

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

JUNE 30, 2006

- Prepared By -

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CITY OF SHEFFIELD, IOWA

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CITY OF SHEFFIELD, IOWA

OFFICIALS

<u>NAME</u>	<u>TITLE</u> (Before January 2006)	<u>TERM EXPIRES</u>
James Saylor	Mayor	January 2006
Dave O'Connor	Mayor Pro tem	January 2008
Pat Mondt	Council Member	January 2008
Norene Schwierjohann	Council Member	January 2008
Shirley Brady	Council Member	January 2006
Richard Froning	Council Member	January 2006

(After January 2006)

James Saylor	Mayor	January 2008
Dave O'Connor	Mayor Pro tem	January 2008
Pat Mondt	Council Member	January 2008
Norene Schwierjohann	Council Member	January 2008
Shirley Brady	Council Member	January 2010
Larry Olk	Council Member	January 2010
Debra Hartman, CMC	Clerk/Treasurer	January 2007
Brian Miller	Attorney	January 2007



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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sheffield, Iowa, as of and for the year ended June 30, 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 Sheffield's management. My responsibility is to express opinions on these financial statements based on my audit.

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

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sheffield as of June 30, 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, I have also issued my report dated November 28, 2006 on my consideration of the City of Sheffield's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 24 through 26 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sheffield's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two 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 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Larry Pump".

November 28, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2006 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased 74%, or approximately \$370,000 from fiscal 2005 to fiscal 2006. Operating grants increased approximately \$64,000, loan proceeds increased \$71,000, and transfers in increased \$150,000.

Disbursements of the City's governmental activities increased 105%, or approximately \$510,000, in fiscal 2006 from fiscal 2005. Public works, community and economic development and debt service disbursements increased approximately \$213,000, \$115,000 and \$98,000, respectively.

The City's total cash basis net assets decreased 33%, or approximately \$268,000, from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities decreased approximately \$125,000 and the assets of the business type activities decreased by approximately \$143,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

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

Fund Financial Statements

The City has two kinds of funds:

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$422,000 to \$297,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

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

	Year ended June 30,	
	2006	2005
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 41	\$ 43
Operating grants, contributions and restricted interest	167	103
Capital grants, contributions and restricted interest	37	6
General receipts:		
Property tax	321	307
Local option sales tax	22	25
Unrestricted interest on investments	5	3
Loan proceeds	71	-
Other general receipts	57	14
Transfers	150	-
Total receipts and transfers	\$ 871	\$ 501
Disbursements:		
Public safety	\$ 182	\$ 110
Public works	307	94
Culture and recreation	173	158
Community and economic development	115	-
General government	53	56
Debt service	166	68
Total disbursements	\$ 996	\$ 486
Increase (decrease) in cash basis net assets	\$ (125)	\$ 15
Cash basis net assets beginning of year	422	407
Cash basis net assets end of year	\$ 297	\$ 422

The City's total receipts for governmental activities increased by 74%, or \$370,000. The total cost of all programs and services increased by approximately \$510,000, or 105%, with no new programs added this year. The increase in disbursements was primarily the result of increased public works and community and economic development disbursements.

The cost of all governmental activities this year was \$996,000 compared to \$486,000 last year. However, as shown in the Statement of Activities and Net Assets on pages 9-12, the amount taxpayers ultimately financed for these activities was only \$752,000 because some of the cost was paid by those directly benefited from the programs (\$41,000) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest \$(167,000). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$752,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

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

	Year ended June 30,	
	2006	2005
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 79	\$ 77
Sewer	88	81
Other	1	1
General receipts:		
Local option sales tax	34	31
Unrestricted interest on investments	1	1
Loan proceeds	30	-
Total receipts	\$ 233	\$ 191
Disbursements and transfers:		
Water	\$ 130	\$ 97
Sewer	95	96
Other	1	1
Transfers	150	-
Total disbursements and transfers	\$ 376	\$ 194
Increase (decrease) in cash basis net assets	\$ (143)	\$ (3)
Cash basis net assets beginning of year	381	384
Cash basis net assets end of year	\$ 238	\$ 381

Total business type activities receipts for the fiscal year were \$233,000 compared to \$191,000 last year. This increase was due primarily to loan proceeds. Total disbursements for the fiscal year increased by 94% to a total of \$376,000 because of a water project.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Sheffield completed the year, its governmental funds reported a combined fund balance of \$297,293, a decrease of \$125,681 from last year's total of \$422,974. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance decreased \$29,641 from the prior year to \$81,222. This decrease was due mainly to revenues being less than operating disbursements.

The Road Use Tax Fund cash balance decreased by \$48,640 to \$28,481 during the fiscal year. This decrease was attributable to timing of the completion of certain road projects for the fiscal year.

At the end of the fiscal year, the Tax Increment Financing Fund cash balance was \$51,203, a decrease of \$88,508 from the previous year due to debt payments.

The Employee Benefits Fund cash balance increased by \$31,380 to \$68,058 in 2006 due to an increase in property taxes.

The Debt Service Fund cash balance decreased by \$1,362 to \$6,061 due primarily to increased debt payments.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance decreased by \$9,120 to \$54,840, due primarily to an increase in operating expenses.

The Sewer Rental Fund cash balance increased by \$15,567 to \$48,075, due primarily to an increase in operating receipts.

The Sewer Improvement Fund cash balance decreased by \$150,000 to \$100,000 due to an operating transfer out.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget twice. The first amendment was approved on April 4, 2006 and increased disbursements by \$668,400. The second amendment was approved on May 2, 2006. This amendment increased disbursements by \$117,000. The City had sufficient cash balances to absorb \$446,000 of these additional costs, and budgeted \$339,400 for loan proceeds.

DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$255,000 in bonds and other long-term debt, compared to approximately \$302,000 last year, as shown below:

Outstanding Debt at Year-End
(Expressed in Thousands)

	June 30,	
	2006	2005
General obligation bonds	\$ 200	\$ 295
Notes payable	51	7
Capital lease	4	-
Total	<u>\$ 255</u>	<u>\$ 302</u>

The City incurred new debt during 2006 of \$100,500. Principal and interest payments were made as scheduled. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$200,000 is significantly below its constitutional debt limit of \$1,757,041.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Sheffield's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Deb Hartman, City Clerk, City of Sheffield.

CITY OF SHEFFIELD, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges for Service</u>	<u>Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public safety	\$ 182,360	\$ 11,980	\$ -	\$ 37,050
Public works	306,928	-	77,864	-
Culture and recreation	173,147	29,436	27,118	-
Community and economic development	115,125	-	61,750	-
General government	53,630	-	-	-
Debt service	<u>166,362</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 997,552</u>	<u>\$ 41,416</u>	<u>\$ 166,732</u>	<u>\$ 37,050</u>
Business type activities:				
Water	\$ 130,436	\$ 78,991	\$ -	\$ -
Sewer rental	94,896	88,136	-	-
Other	<u>379</u>	<u>900</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>\$ 225,711</u>	<u>\$ 168,027</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u>\$1,223,263</u>	<u>\$ 209,443</u>	<u>\$ 166,732</u>	<u>\$ 37,050</u>

(Continued)

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

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (133,330)	\$ -	\$ (133,330)
(229,064)	-	(229,064)
(116,593)	-	(116,593)
(53,375)	-	(53,375)
(53,630)	-	(53,630)
<u>(166,362)</u>	<u>-</u>	<u>(166,362)</u>
\$ <u>(752,354)</u>	\$ <u>-</u>	\$ <u>(752,354)</u>
\$ -	\$ (51,445)	\$ (51,445)
-	(6,760)	(6,760)
<u>-</u>	<u>521</u>	<u>521</u>
\$ <u>-</u>	\$ <u>(57,684)</u>	\$ <u>(57,684)</u>
\$ <u>(752,354)</u>	\$ <u>(57,684)</u>	\$ <u>(810,038)</u>

CITY OF SHEFFIELD, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

General Receipts:

Property and other city tax levied for:
 General purposes
 Tax increment financing
 Debt service
Local option sales tax
Unrestricted interest on investments
Loan proceeds
Miscellaneous
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:
 Urban renewal purposes
 Debt service
 Other purposes
Unrestricted

Total cash basis net assets

See Notes to Financial Statements.

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

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ 249,187	\$ -	\$ 249,187
30,821	-	30,821
41,288	-	41,288
22,327	33,491	55,818
5,212	1,161	6,373
70,500	30,000	100,500
57,338	-	57,338
<u>150,000</u>	<u>(150,000)</u>	<u>-</u>
<u>\$ 626,673</u>	<u>\$ (85,348)</u>	<u>\$ 541,325</u>
\$ (125,681)	\$ (143,032)	\$ (268,713)
<u>422,974</u>	<u>381,466</u>	<u>804,440</u>
<u>\$ 297,293</u>	<u>\$ 238,434</u>	<u>\$ 535,727</u>
\$ 51,203	\$ -	\$ 51,203
6,061	-	6,061
158,807	135,519	294,326
<u>81,222</u>	<u>102,915</u>	<u>184,137</u>
<u>\$ 297,293</u>	<u>\$ 238,434</u>	<u>\$ 535,727</u>

CITY OF SHEFFIELD, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Special Revenue</u>	
		<u>Road Use Tax</u>	<u>Tax Increment Financing</u>
RECEIPTS:			
Property tax	\$ 182,086	\$ -	\$ -
Tax increment financing collections	-	-	30,821
Other city tax	26,772	-	-
Use of money and property	5,212	-	-
Licenses and permits	2,535	-	-
Intergovernmental	76,147	77,864	-
Charges for service	31,121	-	-
Miscellaneous	44,523	-	11
Total receipts	<u>\$ 368,396</u>	<u>\$ 77,864</u>	<u>\$ 30,832</u>
DISBURSEMENTS:			
Operating:			
Public safety	\$ 155,909	\$ -	\$ -
Public works	180,374	126,554	-
Culture and recreation	158,245	-	-
Community and economic development	-	-	53,375
General government	52,262	-	-
Debt service	7,747	-	-
Total disbursements	<u>\$ 554,537</u>	<u>\$ 126,554</u>	<u>\$ 53,375</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (186,141)</u>	<u>\$ (48,690)</u>	<u>\$ (22,543)</u>
Other financing sources (uses):			
Loan proceeds	\$ 20,500	\$ -	\$ 50,000
Operating transfers in	150,000	-	-
Operating transfers out	(14,000)	-	(115,965)
Total other financing sources (uses)	<u>\$ 156,500</u>	<u>\$ -</u>	<u>\$ (65,965)</u>
Net change in cash balances	\$ (29,641)	\$ (48,690)	\$ (88,508)
Cash balances beginning of year	<u>110,863</u>	<u>77,171</u>	<u>139,711</u>
Cash balances end of year	<u>\$ 81,222</u>	<u>\$ 28,481</u>	<u>\$ 51,203</u>
Cash Basis Fund Balances:			
Reserved:			
Debt service	\$ -	\$ -	\$ -
Unreserved:			
General fund	81,222	-	-
Special revenue funds	-	28,481	51,203
Permanent fund	-	-	-
Total cash basis fund balances	<u>\$ 81,222</u>	<u>\$ 28,481</u>	<u>\$ 51,203</u>

See Notes to Financial Statements.

<u>Employee Benefits</u>	<u>Debt Service</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
\$ 67,101	\$ 41,288	\$ -	\$ 290,475
-	-	-	30,821
-	-	-	26,772
-	-	-	5,212
-	-	-	2,535
-	-	61,750	215,761
-	-	-	31,121
-	-	4,140	48,674
<u>\$ 67,101</u>	<u>\$ 41,288</u>	<u>\$ 65,890</u>	<u>\$ 651,371</u>
\$ 26,451	\$ -	\$ -	\$ 182,360
-	-	-	306,928
14,902	-	-	173,147
-	-	61,750	115,125
1,368	-	-	53,630
-	158,615	-	166,362
<u>\$ 42,721</u>	<u>\$ 158,615</u>	<u>\$ 61,750</u>	<u>\$ 997,552</u>
<u>\$ 24,380</u>	<u>\$ (117,327)</u>	<u>\$ 4,140</u>	<u>\$ (346,181)</u>
\$ -	\$ -	\$ -	\$ 70,500
7,000	115,965	12,750	285,715
-	-	(5,750)	(135,715)
<u>\$ 7,000</u>	<u>\$ 115,965</u>	<u>\$ 7,000</u>	<u>\$ 220,500</u>
\$ 31,380	\$ (1,362)	\$ 11,140	\$ (125,681)
36,678	7,423	51,128	422,974
<u>\$ 68,058</u>	<u>\$ 6,061</u>	<u>\$ 62,268</u>	<u>\$ 297,293</u>
\$ -	\$ 6,061	\$ -	\$ 6,061
-	-	-	81,222
68,058	-	39,650	187,392
-	-	22,618	22,618
<u>\$ 68,058</u>	<u>\$ 6,061</u>	<u>\$ 62,268</u>	<u>\$ 297,293</u>

CITY OF SHEFFIELD, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer Rental</u>	<u>Sewer Improvement</u>
Operating receipts:			
Charges for service	\$ 78,991	\$ 88,136	\$ -
Operating disbursements:			
Business type activities	<u>130,436</u>	<u>94,896</u>	<u>-</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ (51,445)	\$ (6,760)	\$ -
Non-operating receipts:			
Other city tax	\$ 11,164	\$ 22,327	\$ -
Interest on investments	1,161		
Loan proceeds	30,000	-	-
Total non-operating receipts	<u>\$ 42,325</u>	<u>\$ 22,327</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ (9,120)	\$ 15,567	\$ -
Operating transfer out	<u>-</u>	<u>-</u>	<u>(150,000)</u>
Net change in cash balances	\$ (9,120)	\$ 15,567	\$(150,000)
Cash balances beginning of year	<u>63,960</u>	<u>32,508</u>	<u>250,000</u>
Cash balances end of year	<u>\$ 54,840</u>	<u>\$ 48,075</u>	<u>\$ 100,000</u>
Cash Basis Fund Balances			
Reserved for other	\$ -	\$ -	\$ 100,000
Unreserved	<u>54,840</u>	<u>48,075</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 54,840</u>	<u>\$ 48,075</u>	<u>\$ 100,000</u>

See Notes to Financial Statements.

<u>Nonmajor Enterprise Funds</u>	<u>Total</u>
\$ 900	\$ 168,027
379	225,711
\$ 521	\$ (57,684)
\$ -	\$ 33,491
-	1,161
-	30,000
\$ -	\$ 64,652
\$ 521	\$ 6,968
-	(150,000)
\$ 521	\$ (143,032)
34,998	381,466
<u>\$ 35,519</u>	<u>\$ 238,434</u>
\$ 35,519	\$ 135,519
-	102,915
<u>\$ 35,519</u>	<u>\$ 238,434</u>

CITY OF SHEFFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

For financial reporting purposes, the City of Sheffield has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board Criteria.

Jointly Governed Organizations - The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the Franklin County Assessor's Conference Board and Franklin County Emergency Management Commission.

B. Basis of Presentation

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

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

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

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

CITY OF SHEFFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(1) Summary of Significant Accounting Policies - continued

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

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

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

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

The City reports the following major proprietary funds:

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

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

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

CITY OF SHEFFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(1) **Summary of Significant Accounting Policies** - continued

C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the community and economic development 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.

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

CITY OF SHEFFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(3) **Bonds Payable**

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

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2007	\$ 30,000	\$ 11,000
2008	30,000	9,350
2009	35,000	7,700
2010	35,000	5,775
2011	35,000	3,850
2012	<u>35,000</u>	<u>1,925</u>
Total	<u>\$200,000</u>	<u>\$ 39,600</u>

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

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

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

<u>Date of Loan</u>	<u>3-17-06</u>	<u>3-17-06</u>
Original amount	\$20,500	\$30,000
Interest rate	6.0%	6.0%
Payment dates	Annual	Annual
Payment amount	\$10,250 plus interest	\$10,000 plus interest
Maturity date	4-01-08	4-01-09
Collateral	Police car	Water meters
At June 30, 2006:		
Number of payments remaining	2	3
Outstanding balance	\$20,500	\$ 30,000

(4) **Capital Lease**

The City leases a backhoe on a capital lease basis. The following is a schedule, by years, of future payments required under the lease:

<u>Year ended June 30,</u>	
2007	\$ 4,642
Amounts representing interest	<u>57</u>
Present value of net minimum lease payments	<u>\$ 4,585</u>

CITY OF SHEFFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(5) **Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered 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 contribution to IPERS for the year ended June 30, 2006, was \$14,838, which was equal to the required contribution for the year.

(6) **Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2006, primarily relating to the General Fund, is \$3,345. This liability has been computed based on rates of pay as of June 30, 2006.

(7) **Risk Management**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 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.

CITY OF SHEFFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(7) Risk Management - continued

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2006 were \$18,917.

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 that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 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 public employee dishonesty coverage and workers compensation coverage. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage during the fiscal year ended June 30, 2006.

CITY OF SHEFFIELD, IOWA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2006

(8) Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Enterprise:	
	Sewer Improvement	\$ 150,000
Special Revenue:		
Employee Benefits	General	\$ 7,000
Fire Improvement	General	\$ 7,000
	Special Revenue:	
	Handicap Access	5,750
		<u>\$ 12,750</u>
Debt Service	Special Revenue:	
	Tax Increment Financing	\$ 115,965
Total		<u>\$ 285,715</u>

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

Required Supplementary Information

CITY OF SHEFFIELD, IOWA
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
 AND CHANGES IN BALANCES
 BUDGET AND ACTUAL (CASH BASIS) - ALL
 GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2006

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds Not Required to be Budgeted
RECEIPTS:			
Property tax	\$ 290,475	\$ -	\$ -
Tax increment financing collections	30,821	-	-
Other city tax	26,772	33,491	-
Licenses and permits	2,535	-	-
Use of money and property	5,212	1,161	-
Intergovernmental	215,761	-	-
Charges for service	31,121	168,027	-
Miscellaneous	48,674	-	-
Total receipts	<u>\$ 651,371</u>	<u>\$ 202,679</u>	<u>\$ -</u>
DISBURSEMENTS:			
Public safety	\$ 182,360	\$ -	\$ -
Public works	306,928	-	-
Culture and recreation	173,147	-	-
Community and economic development	115,125	-	-
General government	53,630	-	-
Debt service	166,362	-	-
Business type activities	-	225,711	-
Total disbursements	<u>\$ 997,552</u>	<u>\$ 225,711</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ (346,181)	\$ (23,032)	\$ -
Other financing sources, net	<u>220,500</u>	<u>(120,000)</u>	<u>-</u>
Excess of receipts and other financing sources over (under) disbursements	\$ (125,681)	\$ (143,032)	\$ -
Balances beginning of year	<u>422,974</u>	<u>381,466</u>	<u>-</u>
Balances end of year	<u>\$ 297,293</u>	<u>\$ 238,434</u>	<u>\$ -</u>

See Accompanying Independent Auditor's Report.

<u>Net</u>	<u>Budgeted Amounts</u>		<u>Final to Net Variance</u>
	<u>Original</u>	<u>Final</u>	
\$ 290,475	\$ 279,386	\$ 279,386	\$ 11,089
30,821	22,200	22,200	8,621
60,263	32,124	32,124	28,139
2,535	925	925	1,610
6,373	28,400	28,400	(22,027)
215,761	137,090	137,090	78,671
199,148	192,700	192,700	6,448
48,674	-	-	48,674
<u>\$ 854,050</u>	<u>\$ 692,825</u>	<u>\$ 692,825</u>	<u>\$ 161,225</u>
\$ 182,360	\$ 137,800	\$ 197,800	\$ 15,440
306,928	88,070	310,070	3,142
173,147	120,676	215,676	42,529
115,125	22,000	107,000	(8,125)
53,630	45,950	70,950	17,320
166,362	64,850	179,850	13,488
225,711	154,800	338,200	112,489
<u>\$1,223,263</u>	<u>\$ 634,146</u>	<u>\$ 1,419,546</u>	<u>\$ 196,283</u>
\$ (369,213)	\$ 58,679	\$ (726,721)	\$ 357,508
<u>100,500</u>	<u>-</u>	<u>339,400</u>	<u>(238,900)</u>
\$ (268,713)	\$ 58,679	\$ (387,321)	\$ 118,608
<u>804,440</u>	<u>710,081</u>	<u>710,081</u>	<u>94,359</u>
<u>\$ 535,727</u>	<u>\$ 768,760</u>	<u>\$ 322,760</u>	<u>\$ 212,967</u>

CITY OF SHEFFIELD, IOWA
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 Governmental 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 Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and nonprogram. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$785,400. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the community and economic development function.

Other Supplementary Information

CITY OF SHEFFIELD, IOWA
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	Special			
	Handicap Access	Swimming Pool Improvements	Capital Improvement Reserve	Veterans Memorial Fund
RECEIPTS:				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Miscellaneous	-	-	-	4,000
Total receipts	\$ -	\$ -	\$ -	\$ 4,000
DISBURSEMENTS:				
Community and economic development	-	-	-	-
Excess of receipts over disbursements	\$ -	\$ -	\$ -	\$ 4,000
Other financing sources (uses):				
Operating transfers in	\$ -	\$ -	\$ -	\$ -
Operating transfers out	(5,750)	-	-	-
Total operating transfers in (out)	\$ (5,750)	\$ -	\$ -	\$ -
Net change in cash balances	\$ (5,750)	\$ -	\$ -	\$ 4,000
Cash balances beginning of year	7,250	400	12,000	-
Cash balances end of year	\$ 1,500	\$ 400	\$ 12,000	\$ 4,000
Cash Basis Fund Balances:				
Unreserved:				
Special revenue funds	\$ 1,500	\$ 400	\$ 12,000	\$ 4,000
Permanent fund	-	-	-	-
Total cash basis fund balances	\$ 1,500	\$ 400	\$ 12,000	\$ 4,000

See Accompanying Independent Auditor's Report.

<u>Revenue</u>		<u>Permanent</u>	
<u>Block</u>	<u>Fire</u>	<u>Cemetery</u>	
<u>Grant</u>	<u>Improvement</u>	<u>Perpetual</u>	<u>Total</u>
		<u>Care</u>	
\$ 61,750	\$ -	\$ -	\$ 61,750
-	-	140	4,140
<u>\$ 61,750</u>	<u>\$ -</u>	<u>\$ 140</u>	<u>\$ 65,890</u>
<u>61,750</u>	<u>-</u>	<u>-</u>	<u>61,750</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 140</u>	<u>\$ 4,140</u>
\$ -	\$ 12,750	-	\$ 12,750
-	-	-	(5,750)
<u>\$ -</u>	<u>\$ 12,750</u>	<u>\$ -</u>	<u>\$ 7,000</u>
\$ -	\$ 12,750	\$ 140	\$ 11,140
-	9,000	22,478	51,128
<u>\$ -</u>	<u>\$ 21,750</u>	<u>\$ 22,618</u>	<u>\$ 62,268</u>
\$ -	\$ 21,750	\$ -	\$ 39,650
-	-	22,618	22,618
<u>\$ -</u>	<u>\$ 21,750</u>	<u>\$ 22,618</u>	<u>\$ 62,268</u>

CITY OF SHEFFIELD, IOWA
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
 CHANGES IN CASH BALANCES
 NONMAJOR PROPRIETARY FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	<u>Enterprise Funds</u>		<u>Total</u>
	<u>Water Improvement</u>	<u>Water Deposit</u>	
Operating Receipts:			
Charges for service	\$ -	\$ 900	\$ 900
Operating Disbursements:			
Business type activities	<u>-</u>	<u>379</u>	<u>379</u>
Net change in cash balances	\$ -	\$ 521	\$ 521
Cash balances beginning of year	<u>25,000</u>	<u>9,998</u>	<u>34,998</u>
Cash balances end of year	<u>\$ 25,000</u>	<u>\$ 10,519</u>	<u>\$ 35,519</u>
Cash Basis Fund Balances:			
Reserved for other	<u>\$ 25,000</u>	<u>\$ 10,519</u>	<u>\$ 35,519</u>

See Accompanying Independent Auditor's Report.

CITY OF SHEFFIELD, IOWA
 SCHEDULE OF INDEBTEDNESS
 YEAR ENDED JUNE 30, 2006

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Bonds:			
Essential Corporate Purpose	08-01-02	4.00%	\$100,000
Essential Corporate Purpose	04-01-01	5.50	310,000
Notes Payable:			
Police Car	03-17-03	4.55%	\$ 21,538
Police Car	03-17-06	6.00	20,500
Water Meters	03-17-06	6.00	30,000
Urban Renewal Tax Increment Financing (TIF) Revenue Bonds			
	10-15-05	4.00%	\$ 50,000
Capital Lease:			
Backhoe	11-14-01	5.00%	\$ 49,194
Total indebtedness			

See Accompanying Independent Auditor's Report.

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 65,000	\$ -	\$ 65,000	\$ -	\$ 498	\$ -
230,000	-	30,000	200,000	12,650	-
<u>\$295,000</u>	<u>\$ -</u>	<u>\$ 95,000</u>	<u>\$200,000</u>	<u>\$ 13,148</u>	<u>\$ -</u>
\$ 7,542	\$ -	\$ 7,542	\$ -	\$ 205	\$ -
-	20,500	-	20,500	-	-
-	30,000	-	30,000	-	-
<u>\$ 7,542</u>	<u>\$ 50,500</u>	<u>\$ 7,542</u>	<u>\$ 50,500</u>	<u>\$ 205</u>	<u>\$ -</u>
\$ -	\$ 50,000	\$ 50,000	\$ -	\$ 467	\$ -
\$ 15,206	\$ -	\$ 10,621	\$ 4,585	\$ 519	\$ -
<u>\$317,748</u>	<u>\$100,500</u>	<u>\$163,163</u>	<u>\$255,085</u>	<u>\$ 14,339</u>	<u>\$ -</u>

CITY OF SHEFFIELD, IOWA
 BOND MATURITIES
 JUNE 30, 2006

<u>Year</u> <u>Ending</u> <u>June 30,</u>	<u>GENERAL OBLIGATION BONDS</u>	
	<u>Essential</u>	
	<u>Corporate Purpose</u>	
	<u>Issued April 1, 2001</u>	
	<u>Interest Rate</u>	<u>Amount</u>
2007	5.50%	\$ 30,000
2008	5.50	30,000
2009	5.50	35,000
2010	5.50	35,000
2011	5.50	35,000
2012	5.50	<u>35,000</u>
Total		<u>\$200,000</u>

See Accompanying Independent Auditor's Report.

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Receipts:			
Property tax	\$ 290,475	\$ 206,654	\$ 234,816
Tax increment financing collections	30,821	100,009	57,913
Other city tax	26,772	24,780	21,886
Licenses and permits	2,535	2,205	2,065
Use of money and property	5,212	2,791	3,581
Intergovernmental	215,761	115,255	113,452
Charges for service	31,121	27,596	27,392
Miscellaneous	48,674	21,004	35,120
Total	<u>\$ 651,371</u>	<u>\$ 500,294</u>	<u>\$ 496,225</u>
Disbursements:			
Operating:			
Public safety	\$ 182,360	\$ 109,662	\$ 144,562
Public works	306,928	94,125	96,602
Culture and recreation	173,147	157,783	152,616
Community and economic development	115,125	-	-
General government	53,630	55,496	52,927
Debt service	166,362	67,700	59,675
Total	<u>\$ 997,552</u>	<u>\$ 484,766</u>	<u>\$ 506,382</u>

See Accompanying Independent Auditor's Report.



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INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Sheffield, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated November 28, 2006. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Sheffield's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City of Sheffield's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a 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. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe items II-A-06 and II-C-06 are material weaknesses.

Compliance and Other Matters

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

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Sheffield and other parties to whom the City of Sheffield may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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



November 28, 2006

CITY OF SHEFFIELD, IOWA
Schedule of Findings
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, including material weaknesses.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that certain accounting functions are not properly segregated.

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

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

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

II-B-06 Posting of Financial Transactions - Receipts and disbursements were not always posted to the correct account. I noted property taxes posted in incorrect funds.

Recommendation - More care should be exercised when posting transactions to reduce the incidence of mispostings. A transfer should be made from Employee Benefits to Debt Service in the amount of \$979. The City should also transfer \$10,768 from Employee Benefits to the General Fund to correct property tax mispostings.

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

Conclusion - Response accepted.

CITY OF SHEFFIELD, IOWA
Schedule of Findings
Year Ended June 30, 2006

Part II: Findings Related to the Financial Statements: - continued

II-C-06 Advance Signing of Checks - I noted one instance where a check was signed in advance.

Recommendation - Internal accounting control of City assets is weakened when checks are signed in advance. Checks should be made out and signed by one individual, and then, along with supporting documentation, should be made available to a second or independent individual for countersignature.

Response - We will do this.

Conclusion - Response accepted.

II-D-06 Reconciliation of Utility Billings, Collections and Delinquencies - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation - A listing of delinquent accounts should be prepared on a monthly basis. Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response - We will do this.

Conclusion - Response accepted.

II-E-06 Utility Billings - I noted some utility accounts are not being charged sales tax. Also, some accounts had incorrect meter readings.

Recommendation - The City should review utility accounts to insure that sales tax is being charged correctly and meter readings are accurate.

Response - The City is in the process of implementing a new utility billing system. We are working with software support to fix these problems.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable

CITY OF SHEFFIELD, IOWA
Schedule of Findings
Year Ended June 30, 2006

Part IV: Other Findings Related to Statutory Reporting:

IV-A-06 Certified Budget - Disbursements during the year ended June 30, 2006 exceeded the amount budgeted in the community and economic development function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Response - We will do this in the future.

Conclusion - Response accepted.

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

IV-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 - No business transactions between the City and City officials or employees were noted.

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 that the coverage is adequate for current operations.

IV-F-06 Council Minutes - No transactions were found that I 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 Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-H-06 Local Option Sales Tax - Local option sales tax was deposited into the General, Water and Sewer Rental funds. Chapter 384.4 of the Code of Iowa states, in part, that monies collected for the local option sales tax shall be deposited in the Special Revenue Fund.

Recommendation - The City should establish a Special Revenue Fund for local option sales tax and deposit all revenue from these taxes in that fund. Then moneys can be transferred according to their local option sales tax resolution.

Response - We will look into this.

Conclusion - Response accepted.

