year. The increase was primarily due to \$80,218 in additional revenues received.
- The Urban Renewal Tax Increment Fund cash balance was \$804,872 at the end of the fiscal year, an increase of \$21,744 over the previous year. An unusually large ending balance was carried forward to cover the transfer out of \$1,000,000 to the Four-Plex Ball Fields in fiscal year 2007 when actual closeout costs of the project are known.
- The Debt Service Fund cash balance decreased by \$153,907 to \$207,995 during the fiscal year.
- The Capital Projects Fund began the year with a cash balance of \$1,109,344 and ended with a balance of \$108,076, a decrease of \$1,001,268. This fund balance fluctuates greatly between years due to projects and funding. Two projects were completed (Lincoln Highway/600th Avenue Improvements and the Four-Plex Ball Fields), during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$4,107,865, from a deficit balance of \$968,375 to a balance of \$3,139,490.
- The Sewer Fund cash balance increased by \$208,247 to \$2,361,252.
- The Sanitation Fund was established in July and ended the year with a balance of \$1,609.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget three times. The first amendment was approved on November 14, 2005 and resulted in an increase in operating disbursements of \$885,043 for the Lincoln Highway/600th Avenue project and the Debt Service Street Projects. The second amendment was approved on May 8, 2006, increasing receipts by \$3,127,959 (for the State Revolving Funds for the Water Treatment Plant) and increasing operating disbursements by \$331,420 to provide for projects (City Hall, SCORE/Krupp Park and Sidewalks). The third and final budget amendment was approved on May 22, 2006. This amendment increased operating disbursements by \$160,000 for the down payment on the fire department’s aerial platform truck.

The City’s receipts were \$549,800 more than budgeted receipts, a variance of 7%. The most significant variances resulted from the City budgeting charges for service at the rates existing at the time the budget was prepared (rates subsequently increased), earning more interest on funds on hand than originally anticipated and not receiving Federal grants related to the 6th Street project during the year as anticipated.

Total disbursements were less than budgeted by \$4,407,219, due primarily to the City’s budget for the business type activities. The City budgeted in anticipation of the wastewater treatment plant project being completed in fiscal year 2006. However, some payments extended into fiscal year 2007.

DEBT ADMINISTRATION

On June 30, 2006, the City had \$13,389,700 in outstanding bonds and other long-term debt outstanding, compared to \$4,915,000 last year, as shown below.

Outstanding Debt at Year-End		
	June 30,	
	2006	2005
General obligation notes:		
4/1/2002-Gates Hall Remodeling - \$770,000	\$ 600,000	645,000
4/1/2003-Streets GO Corporate Purpose - \$1,200,000	245,000	485,000
8/15/2004-WWT and Airport Road - \$1,035,000	530,000	790,000
7/1/2005-Lincoln Highway/600th Avenue Turn Lanes - \$1,545,000	1,545,000	-
Urban renewal tax increment revenue bonds:		
10/1/1999-Nevada Business Park - \$1,130,000	520,000	635,000
4/1/2002-Lincoln Highway II - \$720,000	475,000	540,000
11/1/2003-W. Industrial Park Storm Sewer - \$850,000	190,000	380,000
Local option sales and services tax revenue bonds:		
8/1/2001-SCORE Park Grading/Maint Bldg. - \$1,000,000	550,000	645,000
Revenue bonds and notes:		
1/3/1995-Sewer Revolving - \$1,114,000	565,000	625,000
12/1/2002-Sewer Refunding - \$640,000	-	170,000
1/14/2005-Water - \$8,430,000	8,169,770	-
Total	\$ 13,389,770	4,915,000

On July 1, 2005, the City issued new debt of \$1,545,000. No principal payment will be made until 2007, but an interest payment of \$47,930 was made in 2006.

Debt increased by \$8,474,770 as a net result of payments on principal of existing debt in the amount of \$1,240,000, the issuance of the new debt for Lincoln Highway/600th Avenue Turn Lane project in the amount of \$1,545,000 and issuing \$8,169,770 of water revenue bonds. The City continues to pursue an aggressive payback schedule on most of the debt issues outstanding. This allows the City the flexibility to issue new debt to finance additional projects on a regular basis.

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 (\$261,124,729 x 5% = \$13,056,236). The City's outstanding general obligation debt of \$4,655,000 is significantly below its constitutional debt limit of \$13,056,236.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Nevada's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates and fees charged for various City activities.

The City's taxable valuation increased by \$2,475,722 between fiscal years 2006 and 2007 (\$126,189,529 - \$123,713,757), resulting in an increase in the general fund levy of \$20,510. The assessed valuation actually increased from \$261,124,729 in fiscal year 2006 to \$279,510,699 in fiscal year 2007.

Tax increment financing collections are budgeted to increase in fiscal year 2007 by \$104,355, from \$1,166,782 in 2006 to \$1,271,137. This increase in funds will be used to pay for debt incurred by the issuance of the bonds for the Airport Road 5th Addition Public Improvements, Lincoln Highway/600th Avenue Turn Lanes, Nevada Business Park Improvements and the West Industrial Park Story Sewer. Funds are also needed to pay for development agreements. Additional funds are also expected to be expended on the completion of the SCORE Park Project and a City Hall/Public Safety Complex.

The City's expected receipts for fiscal year 2007 are \$13,683,055 as opposed to fiscal year 2006 amended budgeted receipts of \$15,936,194 (includes bond proceeds for the water treatment plant through the State Revolving Fund).

The City's disbursements are expected to decrease from \$19,249,592 in fiscal year 2006 to \$13,316,861 in fiscal year 2007, primarily due to the completion of a new water treatment plant and other projects. There is a possibility the City will be constructing a new city hall/public safety complex beginning in fiscal year 2007, but the project was not budgeted and an amendment will need to be completed and financing obtained to complete.

If these estimates are realized, the City's budgeted cash balance is expected to increase by \$366,194 by the close of 2007.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Teresa Smith, City Clerk, 1209 6th Street, P O Box 530, Nevada, Iowa.

City of Nevada

Basic Financial Statements

City of Nevada

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2006

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Primary Government:				
Governmental activities:				
Public safety	\$ 1,134,340	188,233	64,994	-
Public works	619,746	5,196	561,843	15,148
Health and social services	78,300	-	-	-
Culture and recreation	1,122,751	403,365	111,191	6,087
Community and economic development	315,874	8,569	39,616	-
General government	237,129	40,927	7,913	21,570
Debt service	1,382,022	-	68,423	27,728
Capital projects	3,282,679	-	-	262,073
Total governmental activities	8,172,841	646,290	853,980	332,606
Business type activities:				
Water	5,720,202	1,273,497	-	16,098
Sewer	965,523	1,074,511	-	49,532
Sanitation	70,488	72,091	-	-
Total business type activities	6,756,213	2,420,099	-	65,630
Total Primary Government	\$ 14,929,054	3,066,389	853,980	398,236
Component Unit:				
Nevada Economic Development Council	\$ 191,104	32,133	99,312	-
General Receipts:				
Property and other city tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Unrestricted interest on investments				
Bond and loan proceeds, net of \$22,016 bond discount				
Sale of property				
Transfers				
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:				
Streets				
Urban renewal purposes				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets				
Primary Government				Component Unit
Governmental Activities	Business Type Activities	Total		Nevada Economic Development Council
(881,113)	-	(881,113)		-
(37,559)	-	(37,559)		-
(78,300)	-	(78,300)		-
(602,108)	-	(602,108)		-
(267,689)	-	(267,689)		-
(166,719)	-	(166,719)		-
(1,285,871)	-	(1,285,871)		-
(3,020,606)	-	(3,020,606)		-
(6,339,965)	-	(6,339,965)		-
-	(4,430,607)	(4,430,607)		-
-	158,520	158,520		-
-	1,603	1,603		-
-	(4,270,484)	(4,270,484)		-
(6,339,965)	(4,270,484)	(10,610,449)		-
-	-	-		(59,659)
1,532,044	-	1,532,044		-
1,132,882	-	1,132,882		-
433,483	-	433,483		-
771,498	-	771,498		-
96,216	153,458	249,674		-
1,286,572	8,475,027	9,761,599		-
-	-	-		113,747
40,889	(40,889)	-		-
5,293,584	8,587,596	13,881,180		113,747
(1,046,381)	4,317,112	3,270,731		54,088
5,742,293	1,184,967	6,927,260		329,288
\$ 4,695,912	5,502,079	10,197,991		383,376
\$ 489,248	-	489,248		-
568,872	-	568,872		-
543,995	245,513	789,508		-
1,251,469	-	1,251,469		-
1,842,328	5,256,566	7,098,894		383,376
\$ 4,695,912	5,502,079	10,197,991		383,376

City of Nevada

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

As of and for the year ended June 30, 2006

	Special Revenue			
	General	Road Use Tax	Local Option Sales and Services Tax	Urban Renewal Tax Increment
Receipts:				
Property tax	\$ 1,124,831	-	-	-
Tax increment financing	-	-	-	1,132,882
Other city tax	52,763	-	771,498	-
Licenses and permits	115,617	-	-	-
Use of money and property	160,713	1,591	26,117	46,937
Intergovernmental	119,077	571,001	-	-
Charges for service	269,521	-	-	-
Special assessments	-	-	-	-
Miscellaneous	117,106	-	-	-
Total receipts	1,959,628	572,592	797,615	1,179,819
Disbursements:				
Operating:				
Public safety	1,014,943	25,433	9,117	-
Public works	2,273	572,645	20,616	24,123
Health and social services	-	-	78,300	-
Culture and recreation	1,076,381	-	3,888	-
Community and economic development	105,891	-	91,827	101,691
General government	235,011	-	2,004	-
Debt service	-	-	127,415	440,470
Capital projects	-	-	-	-
Total disbursements	2,434,499	598,078	333,167	566,284
Excess (deficiency) of receipts over (under) disbursements	(474,871)	(25,486)	464,448	613,535
Other financing sources (uses):				
Bond proceeds, net of \$22,016 discount	-	-	-	-
Loan proceeds	-	-	-	-
Operating transfers in	508,648	123,661	-	27,641
Operating transfers out	(162,701)	(39,335)	(264,089)	(619,432)
Total other financing sources (uses)	345,947	84,326	(264,089)	(591,791)
Net change in cash balances	(128,924)	58,840	200,359	21,744
Cash balances beginning of year	1,972,832	430,408	623,472	783,128
Cash balances end of year	\$ 1,843,908	489,248	823,831	804,872
Cash Basis Fund Balances				
Reserved for debt service	\$ -	-	100,000	236,000
Unreserved:				
General fund	1,843,908	-	-	-
Special revenue funds	-	489,248	723,831	568,872
Capital projects fund	-	-	-	-
Permanent funds	-	-	-	-
Total cash basis fund balances	\$ 1,843,908	489,248	823,831	804,872

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
418,489	-	338,867	1,882,187
-	-	-	1,132,882
14,994	-	15,583	854,838
-	-	-	115,617
21,486	12,689	23,137	292,670
-	249,384	49,210	988,672
-	-	4,116	273,637
27,728	-	-	27,728
-	-	113,662	230,768
482,697	262,073	544,575	5,798,999
-	-	84,512	1,134,005
-	-	-	619,657
-	-	-	78,300
-	-	41,472	1,121,741
-	-	16,453	315,862
-	-	-	237,015
814,137	-	-	1,382,022
-	3,282,679	-	3,282,679
814,137	3,282,679	142,437	8,171,281
(331,440)	(3,020,606)	402,138	(2,372,282)
-	1,133,427	-	1,133,427
-	153,145	-	153,145
177,533	760,407	2,500	1,600,390
-	(27,641)	(446,303)	(1,559,501)
177,533	2,019,338	(443,803)	1,327,461
(153,907)	(1,001,268)	(41,665)	(1,044,821)
361,902	1,109,344	461,227	5,742,313
207,995	108,076	419,562	4,697,492
207,995	-	-	543,995
-	-	-	1,843,908
-	-	317,634	2,099,585
-	108,076	-	108,076
-	-	101,928	101,928
207,995	108,076	419,562	4,697,492

City of Nevada

City of Nevada

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Governmental Funds

As of and for the year ended June 30, 2006

Total governmental funds cash balances (page 19) \$ 4,697,492

Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.

(1,580)

Cash basis net assets of governmental activities (page 17) \$ 4,695,912

Net change in cash balances (page 19) \$ (1,044,821)

Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the change in net assets of the Internal Service Fund is reported with governmental activities.

(1,560)

Change in cash basis net assets of governmental activities (page 17) \$ (1,046,381)

See notes to financial statements.

Exhibit D

City of Nevada

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

As of and for the year ended June 30, 2006

	Enterprise				Internal Service
	Water	Sewer	Sanitation	Total	Flexible Benefits
Operating receipts:					
Use of money and property	\$ 9,140	-	-	9,140	-
Charges for service	1,173,923	1,087,316	71,458	2,332,697	33,660
Miscellaneous	90,434	34,491	633	125,558	-
Total operating receipts	1,273,497	1,121,807	72,091	2,467,395	33,660
Operating disbursements:					
Governmental activities:					
Public safety	-	-	-	-	5,531
Public works	-	-	-	-	1,469
Culture and recreation	-	-	-	-	16,687
Community and economic development	-	-	-	-	191
General government	-	-	-	-	1,892
Business type activities	760,863	705,713	70,488	1,537,064	10,059
Total operating disbursements	760,863	705,713	70,488	1,537,064	35,829
Excess (deficiency) of operating receipts over (under) operating disbursements	512,634	416,094	1,603	930,331	(2,169)
Non-operating receipts (disbursements):					
Interest on investments	79,044	92,742	6	171,792	-
Construction of plant and tower	(4,814,738)	-	-	(4,814,738)	-
Debt service	(144,102)	(259,700)	-	(403,802)	-
Total non-operating receipts (disbursements)	(4,879,796)	(166,958)	6	(5,046,748)	-
(Excess) deficiency of receipts over (under) disbursements	(4,367,162)	249,136	1,609	(4,116,417)	(2,169)
Other financing sources (uses):					
Bond proceeds	8,475,027	-	-	8,475,027	-
Operating transfers out	-	(40,889)	-	(40,889)	-
Total other financing sources (uses)	8,475,027	(40,889)	-	8,434,138	-
Net change in cash balances	4,107,865	208,247	1,609	4,317,721	(2,169)
Cash balances beginning of year	(968,375)	2,153,005	-	1,184,630	317
Cash balances end of year	\$ 3,139,490	2,361,252	1,609	5,502,351	(1,852)
Cash Basis Fund Balances					
Reserved for debt service	\$ -	245,513	-	245,513	-
Unreserved	3,139,490	2,115,739	1,609	5,256,838	(1,852)
Total cash basis fund balances	\$ 3,139,490	2,361,252	1,609	5,502,351	(1,852)

See notes to financial statements.

City of Nevada

Reconciliation of the Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
to the Statement of Activities and Net Assets –
Proprietary Funds

As of and for the year ended June 30, 2006

Total enterprise funds cash balances (page 22) \$ 5,502,351

Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the assets of the Internal Service Fund are included in business type activities in the Statement of Net Assets.

(272)

Cash basis net assets of business type activities (page 17) \$ 5,502,079

Net change in cash balances (page 22) \$ 4,317,721

Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the change in net assets of the Internal Service Fund is reported with business type activities.

(609)

Change in cash basis net assets of business type activities (page 17) \$ 4,317,112

See notes to financial statements.

City of Nevada

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

The City of Nevada is a political subdivision of the State of Iowa located in Story County. It was first incorporated in 1853 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Nevada has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Nevada (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City. These non-profit organizations were formed under Chapter 504A of the Code of Iowa.

Discretely Presented Component Unit – The Nevada Economic Development Council (NEDC) is presented in a separate column to emphasize it is legally separate from the City, but is financially accountable to the City or its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The NEDC is governed by a thirteen-member board. There are four standing board positions and nine members are elected at-large. The NEDC's operating budget is subject to the approval of the City Council.

Blended Component Units – The Nevada Firefighters Incorporated and Nevada First Responders are entities which are legally separate from the City but are so intertwined with the City they are, in substance, the same as the City. They are reported as part of the City and blended into the nonmajor governmental funds.

Jointly Governed Organizations

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

The City also participates in the following jointly governed organizations established pursuant to Chapter 28E of the Code of Iowa: Central Iowa Regional Transportation Planning Agency and Central Iowa Area Safety and Support Organization.

B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Local Option Sales and Services Tax Fund is used to account for receipts from the local option sales and services tax. The receipts are used to finance community betterment in the City.

The Urban Renewal Tax Increment 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.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities with the exception of those financed through Enterprise Funds.

The City reports the following major proprietary funds:

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

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

The Sanitation Fund is used to account for the solid waste collection fees and payments to the City of Ames under the Contract and Agreement for Use and Support of a Solid Waste Reclamation, Recycling and Disposal System.

The City also reports the following proprietary fund:

An Internal Service Fund is utilized to account for the contributions made to the flexible benefits plan by City employees and the subsequent reimbursement for eligible claims (administered by Wellmark).

C. Measurement Focus and Basis of Accounting

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

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

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

D. Budgets and Budgetary Accounting

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

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

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

(3) Bonds and Notes Payable

On July 1, 2005, the City issued \$1,545,000 of general obligation corporate purpose notes, with interest rates ranging from 2.95% to 3.75% per annum. The notes were issued for the purpose of paying the costs of financing street, water and storm sewer improvements related to the Lincoln Way Energy Project.

Annual debt service requirements to maturity for general obligation notes, urban renewal tax increment revenue bonds, local option sales and services tax revenue bonds and revenue bonds and notes are as follows:

Year Ending June 30,	General Obligation Notes		Urban Renewal		Local Option		Revenue Bonds and Notes		Total	
			Tax Increment Revenue Bonds		Sales and Services Tax Revenue Bonds					
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 760,000	103,963	380,000	56,250	100,000	27,550	60,000	25,651	1,300,000	213,414
2008	260,000	82,510	200,000	41,695	105,000	22,750	65,000	22,927	630,000	169,882
2009	365,000	73,881	210,000	31,570	110,000	17,605	65,000	19,976	750,000	143,032
2010	240,000	61,342	220,000	20,702	115,000	12,105	70,000	17,025	645,000	111,174
2011	250,000	52,598	85,000	9,103	120,000	6,240	70,000	13,847	525,000	81,788
2012 - 2016	1,045,000	116,520	90,000	4,725	-	-	235,000	21,565	1,370,000	142,810
Total	\$ 2,920,000	490,814	1,185,000	164,045	550,000	86,250	565,000	120,991	5,220,000	862,100

The urban renewal tax increment revenue bonds were issued for the purpose of planning, undertaking and carrying out an urban renewal project within the Nevada Urban Renewal Area, consisting of the construction of the Nevada Business Park

Project and the Lincoln Highway Phase II Project. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment revenue bonds can only be expended for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

The local option sales and services tax revenue bonds were issued for the purpose of paying the costs associated with grading, storm sewer improvements and the construction of a maintenance facility at the Nevada Recreation/Athletic Complex. The bonds are payable solely from the income and proceeds of the Special Revenue, Local Option Sales and Services Tax Fund and the taxes to be paid into the fund in accordance with Chapter 422B of the Code of Iowa. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

The resolutions providing for the issuance of the revenue bonds and notes include the following provisions.

- (a) The bonds and notes will only be redeemed from the future earnings of the enterprise activity and the bond and note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate sewer revenue bond and note sinking accounts within the Enterprise Funds for the purpose of making the bond and note principal and interest payments when due.
- (c) A total of \$238,375 shall be set aside in a sewer revenue reserve account. This account is restricted for the purpose of paying the principal and interest on the bonds and notes whenever the funds in the sinking accounts are insufficient.
- (d) All funds remaining in the sewer accounts after making the required transfers shall be placed in a sewer revenue surplus account. As long as the sinking and reserve accounts have the full amounts required to be deposited, the balance in the surplus account may be made available to the City as the Council may direct.

On January 14, 2005, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of \$8,438,000 of water revenue bonds with interest at 3.0% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa to pay the cost of constructing improvements and extensions to the water treatment plant. The City will draw down funds from the Trustee upon request to reimburse the City for costs as they are incurred. At June 30, 2006, the City had drawn \$8,085,470 of the authorized amount. An initiation fee of 1% of the authorized borrowing for the water revenue bonds was charged by Wells Fargo Bank Iowa, N.A. The total initiation fee was withheld by the bank from the first proceeds of the water revenue bonds drawn by the City during the year ended June 30, 2006. Since the City has not fully drawn funds on the water revenue bonds, a final repayment schedule has not yet been adopted.

The resolution providing for the issuance of the water revenue bonds includes the following provisions.

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the fund.

- (b) Sufficient monthly transfers shall be made to a water revenue bond sinking account for the purpose of making the bond principal and interest payments when due.

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$99,236, \$92,972 and \$88,345, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory time hours for subsequent use or for payment upon termination, retirement or death. City employees may also accumulate earned but unused sick leave hours for subsequent use or for payment upon retirement or death, up to a maximum of \$1,500. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, compensatory time and sick leave payments payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 145,000
Compensatory time	<u>19,000</u>
Total	<u>\$ 164,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2006.

(6) Contractual Commitments

The City has entered into various construction contracts totaling approximately \$10,201,000. The unpaid contract balances as of June 30, 2006 totaled approximately \$2,676,000, which will be paid as work on the projects progresses.

The City has also entered into a contract with the Nevada Economic Development Council to provide financial assistance of \$80,000 for fiscal year 2007.

(7) Interfund Transfers

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

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales and Services Tax	\$ 144,000
	Employee Benefits	330,038
	Emergency	34,610
		<u>508,648</u>
Special Revenue:		
Road Use Tax	General	85,771
	Special Revenue:	
	Local Option Sales and Services Tax	37,890
Urban Renewal Tax Increment	Capital Projects	27,641
Trees Forever	Special Revenue:	
	Local Option Sales and Services Tax	2,500
		<u>153,802</u>
Debt Service	General	76,930
	Special Revenue:	
	Urban Renewal Tax Increment	59,714
	Enterprise:	
	Sewer	40,889
		<u>177,533</u>
Capital Projects	Special Revenue:	
	Road Use Tax	39,335
	Local Option Sales and Services Tax	79,699
	Urban Renewal Tax Increment	559,718
	S.C.O.R.E. Undesignated	31,655
	Parks and Recreation Open Space	50,000
		<u>760,407</u>
Total		<u>\$ 1,600,390</u>

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

(8) Industrial Development Revenue Bonds

The City has issued a total of \$2,363,229 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$1,725,395 is outstanding at June 30, 2006. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

(9) Landfill Contract

The City has contracted with the City of Ames for solid waste disposal for all households or residences within the City. The contract began April 1, 1994 and will terminate June 30, 2014. The cost is computed for each calendar year. On or before February 15th of each year, the City of Ames will notify the City of its proportionate share of the net costs of the system for the prior calendar year. The City will pay the City of Ames one-half of its share on July 15th and one-half on or before December 15th of each year. The annual rate of the contract is determined by multiplying the net per capita cost of the Ames solid waste disposal system by the population of the City of Nevada.

(10) Risk Management

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

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 members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2006 were \$94,441.

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

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

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 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 worker's compensation coverages. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Development Agreements

The City has entered into various development agreements for urban renewal projects. The agreements require the City to rebate portions of the incremental tax paid by the developer in exchange for the construction or improvements of buildings. Certain agreements also require the developer to certify specific employment requirements are met. The total to be paid by the City under the agreements is not to exceed \$403,047.

The City has rebated a total of \$368,431 of incremental tax under the agreements. The outstanding balance of the agreements at June 30, 2006 was \$34,616.

Certain agreements state the City will rebate a percentage of property taxes owed by the business. These agreements are not reflected in the amount above due to property assessments changing each year.

The City has entered into an additional development agreement requiring annual payments of \$40,000 for ten years. The developer has not filed the required documentation to certify the conditions within the agreement have been met. Therefore, this agreement is not reflected in the amounts above.

(12) Deficit Balance

The Internal Service Fund had a deficit balance of \$1,852 at June 30, 2006. The deficit balance was a result of flex benefit disbursements exceeding employee contributions at mid-year. The fund operates on a calendar-year basis and the deficit will be eliminated upon receipt of the remaining employee contributions.

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 1,882,187	-	-
Tax increment financing	1,132,882	-	-
Other city tax	854,838	-	-
Licenses and permits	115,617	-	-
Use of money and property	292,670	180,932	954
Intergovernmental	988,672	-	40,965
Charges for service	273,637	2,366,357	33,660
Special assessments	27,728	-	-
Miscellaneous	230,768	125,558	47,273
Total receipts	<u>5,798,999</u>	<u>2,672,847</u>	<u>122,852</u>
Disbursements:			
Public safety	1,134,005	5,531	90,043
Public works	619,657	1,469	1,469
Health and social services	78,300	-	-
Culture and recreation	1,121,741	16,687	16,687
Community and economic development	315,862	191	191
General government	237,015	1,892	1,892
Debt service	1,382,022	-	-
Capital projects	3,282,679	-	-
Business type activities	-	6,765,663	10,059
Total disbursements	<u>8,171,281</u>	<u>6,791,433</u>	<u>120,341</u>
Deficiency of receipts under disbursements	(2,372,282)	(4,118,586)	2,511
Other financing sources, net	1,327,461	8,434,138	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(1,044,821)	4,315,552	2,511
Balances beginning of year	5,742,313	1,184,947	52,462
Balances end of year	<u>\$ 4,697,492</u>	<u>5,500,499</u>	<u>54,973</u>

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
1,882,187	1,878,167	1,878,167	4,020
1,132,882	1,166,782	1,166,782	(33,900)
854,838	685,224	685,224	169,614
115,617	46,325	46,325	69,292
472,648	108,815	108,815	363,833
947,707	1,296,359	1,352,859	(405,152)
2,606,334	2,104,479	2,175,938	430,396
27,728	-	-	27,728
309,053	385,084	385,084	(76,031)
<u>8,348,994</u>	<u>7,671,235</u>	<u>7,799,194</u>	<u>549,800</u>
1,049,493	988,971	1,198,396	148,903
619,657	709,330	674,421	54,764
78,300	79,300	79,300	1,000
1,121,741	1,087,811	1,121,811	70
315,862	313,575	413,400	97,538
237,015	318,138	320,138	83,123
1,382,022	1,318,926	1,669,479	287,457
3,282,679	2,930,400	3,565,400	282,721
6,755,604	10,126,678	10,207,247	3,451,643
<u>14,842,373</u>	<u>17,873,129</u>	<u>19,249,592</u>	<u>4,407,219</u>
(6,493,379)	(10,201,894)	(11,450,398)	4,957,019
<u>9,761,599</u>	<u>5,137,000</u>	<u>8,137,000</u>	<u>1,624,599</u>
3,268,220	(5,064,894)	(3,313,398)	6,581,618
6,874,798	8,628,351	6,875,117	(319)
<u>10,143,018</u>	<u>3,563,457</u>	<u>3,561,719</u>	<u>6,581,299</u>

City of Nevada

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Funds and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, three budget amendments increased budgeted disbursements by \$1,376,463. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements did not exceed the amount budgeted by function.

Other Supplementary Information

City of Nevada

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

As of and for the year ended June 30, 2006

	Special							
	Employee		Cemetery	Cemetery	Library	Fire	S.C.O.R.E.	S.C.O.R.E.
	Benefits	Emergency	Memorials	Foundation	Trust	Trust	Undesignated	Operation &
				Trust				Maintenance
Receipts:								
Property tax	\$ 306,493	32,374	-	-	-	-	-	-
Other city tax	14,094	1,489	-	-	-	-	-	-
Use of money and property	7,166	747	229	1	4,441	38	455	178
Intergovernmental	-	-	-	-	8,245	-	-	-
Charges for service	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	20	18,379	3,615	31,200	-
Total receipts	327,753	34,610	229	21	31,065	3,653	31,655	178
Disbursements:								
Public safety	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	28,232	-	-	-
Community and economic development	-	-	-	-	-	2,147	-	-
Total disbursements	-	-	-	-	28,232	2,147	-	-
Excess (deficiency) of receipts over (under) disbursements	327,753	34,610	229	21	2,833	1,506	31,655	178
Other financing sources (uses):								
Operating transfers in	-	-	-	-	-	-	-	-
Operating transfers out	(330,038)	(34,610)	-	-	-	-	(31,655)	-
Total other financing sources (uses)	(330,038)	(34,610)	-	-	-	-	(31,655)	-
Net change in cash balances	(2,285)	-	229	21	2,833	1,506	-	178
Cash balances beginning of year	2,285	-	5,766	-	105,218	201	-	4,477
Cash balances end of year	\$ -	-	5,995	21	108,051	1,707	-	4,655
Cash Basis Fund Balances								
Unreserved:								
Special revenue funds	\$ -	-	5,995	21	108,051	1,707	-	4,655
Permanent funds	-	-	-	-	-	-	-	-
Total cash basis fund balances	\$ -	-	5,995	21	108,051	1,707	-	4,655

See accompanying independent auditor's report.

Revenue										Permanent	
Gates Hall Trust	Gates Hall Piano	Parks and Recreation Open Space	Columbarium Maintenance	Trees Forever	Police Forfeiture	Nevada Firefighters Incorporated	Nevada First Responders	Cemetery Perpetual Care	Parks Planting (Hattery)	Total	
-	-	-	-	-	-	-	-	-	-	338,867	
-	-	-	-	-	-	-	-	-	-	15,583	
-	674	7,595	19	266	374	569	385	-	-	23,137	
-	-	-	-	-	-	25,720	15,245	-	-	49,210	
-	-	1,297	60	-	-	-	-	2,759	-	4,116	
-	-	3,890	-	9,285	-	34,255	13,018	-	-	113,662	
-	674	12,782	79	9,551	374	60,544	28,648	2,759	-	544,575	
-	-	-	-	-	-	58,648	25,864	-	-	84,512	
-	420	12,820	-	-	-	-	-	-	-	41,472	
-	-	-	-	14,306	-	-	-	-	-	16,453	
-	420	12,820	-	14,306	-	58,648	25,864	-	-	142,437	
-	254	(38)	79	(4,755)	374	1,896	2,784	2,759	-	402,138	
-	-	-	-	2,500	-	-	-	-	-	2,500	
-	-	(50,000)	-	-	-	-	-	-	-	(446,303)	
-	-	(50,000)	-	2,500	-	-	-	-	-	(443,803)	
-	254	(50,038)	79	(2,255)	374	1,896	2,784	2,759	-	(41,665)	
80,000	17,129	78,527	482	6,435	9,393	21,476	30,669	94,169	5,000	461,227	
80,000	17,383	28,489	561	4,180	9,767	23,372	33,453	96,928	5,000	419,562	
80,000	17,383	28,489	561	4,180	9,767	23,372	33,453	-	-	317,634	
-	-	-	-	-	-	-	-	96,928	5,000	101,928	
80,000	17,383	28,489	561	4,180	9,767	23,372	33,453	96,928	5,000	419,562	

City of Nevada
Schedule of Indebtedness
Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Corporate purpose	Apr 1, 2002	3.00-5.40%	\$ 770,000
Street improvement	Apr 1, 2003	1.50-2.55	1,200,000
Corporate purpose and refunding	Aug 15, 2004	1.90-3.25	1,035,000
Corporate purpose	Jul 1, 2005	2.95-3.75	1,545,000
Total			
Urban renewal tax increment:			
Revenue bonds	Oct 1, 1999	4.80-5.40%	\$ 1,130,000
Revenue bonds	Apr 1, 2002	3.25-5.25	720,000
Revenue bonds	Nov 1, 2003	1.55-2.70	850,000
Total			
Local option sales and services tax:			
Revenue bonds	Aug 1, 2001	4.30-5.20%	\$ 1,000,000
Street improvement project warrant	Mar 14, 2006 [■]	4.23%	\$ 153,145
Revenue bonds and notes:			
Sewer revolving bonds	Jan 3, 1995	4.54%	\$ 1,114,000
Sewer notes	Dec 1, 2002	2.25-3.25	640,000
Water	Jan 14, 2005 ^{*■}	3.00	8,438,000
Total			

* The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
645,000	-	45,000	600,000	31,630
485,000	-	240,000	245,000	11,528
790,000	-	260,000	530,000	21,882
-	1,545,000	-	1,545,000	47,930
<u>\$ 1,920,000</u>	<u>1,545,000</u>	<u>545,000</u>	<u>2,920,000</u>	<u>112,970</u>
635,000	-	115,000	520,000	33,440
540,000	-	65,000	475,000	26,430
380,000	-	190,000	190,000	9,500
<u>\$ 1,555,000</u>	<u>-</u>	<u>370,000</u>	<u>1,185,000</u>	<u>69,370</u>
<u>\$ 645,000</u>	<u>-</u>	<u>95,000</u>	<u>550,000</u>	<u>32,015</u>
<u>\$ -</u>	<u>153,145</u>	<u>153,145</u>	<u>-</u>	<u>-</u>
625,000	-	60,000	565,000	23,562
170,000	-	170,000	-	5,525
-	8,169,770	-	8,169,770	123,007
<u>\$ 795,000</u>	<u>8,169,770</u>	<u>230,000</u>	<u>8,734,770</u>	<u>152,094</u>

City of Nevada
Bond and Note Maturities
June 30, 2006

Year Ending June 30,	General Obligation Notes									Total
	Corporate Purpose		Street Improvement		Corporate Purpose and Refunding		Corporate Purpose			
	Issued Apr 1, 2002		Issued Apr 1, 2003		Issued Aug 15, 2004		Issued Jul 1, 2005			
	Interest		Interest		Interest		Interest			
Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount			
2007	4.30%	\$ 50,000	2.55%	\$ 245,000	2.70%	\$ 265,000	2.95%	\$ 200,000	760,000	
2008	4.50	50,000	-	-	3.00	50,000	3.05	160,000	260,000	
2009	4.70	50,000	-	-	3.25	215,000	3.20	100,000	365,000	
2010	4.80	55,000	-	-	-	-	3.30	185,000	240,000	
2011	4.90	60,000	-	-	-	-	3.40	190,000	250,000	
2012	5.00	60,000	-	-	-	-	3.50	200,000	260,000	
2013	5.10	65,000	-	-	-	-	3.60	205,000	270,000	
2014	5.20	65,000	-	-	-	-	3.70	150,000	215,000	
2015	5.30	70,000	-	-	-	-	3.75	155,000	225,000	
2016	5.40	75,000	-	-	-	-	-	-	75,000	
Total		<u>\$ 600,000</u>		<u>\$ 245,000</u>		<u>\$ 530,000</u>		<u>\$ 1,545,000</u>	<u>2,920,000</u>	

Year Ending June 30,	Local Option Sales and Services Tax Revenue Bonds		Revenue Bonds and Notes Sewer Revolving Bonds	
	Issued Aug 1, 2001		Issued Jan 3, 1995	
	Interest		Interest	
	Rates	Amount	Rates	Amount
2007	4.80%	\$ 100,000	4.54%	\$ 60,000
2008	4.90	105,000	4.54	65,000
2009	5.00	110,000	4.54	65,000
2010	5.10	115,000	4.54	70,000
2011	5.20	120,000	4.54	70,000
2012	-	-	4.54	75,000
2013	-	-	4.54	80,000
2014	-	-	4.54	80,000
Total		<u>\$ 550,000</u>		<u>\$ 565,000</u>

See accompanying independent auditor's report.

Urban Renewal Tax Increment Revenue Bonds							
Year Ending June 30,	Issued Oct 1, 1999		Issued Apr 1, 2002		Issued Nov 1, 2003		Total
	Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	
2007	5.20%	\$ 120,000	4.55%	\$ 70,000	2.70%	\$ 190,000	380,000
2008	5.25	125,000	4.75	75,000		-	200,000
2009	5.30	135,000	4.95	75,000		-	210,000
2010	5.40	140,000	5.05	80,000		-	220,000
2011		-	5.15	85,000		-	85,000
2012		-	5.25	90,000		-	90,000
Total		<u>\$ 520,000</u>		<u>\$ 475,000</u>		<u>\$ 190,000</u>	<u>1,185,000</u>

Schedule 4

City of Nevada

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

For the Last Four Years

	2006	2005	2004	2003
Receipts:				
Property tax	\$ 1,882,187	1,814,633	1,801,612	1,718,176
Tax increment financing	1,132,882	1,022,084	901,080	766,134
Other city tax	854,838	795,059	820,905	742,649
Licenses and permits	115,617	55,050	59,477	21,901
Use of money and property	292,670	227,267	241,654	539,485
Intergovernmental	988,672	905,229	1,137,248	1,045,642
Charges for service	273,637	249,297	217,837	260,981
Special assessments	27,728	38,760	133,497	37,870
Miscellaneous	230,768	380,396	430,501	464,462
Total	\$ 5,798,999	5,487,775	5,743,811	5,597,300
Disbursements:				
Operating:				
Public safety	\$ 1,134,005	905,856	856,395	996,461
Public works	619,657	738,155	643,837	576,375
Health and social services	78,300	74,300	59,186	50,186
Culture and recreation	1,121,741	1,135,262	1,025,676	1,075,442
Community and economic development	315,862	448,862	367,883	210,711
General government	237,015	237,445	212,549	238,525
Debt service	1,382,022	1,165,018	1,467,813	665,562
Capital projects	3,282,679	1,129,387	1,401,504	2,925,419
Total	\$ 8,171,281	5,834,285	6,034,843	6,738,681

See accompanying independent auditor's report.

City of Nevada
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2006

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expendi- tures
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/ State's Program	14.228	05-ED-005	\$ 28,600
U.S. Department of Transportation:			
Iowa Department of Public Safety:			
Safety Incentive Grants for Use of Seatbelts	20.604	06-157, Task 118	3,000
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605	PAP 05-163, Task 51 PAP 06-163, Task 47	1,376 1,665 <u>3,041</u>
U.S. Environmental Protection Agency:			
Iowa Department of Natural Resources:			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	FS-85-4-DWSRF-022	3,169,422
Total			<u>\$ 3,204,063</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Nevada and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

City of Nevada



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Nevada, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 3, 2006. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Nevada's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Nevada'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 and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable conditions described in the accompanying Schedule of Findings and Questioned Costs are material weaknesses.

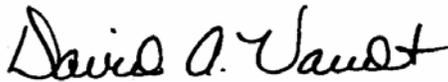
Compliance and Other Matters

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

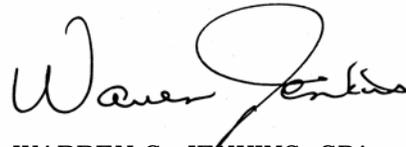
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Nevada and other parties to whom the City of Nevada may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 3, 2006



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Nevada, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2006. The City of Nevada's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Nevada's management. Our responsibility is to express an opinion on the City of Nevada's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards, and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Nevada's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Nevada's compliance with those requirements.

In our opinion, the City of Nevada complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

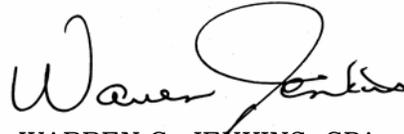
The management of the City of Nevada is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Nevada's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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 Nevada and other parties to whom the City of Nevada may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 3, 2006

City of Nevada

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

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

- (a) Unqualified opinions were 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, none of which were considered to be material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 66.468 – Capitalization Grants for Drinking Water State Revolving Funds.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Nevada did not qualify as a low-risk auditee.

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part II: Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

II-A-06 Nevada Firefighters Incorporated – During our review of internal control, the existing controls were evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the entity's financial statement. Generally, one individual has control over collecting, depositing, posting, disbursing and bank reconciliations for which no compensating controls exist.

In addition, supporting documentation was not maintained for all disbursements.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the operating procedures should be reviewed to obtain the maximum internal control possible under the circumstances. Officials should be utilized to provide additional control through review of financial transactions and reconciliations. Such reviews should be performed by independent persons to the extent possible, and should be evidenced by initials or signature of the reviewer and the date of the review.

Supporting documentation should be maintained for all disbursements.

Response –

- The President or Vice President of the Association will be conducting a quarterly review of the checking and savings accounts.
- We have taken measures requiring all businesses we do business with to require a signature on any charges or purchase made. And a notation on that receipt as to what the charge/purchase was for. There are now certain businesses that only a select few are authorized to make purchases at.
- A receipt MUST be accompanied with any request for reimbursement for purchases made by members out of their own pockets. No receipt, no reimbursement.

Conclusion – Response acknowledged. The quarterly reviews performed by the President or Vice President should be initialed or signed, including the date of the review.

II-B-06 Nevada First Responders – During our review of internal control, the existing controls were evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the entity's financial statement. Generally, one individual has control over collecting, depositing, posting, disbursing and bank reconciliations for which no compensating controls exist.

In addition, supporting documentation was not maintained for all disbursements.

City of Nevada

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the operating procedures should be reviewed to obtain the maximum internal control possible under the circumstances. Officials should be utilized to provide additional control through review of financial transactions and reconciliations. Such reviews should be performed by independent persons to the extent possible, and should be evidenced by initials or signature of the reviewer and the date of the review.

Supporting documentation should be maintained for all disbursements.

Response – It is the intent of the Nevada First Responders to have the Vice President review the transactions of all accounts on a monthly basis and sign off on the bank statements. The Nevada First Responders will maintain supporting documentation for all disbursements in the following manner:

- 1) The check will have the description of what the check was for.
- 2) A file folder has been established for all disbursements. On each bill will be the date it was paid and the check number.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Nevada

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITION:

No material weaknesses in internal control over compliance were noted.

City of Nevada

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 did not exceed the amounts budgeted.

IV-B-06 Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

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

IV-D-06 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Andrew Kelly, Council Member, Owner of Kelly Laundry Service	Laundry service	\$ 611

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Council Member do not appear to represent a conflict of interest since total transactions with the individual were less than \$1,500 during the fiscal year.

IV-E-06 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

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

IV-G-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

IV-H-06 Revenue Bonds and Notes – No instances of non-compliance with the revenue bond and note requirements for the year ended June 30, 2006 were noted.

IV-I-06 Financial Condition – The Internal Service Fund had a deficit balance at June 30, 2006 of \$1,852.

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

Response – The City’s only Internal Service Fund is for flexible benefits administered by Wellmark Blue Cross Blue Shield and operates on a calendar-year basis per Federal regulations. The fund is balanced at the end of the calendar year following the period which claims can be made, usually in April or May. Any deficit balance is paid into the fund or, in the event of any excess, the remaining funds are paid out. This fund goes into a deficit balance since employees may receive their entire year’s medical reimbursement benefit any time after January 1 even though the annual contributions have not been made.

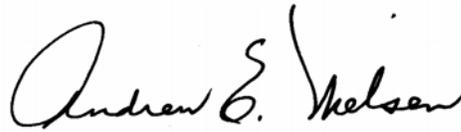
Conclusion – Response accepted.

City of Nevada

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Jennifer Campbell, CPA, Senior Auditor II
Corinne M. Johnson, CPA, Senior Auditor
Janet K. Mortvedt, Assistant Auditor
Kurt D. Goldsmith, Auditor Intern

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

Andrew E. Nielsen, CPA
Deputy Auditor of State