

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

JUNE 30, 2012

- Prepared By -

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CITY OF SHEFFIELD, IOWA

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CITY OF SHEFFIELD, IOWA

OFFICIALS

(Before January 2012)

James Saylor	Mayor	January 2012
Ken Berding	Mayor Pro tem	January 2012
Norene Schwierjohann	Council Member	January 2012
Josh Wood	Council Member	January 2012
Sean Cameron	Council Member	January 2014
Rick Larson	Council Member	January 2014
Deb Hartman, CMC	Clerk/Treasurer	Indefinite
Brent Symens	Attorney	Indefinite

(After January 2012)

James Saylor	Mayor	January 2014
Ken Berding	Mayor Pro tem	January 2016
Sean Cameron	Council Member	January 2014
Rick Larson	Council Member	January 2014
Ron Simmons	Council Member	January 2016
Nick Wilson	Council Member	January 2016
Deb Hartman, CMC	Clerk/Treasurer	Indefinite
Sheri Bogue	Deputy City Clerk	Indefinite
Brent Symens	Attorney	Indefinite



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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, 2012, 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. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, I was unable to satisfy myself as to the distribution of the total fund balance at July 1, 2011.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the distribution by fund of the total fund balance at July 1, 2011, as discussed in the preceding paragraph, 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, 2012, 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 February 26, 2013 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 grant agreements 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 the internal control over financial reporting or on 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.

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. The 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in my audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In my opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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. Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 23 through 25 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

A handwritten signature in black ink, appearing to read "Larry Pump". The signature is written in a cursive, flowing style.

February 26, 2013

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, 2012. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

The City's total cash basis net assets decreased 2.7%, or approximately \$15,000, from June 30, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities increased approximately \$91,500 and the assets of the business type activities decreased by approximately \$106,500.

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 financial 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.

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

Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds and the City's indebtedness. 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 which helps answer this question.

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

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

Governmental Activities include public safety, public works, health and social services, 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, the sanitary sewer system and the solid waste collection. 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 and 4) the Capital Projects Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

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

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$417,863 to \$509,435. 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)

	<u>Year ended June 30,</u> <u>2012</u>
Receipts:	
Program receipts:	
Charges for service	\$ 19
Operating grants, contributions and restricted interest	432
General receipts:	
Property tax	389
Local option sales tax	94
Unrestricted interest on investments	5
Line of credit proceeds	414
Bank loan proceeds	14
Other general receipts	77
Total receipts	<u>\$ 1,444</u>
 Disbursements:	
Public safety	\$ 194
Public works	311
Culture and recreation	184
Community and economic development	488
General government	57
Debt service	119
Total disbursements	<u>\$ 1,353</u>
 Change in cash basis net assets	\$ 91
Cash basis net assets beginning of year	<u>418</u>
 Cash basis net assets end of year	<u><u>\$ 509</u></u>

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

	<u>Year ended June 30,</u> <u>2012</u>
Receipts:	
Program receipts:	
Charges for service:	
Sewer	\$ 242
Other	105
Program receipts:	
Capital grants, contributions, and restricted interest	454
Total receipts	<u>\$ 801</u>
 Disbursements:	
Sewer	\$ 695
Sewer reserve	111
Other	101
Total disbursements	<u>\$ 907</u>
 Change in cash basis net assets	\$ (106)
Cash basis net assets beginning of year	<u>130</u>
 Cash basis net assets end of year	<u><u>\$ 24</u></u>

The City's cash balance for business type activities decreased from a year ago, decreasing from \$130,257 to \$23,671.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Sheffield completed the year, its governmental funds reported a combined fund balance of \$509,435, an increase of \$91,572 above last year's total of \$417,863. 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 \$42,669 from the prior year to \$95,195.

The Special Revenue, Local Option Sales Tax Fund cash balance increased by \$42,639 to \$174,340 during the fiscal year.

The Special Revenue, Block Grant Fund cash balance increased by \$145,490 to \$226,030 due primarily to grant receipts and the line of credit during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise, Sewer Fund cash balance decreased \$419,992 from the prior year to \$(285,635), due primarily to the sewer project disbursements.

The Enterprise, Sewer Reserve Fund cash balance increased \$310,617 from the prior year to \$280,497 due primarily to grant receipts.

BUDGETARY HIGHLIGHTS

Over the course of the year the City amended its budget one time. The amendment was approved on May 14, 2012 and resulted in an increase in operating disbursements of \$1,198,650 due mainly to sewer project expenses. The City received federal grant monies and line of credit proceeds to cover these expenses.

The City exceeded the amounts budgeted in the public safety, culture and recreation and community and economic development functions for the year ended June 30, 2012.

DEBT ADMINISTRATION

At June 30, 2012, the City had \$1,423,000 of bonds and other long-term debt outstanding, as shown below:

Outstanding Debt at Year-End	
(Expressed in Thousands)	
	June 30,
	<u>2012</u>
General obligation bonds and notes	\$ 64
Revenue notes	1,282
Bank loan	<u>77</u>
Total	<u>\$ 1,423</u>

Debt increased as a result of a bank loan during fiscal year 2012. 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 \$140,775 is below its constitutional debt limit of \$1,918,277.

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 2013 budget, tax rates and fees 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 Gina Despenas, City Clerk, Box 252, Sheffield, Iowa 50475.

CITY OF SHEFFIELD, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public safety	\$ 194,195	\$ -	\$ 23,381	\$ -
Public works	310,630	-	111,166	-
Culture and recreation	184,391	18,503	4,000	-
Community and economic development	487,980	-	293,407	-
General government	56,698	-	-	-
Debt service	<u>118,967</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$1,352,861</u>	<u>\$ 18,503</u>	<u>\$ 431,954</u>	<u>\$ -</u>
Business type activities:				
Sewer	\$ 695,018	\$ 242,161	\$ -	\$ 32,865
Sewer reserve	110,843	-	-	421,460
Other	<u>102,347</u>	<u>105,136</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>\$ 908,208</u>	<u>\$ 347,297</u>	<u>\$ -</u>	<u>\$ 454,325</u>
Total	<u>\$2,261,069</u>	<u>\$ 365,800</u>	<u>\$ 431,954</u>	<u>\$ 454,325</u>

(Continued)

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

Governmental Activities	Business Type Activities	Total
\$ (170,814)	\$ -	\$ (170,814)
(199,464)	-	(199,464)
(161,888)	-	(161,888)
(194,573)	-	(194,573)
(56,698)	-	(56,698)
(118,967)	-	(118,967)
\$ (902,404)	\$ -	\$ (902,404)
\$ -	\$ (419,992)	\$ (419,992)
-	310,617	310,617
-	2,789	2,789
\$ -	\$ (106,586)	\$ (106,586)
\$ (902,404)	\$ (106,586)	\$ (1,008,990)

CITY OF SHEFFIELD, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

General Receipts:

- Property and other city tax levied for:
 - General purposes
 - Debt service
- Tax increment financing
- Local option sales tax
- Unrestricted interest on investments
- Line of credit proceeds
- Bank loan proceeds
- Miscellaneous

Total general receipts

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

- Restricted:
 - Expendable:
 - Streets
 - Urban renewal purposes
 - Other purposes
 - Nonexpendable:
 - Cemetery perpetual care
- Assigned for various
- 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>
\$ 339,995	\$ -	\$ 339,995
36,176	-	36,176
12,987	-	12,987
94,050	-	94,050
5,046	-	5,046
414,460	-	414,460
14,445	-	14,445
<u>76,817</u>	<u>-</u>	<u>76,817</u>
<u>\$ 993,976</u>	<u>\$ -</u>	<u>\$ 993,976</u>
\$ 91,572	\$ (106,586)	\$ (15,014)
<u>417,863</u>	<u>130,257</u>	<u>548,120</u>
<u>\$ 509,435</u>	<u>\$ 23,671</u>	<u>\$ 533,106</u>
\$ 3,098	\$ -	\$ 3,098
92	-	92
226,030	-	226,030
31,960	-	31,960
203,807	-	203,807
<u>44,448</u>	<u>23,671</u>	<u>68,119</u>
<u>\$ 509,435</u>	<u>\$ 23,671</u>	<u>\$ 533,106</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, 2012

	General	Special Local Option Sales Tax
RECEIPTS:		
Property tax	\$ 284,640	\$ -
Tax increment financing	-	-
Other city tax	2,564	94,050
Licenses and permits	3,433	-
Use of money and property	5,046	-
Intergovernmental	28,740	-
Charges for service	18,503	-
Miscellaneous	161,259	-
Total receipts	\$ 504,185	\$ 94,050
DISBURSEMENTS:		
Operating:		
Public safety	\$ 157,789	\$ -
Public works	157,489	-
Culture and recreation	178,024	-
Community and economic development	-	20,531
General government	55,765	-
Debt service	1,232	30,880
Total disbursements	\$ 550,299	\$ 51,411
Excess (deficiency) of receipts over (under) disbursements	\$ (46,114)	\$ 42,639
Other financing sources (uses):		
Bank loan proceeds	\$ 14,445	\$ -
Line of credit proceeds	-	-
Operating transfers in	-	-
Operating transfers out	(11,000)	-
Total other financing sources (uses)	\$ 3,445	\$ -
Net change in cash balances	\$ (42,669)	\$ 42,639
Cash balances beginning of year	137,864	131,701
Cash balances end of year	\$ 95,195	\$ 174,340
Cash Basis Fund Balances:		
Nonspendable - Cemetery perpetual care	\$ -	\$ -
Restricted for:		
Urban renewal purposes	-	-
Streets	-	-
Other purposes	-	-
Assigned for various	29,467	174,340
Unassigned	65,728	-
Total cash basis fund balances	\$ 95,195	\$ 174,340

See Notes to Financial Statements.

<u>Revenue</u> <u>Block</u> <u>Grant</u>	<u>Nonmajor</u>	<u>Total</u>
\$ -	\$ 91,531	\$ 376,171
-	12,987	12,987
-	-	96,614
-	-	3,433
-	-	5,046
196,039	111,166	335,945
-	-	18,503
2,440	3,130	166,829
<u>\$ 198,479</u>	<u>\$ 218,814</u>	<u>\$ 1,015,528</u>
\$ -	\$ 36,406	\$ 194,195
-	153,141	310,630
-	6,367	184,391
467,449	-	487,980
-	933	56,698
-	86,855	118,967
<u>\$ 467,449</u>	<u>\$ 283,702</u>	<u>\$ 1,352,861</u>
<u>\$ (268,970)</u>	<u>\$ (64,888)</u>	<u>\$ (337,333)</u>
\$ -	\$ -	\$ 14,445
414,460	-	414,460
-	11,000	11,000
-	-	(11,000)
<u>\$ 414,460</u>	<u>\$ 11,000</u>	<u>\$ 428,905</u>
\$ 145,490	\$ (53,888)	\$ 91,572
<u>80,540</u>	<u>67,758</u>	<u>417,863</u>
<u>\$ 226,030</u>	<u>\$ 13,870</u>	<u>\$ 509,435</u>
\$ -	\$ 31,960	\$ 31,960
-	92	92
-	3,098	3,098
226,030	-	226,030
-	-	203,807
-	(21,280)	44,448
<u>\$ 226,030</u>	<u>\$ 13,870</u>	<u>\$ 509,435</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, 2012

	<u>Enterprise</u>			
	<u>Sewer</u>	<u>Sewer Reserve</u>	<u>Nonmajor</u>	<u>Total</u>
Operating receipts:				
Charges for service	\$ 242,161	\$ -	\$105,136	\$ 347,297
Operating disbursements:				
Business type activities	<u>96,868</u>	<u>-</u>	<u>102,347</u>	<u>199,215</u>
Excess of operating receipts over operating disbursements	<u>\$ 145,293</u>	<u>\$ -</u>	<u>\$ 2,789</u>	<u>\$ 148,082</u>
Non-operating receipts (disbursements):				
Intergovernmental	\$ 32,865	\$ 421,460	\$ -	\$ 454,325
Line of credit payments	(414,460)	-	-	(414,460)
Debt service	(1,642)	(110,843)	-	(112,485)
Capital projects	<u>(182,048)</u>	<u>-</u>	<u>-</u>	<u>(182,048)</u>
Total non-operating receipts (disbursements)	<u>\$(565,285)</u>	<u>\$ 310,617</u>	<u>\$ -</u>	<u>\$(254,668)</u>
Net change in cash balances	\$(419,992)	\$ 310,617	\$ 2,789	\$(106,586)
Cash balances beginning of year	<u>134,357</u>	<u>(30,120)</u>	<u>26,020</u>	<u>130,257</u>
Cash balances end of year	<u>\$(285,635)</u>	<u>\$ 280,497</u>	<u>\$ 28,809</u>	<u>\$ 23,671</u>
Cash Basis Fund Balances				
Unrestricted	<u>\$(285,635)</u>	<u>\$ 280,497</u>	<u>\$ 28,809</u>	<u>\$ 23,671</u>

See Notes to Financial Statements.

CITY OF SHEFFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(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 in 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, 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 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 following boards and commissions: Franklin County Assessor's Conference Board, North Iowa Area Council of Governments 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 service.

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

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

CITY OF SHEFFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(1) Summary of Significant Accounting Policies - continued

Expendable 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 categories. 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 and proprietary funds are aggregated and reported as nonmajor governmental and proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies 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 Local Option Sales Tax Fund is used to account for local option sales tax revenues.

The Block Grant Fund accounts for community development block grant receipts and disbursements.

The City reports the following major proprietary funds:

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

The Enterprise, Sewer Reserve Fund accounts for the capital improvement of the City's sewer system.

CITY OF SHEFFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(1) Summary of Significant Accounting Policies - continued

C. Measurement Focus and 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.

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.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

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. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the City Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public safety, culture and recreation and community and economic development functions.

CITY OF SHEFFIELD, IOWA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2012 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.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes are as follows:

Year Ending June 30,	General Obligation Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 14,000	\$ 2,464	\$ 69,000	\$ 38,460	\$ 83,000	\$ 40,924
2014	14,500	1,925	71,000	36,390	85,500	38,315
2015	15,000	1,367	73,000	34,260	88,000	35,627
2016	15,500	789	75,000	32,070	90,500	32,859
2017	5,000	193	78,000	29,820	83,000	30,013
2018-2022	-	-	424,000	112,710	424,000	112,710
2023-2027	-	-	492,000	45,090	492,000	45,090
Total	\$ 64,000	\$ 6,738	\$ 1,282,000	\$328,800	\$ 1,346,000	\$335,538

Sewer Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,600,000 of sewer revenue bonds issued in February 2007. Proceeds from the bonds provided financing for the purpose of paying costs of the construction of certain wastewater treatment facilities. The bonds are payable solely from sewer customer net receipts and are payable through 2027. The total principal and interest remaining to be paid on the bonds is \$1,610,800. For the current year, principal and interest paid and total customer net receipts were \$107,470 and \$145,293, respectively.

CITY OF SHEFFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(3) Bonds and Notes Payable - continued

The resolution providing for the issuance of the revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking account within the Enterprise Fund for the purpose of making the bond principal and interest payments when due.
- (c) At the option of the City, the bonds shall be subject to optional redemption at a price of par plus accrued interest (i) on any interest payment date after the ten (10) year anniversary of the bond issue date.
- (d) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.

Bank Loans

The City has also entered into the following loan agreements with Security State Bank, Sheffield, Iowa:

<u>Date of Loan</u>	<u>03/04/11</u>	<u>08/16/10</u>	<u>04/13/12</u>
Original amount	\$ 54,000	\$ 82,000	\$ 14,475
Interest rate	5.0%	3.5%	2.0%
Payment dates	Annual	Annual	Annual
Payment amount	\$ 10,800	\$ 16,400	\$ 5,019
Maturity date	06/01/14	06/01/15	04/01/15
At June 30, 2012:			
Number of payments remaining	2	3	3
Outstanding balance	\$ 21,600	\$ 40,730	\$ 14,475

(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 5.38% of their annual covered salary and the City is required to contribute 8.07% 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 contribution to IPERS for the year ended June 30, 2012 was \$20,473, equal to the required contribution for the year.

CITY OF SHEFFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(5) **Other Postemployment Benefits (OPEB)**

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 5 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with True North Company. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$447 for single coverage and \$1,117 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed \$62,609 and plan members eligible for benefits contributed \$5,819 to the plan.

(6) **Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, comp time and sick leave 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, comp time payable and sick leave payable to employees at June 30, 2012, primarily relating to the General Fund, is \$2,659.

This liability has been computed based on rates of pay in effect at June 30, 2012.

(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 663 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 150% of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

CITY OF SHEFFIELD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(7) Risk Management - continued

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, 2012 were \$20,893.

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. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

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, 2012, 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 casualty 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 casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty 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 in any of the past three fiscal years.

CITY OF SHEFFIELD, IOWA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

(8) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	General	<u>\$ 11,000</u>

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

(9) **Deficit Balances**

The Special Revenue, Employee Benefits, Debt Service and Enterprise, Sewer Funds had deficit balances of \$8,508, \$12,772 and \$285,635, respectively, at June 30, 2012. These deficit balances were the result of misposting of City receipts and disbursements.

(10) **Commitments**

At June 30, 2012, the following construction commitments had been made:

<u>Project</u>	<u>Total Contract</u>	<u>Costs Incurred To Date</u>
Lift Station	<u>\$ 13,632</u>	<u>\$ -</u>

(11) **Short-Term Note Payable - Line of Credit**

The City has a line of credit agreement with a bank which provides it may borrow up to \$600,000 at an interest rate of 3.00%. The line of credit is used for the CDGB projects. It is secured with a security agreement dated July 20, 2011.

Line of Credit activity for the year ended June 30, 2012 is as follows:

<u>Balance Beginning of year</u>	<u>Advances Received</u>	<u>Advances Repaid</u>	<u>Balance End of year</u>
<u>\$ -</u>	<u>\$414,460</u>	<u>\$ 414,460</u>	<u>\$ -</u>

Other 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
 OTHER INFORMATION
 YEAR ENDED JUNE 30, 2012

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds Not Required to be Budgeted
RECEIPTS:			
Property tax	\$ 376,171	\$ -	\$ -
Tax increment financing	12,987	-	-
Other city tax	96,614	-	-
Licenses and permits	3,433	-	-
Use of money and property	5,046	-	-
Intergovernmental	335,945	454,325	-
Charges for service	18,503	347,297	-
Miscellaneous	166,829	-	-
Total receipts	<u>\$ 1,015,528</u>	<u>\$ 801,622</u>	<u>\$ -</u>
DISBURSEMENTS:			
Public safety	\$ 194,195	\$ -	\$ -
Public works	310,630	-	-
Culture and recreation	184,391	-	-
Community and economic development	487,980	-	-
General government	56,698	-	-
Debt service	118,967	-	-
Business type activities	-	908,208	-
Total disbursements	<u>\$ 1,352,861</u>	<u>\$ 908,208</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ (337,333)	\$ (106,586)	\$ -
Other financing sources, net	<u>428,905</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ 91,572	\$ (106,586)	\$ -
Balances beginning of year	<u>417,863</u>	<u>130,257</u>	<u>-</u>
Balances end of year	<u>\$ 509,435</u>	<u>\$ 23,671</u>	<u>\$ -</u>

See Accompanying Independent Auditor's Report.

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
\$ 376,171	\$ 336,015	\$ 336,015	\$ 40,156
12,987	35,199	35,199	(22,212)
96,614	72,795	72,795	23,819
3,433	1,850	1,850	1,583
5,046	5,200	5,200	(154)
790,270	142,960	142,960	647,310
365,800	338,300	338,300	27,500
166,829	21,000	119,000	47,829
<u>\$ 1,817,150</u>	<u>\$ 953,319</u>	<u>\$ 1,051,319</u>	<u>\$ 765,831</u>
\$ 194,195	\$ 151,980	\$ 186,980	\$ (7,215)
310,630	139,510	329,510	18,880
184,391	144,518	177,018	(7,373)
487,980	35,199	35,199	(452,781)
56,698	53,990	242,990	186,292
118,967	186,152	186,152	67,185
908,208	193,735	945,885	37,677
<u>\$ 2,261,069</u>	<u>\$ 905,084</u>	<u>\$ 2,103,734</u>	<u>\$ (157,335)</u>
\$ (443,919)	\$ 48,235	\$ (1,052,415)	\$ 608,496
<u>428,905</u>	<u>-</u>	<u>934,650</u>	<u>(505,745)</u>
\$ (15,014)	\$ 48,235	\$ (117,765)	\$ 102,751
<u>548,120</u>	<u>682,238</u>	<u>682,238</u>	<u>(134,118)</u>
<u>\$ 533,106</u>	<u>\$ 730,473</u>	<u>\$ 564,473</u>	<u>\$ (31,367)</u>

CITY OF SHEFFIELD, IOWA
NOTES TO OTHER INFORMATION - BUDGETARY REPORTING
JUNE 30, 2012

The budgetary comparison is presented 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. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,198,650. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public safety, culture and recreation and community and economic development functions.

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, 2012

	Special	
	Road Use Tax	Tax Increment Financing
RECEIPTS:		
Property tax	\$ -	\$ -
Tax increment financing	-	12,987
Intergovernmental	111,166	-
Miscellaneous	-	-
Total receipts	\$ 111,166	\$ 12,987
DISBURSEMENTS:		
Operating:		
Public safety	\$ -	\$ -
Public works	132,149	-
Culture and recreation	-	-
General government	-	-
Debt Service	-	35,198
Total disbursements	\$ 132,149	\$ 35,198
Excess (deficiency) of receipts over (under) disbursements	\$ (20,983)	\$ (22,211)
Other financing sources:		
Operating transfers in	-	-
Net change in cash balances	\$ (20,983)	\$ (22,211)
Cash balances beginning of year	24,081	22,303
Cash balances end of year	\$ 3,098	\$ 92
Cash Basis Fund Balances:		
Nonspendable Cemetery Perpetual Care	\$ -	\$ -
Restricted for:		
Streets	3,098	-
Urban Renewal Purposes	-	92
Unassigned	-	-
Total cash basis fund balances	\$ 3,098	\$ 92

See Accompanying Independent Auditor's Report.

<u>Revenue</u>		<u>Permanent Cemetery Perpetual Care</u>		<u>Total</u>
<u>Employee Benefits</u>	<u>Debt Service</u>			
\$ 55,355	\$ 36,176	\$ -	\$ -	\$ 91,531
-	-	-	-	12,987
-	-	-	-	111,166
3,130	-	-	-	3,130
<u>\$ 58,485</u>	<u>\$ 36,176</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 218,814</u>
\$ 36,406	\$ -	\$ -	\$ -	\$ 36,406
20,992	-	-	-	153,141
6,367	-	-	-	6,367
933	-	-	-	933
-	51,657	-	-	86,855
<u>\$ 64,698</u>	<u>\$ 51,657</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 283,702</u>
\$ (6,213)	\$ (15,481)	\$ -	\$ -	\$ (64,888)
-	11,000	-	-	11,000
\$ (6,213)	\$ (4,481)	\$ -	\$ -	\$ (53,888)
(2,295)	(8,291)	31,960	-	67,758
<u>\$ (8,508)</u>	<u>\$ (12,772)</u>	<u>\$ 31,960</u>	<u>\$ -</u>	<u>\$ 13,870</u>
\$ -	\$ -	\$ 31,960	\$ -	\$ 31,960
-	-	-	-	3,098
-	-	-	-	92
(8,508)	(12,772)	-	-	(21,280)
<u>\$ (8,508)</u>	<u>\$ (12,772)</u>	<u>\$ 31,960</u>	<u>\$ -</u>	<u>\$ 13,870</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, 2012

	<u>Enterprise</u>		
	<u>Water</u>	<u>Storm Water</u>	<u>Total</u>
Operating Receipts:			
Charges for service	\$ 93,293	\$ 11,843	\$ 105,136
Operating Disbursements:			
Business type activities	<u>94,847</u>	<u>7,500</u>	<u>102,347</u>
Net change in cash balances	\$ (1,554)	\$ 4,343	\$ 2,789
Cash balances beginning of year	<u>19,406</u>	<u>6,614</u>	<u>26,020</u>
Cash balances end of year	<u>\$ 17,852</u>	<u>\$ 10,957</u>	<u>\$ 28,809</u>
Cash Basis Fund Balances:			
Unrestricted	<u>\$ 17,852</u>	<u>\$ 10,957</u>	<u>\$ 28,809</u>

See Accompanying Independent Auditor's Report.

CITY OF SHEFFIELD, IOWA
 SCHEDULE OF INDEBTEDNESS
 YEAR ENDED JUNE 30, 2012

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Notes:			
Essential Corporate Purpose	04/01/01	5.50%	\$ 310,000
Essential Corporate Purpose	11/23/09	3.85	150,000
Total			
Revenue Bonds and Notes:			
Sewer	02/08/07	3.00%	\$1,600,000
Urban Renewal Tax Increment Financing (TIF)	11/19/07	5.00	134,000
Total			
Bank Loans:			
Public Works Truck	02/12/10	5.00%	\$ 54,000
Street Loan	08/16/10	3.50	82,000
Police Car	04/13/12	2.00	14,445
Total			
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>
\$ 35,000	\$ -	\$ 35,000	\$ -	\$ 1,925	\$ -
77,000	-	13,000	64,000	2,964	-
<u>\$ 112,000</u>	<u>\$ -</u>	<u>\$ 48,000</u>	<u>\$ 64,000</u>	<u>\$ 4,889</u>	<u>\$ -</u>
\$1,349,000	\$ -	\$ 67,000	\$1,282,000	\$ 40,470	\$ -
33,500	-	33,500	-	1,698	-
<u>\$1,382,500</u>	<u>\$ -</u>	<u>\$100,500</u>	<u>\$1,282,000</u>	<u>\$ 42,168</u>	<u>\$ -</u>
\$ 32,400	\$ -	\$ 10,800	\$ 21,600	\$ 1,647	\$ -
57,130	-	16,400	40,730	2,033	-
-	14,445	-	14,445	-	-
<u>\$ 89,530</u>	<u>\$ 14,445</u>	<u>\$ 27,200</u>	<u>\$ 76,775</u>	<u>\$ 3,680</u>	<u>\$ -</u>
<u>\$1,584,030</u>	<u>\$ 14,445</u>	<u>\$175,700</u>	<u>\$1,422,775</u>	<u>\$ 50,737</u>	<u>\$ -</u>

CITY OF SHEFFIELD, IOWA
 BOND AND NOTE MATURITIES
 JUNE 30, 2012

Year Ending June 30,	GENERAL OBLIGATION NOTE		REVENUE BOND	
	Essential		Sewer	
	Corporate Purpose			
	Issued November 23, 2009		Issued February 8, 2007	
	Interest Rates	Amount	Interest Rates	Amount
2013	3.85%	\$ 14,000	3.00%	\$ 69,000
2014	3.85	14,500	3.00	71,000
2015	3.85	15,000	3.00	73,000
2016	3.85	15,500	3.00	75,000
2017	3.85	5,000	3.00	78,000
2018		-	3.00	80,000
2019		-	3.00	82,000
2020		-	3.00	85,000
2021		-	3.00	87,000
2022		-	3.00	90,000
2023		-	3.00	93,000
2024		-	3.00	96,000
2025		-	3.00	98,000
2026		-	3.00	101,000
2027		-	3.00	104,000
Total		<u>\$ 64,000</u>		<u>\$1,282,000</u>

See Accompanying Independent Auditor's Report.

CITY OF SHEFFIELD, IOWA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2012

<u>GRANTOR/PROGRAM</u>	<u>CFDA NUMBER</u>	<u>AGENCY PASS-THROUGH NUMBER</u>	<u>PROGRAM EXPENDITURES</u>
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grant			
Program	14.228	08-DRI-251	\$ 507,691
		10-HSG-023	<u>138,394</u>
Total			<u>\$ 646,085</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Sheffield and is presented in conformity with an other comprehensive basis of accounting. The information in 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.



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

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sheffield, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued my report thereon dated February 26, 2013. My report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2011. 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

The management of the City of Sheffield is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered the City of Sheffield's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Sheffield's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Sheffield's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, I identified certain deficiencies in internal control over financial reporting I consider to be material weaknesses and other deficiencies I consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Sheffield's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies described in Part II of the accompanying Schedule of Findings as items II-A-12, II-B-12, II-C-12, II-D-12, II-F-12, II-G-12 and II-I-12 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in Part II of the accompanying Schedule of Findings as items II-E-12 and II-H-12 to be significant deficiencies.

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, 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 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 which 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, 2012 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.

The City of Sheffield's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the City's responses, I did not audit the City of Sheffield's responses and, accordingly, I express no opinion on them.

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, including federal awarding agencies and pass-through entities, and 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.



February 26, 2013



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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

I have audited the City of Sheffield, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Sheffield's major federal program for the year ended June 30, 2012. The City of Sheffield's major federal program is identified in Part I of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Sheffield's management. My responsibility is to express an opinion on the City of Sheffield's compliance based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether noncompliance 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 Sheffield's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the City of Sheffield's compliance with those requirements.

In my opinion, the City of Sheffield complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012. However, the results of my auditing procedures disclosed an instance of non-compliance with those requirements which is required to be reported in accordance with OMB Circular A-133 and is described as item III-A-12 in the accompanying Schedule of Findings.

Internal Control Over Compliance

The management of the City of Sheffield 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 my audit, I considered the City of Sheffield's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City of Sheffield's internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, I identified a deficiency in internal control over compliance I consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. I consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as item III-A-12 to be a material weakness.

The City of Sheffield's response to the finding identified in my audit is described in the accompanying Schedule of Findings. While I have expressed my conclusion on the City's response, I did not audit the City of Sheffield's response and, accordingly, I express no opinion on it.

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, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



February 26, 2013

CITY OF SHEFFIELD, IOWA
Schedule of Findings
Year Ended June 30, 2012

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

- (a) Qualified 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, since I was unable to satisfy myself as to the distribution by fund of the total balance at July 1, 2011.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose any 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 14.228 - Community Development Block Grant.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Sheffield did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-12 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 utilizing currently available staff, including elected officials.

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

Conclusion - Response accepted.

CITY OF SHEFFIELD, IOWA
Schedule of Findings
Year Ended June 30, 2012

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

II-B-12 Bank Reconciliations - Monthly bank reconciliations (including a list of outstanding checks) are not reconciled to the book balance.

Recommendation - A monthly reconciliation of the book and bank balances should be prepared and retained. Any variances should be investigated and resolved. A listing of outstanding checks should be prepared monthly and retained.

Response - The City will establish a system to reconcile book and bank balances.

Conclusion - Response accepted.

II-C-12 General Ledger Funds - The City's general ledger includes a fund called Trust and Agency. Postings to this fund for the year included receipts and disbursements for employee benefits, cemetery perpetual care, cemetery, police seizure and meter deposits.

Recommendation - Trust and agency is an obsolete term in governmental accounting. New funds should be set up and separated out. Also more care should be exercised when posting transactions.

Response - We will separate the funds and take more care in posting City receipts and disbursements.

Conclusion - Response accepted.

II-D-12 Posting of Financial Transactions - Receipts and disbursements were not always posted to the correct account. I noted that local option sales tax was not posted monthly and for the correct amount. A grant receipt of \$25,426 was posted twice in the general ledger.

Recommendation - More care should be exercised when posting transactions to reduce the incidence of mispostings and corrections should be done to the corresponding revenue or expense account.

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

Conclusion - Response accepted.

II-E-12 Centralized Bookkeeping - The bookkeeping and custody of records for the swimming pool funds are maintained by an individual outside the City Clerk's office. These transactions and the resulting balances are not recorded in the Clerk's records. Chapter 384.20 of the Code of Iowa states in part that "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose".

Recommendation - For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be recorded in the Clerk's records.

Response - We will look into this

Conclusion - Response accepted.

CITY OF SHEFFIELD, IOWA
Schedule of Findings
Year Ended June 30, 2012

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

II-F-12 Countersignature of Checks - Checks are prepared and signed by one individual for the swimming pool account.

Recommendation - Checks should be prepared and signed by one individual and then the supporting documentation should be made available along with the check to a second independent individual for review and countersignature.

Response - We will investigate the alternatives.

Conclusion - Response accepted.

II-G-12 Invoices - Invoices were not properly cancelled to prevent use.

Recommendation - Checks should be prepared only from invoices. The invoices should then be marked "paid" to prevent making duplicate payments.

Response - We will do so in the future.

Conclusion - Response accepted.

II-H-12 Post-dated Check - I noted one check that cleared the bank statement prior to the date on the check.

Recommendation - The City should avoid the use of post-dating checks.

Response - We will discontinue the use of post-dating checks in the future.

Conclusion - Response accepted.

II-I-12 Preparation of Financial Statements - The City does not have an internal control system designed to provide for the preparation of the financial statements in accordance with an other comprehensive basis of accounting, nor has management identified risks related to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements. Therefore, as an auditor, I was requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual for a governmental entity similar in population to the City. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation - I recognize that with a limited number of office employees, preparation of the financial statements is difficult. However, I recommend that City officials continue reviewing operating procedures in order to obtain the maximum internal control possible under the circumstances.

CITY OF SHEFFIELD, IOWA
Schedule of Findings
Year Ended June 30, 2012

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

Response - The City will continue to review and monitor procedures currently in place and evaluate the risks to be accepted in preparation of the financial statements.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted

INTERNAL CONTROL DEFICIENCY:

CFDA Number 14.228: Community Development Block Grant
Pass through Agency Numbers: 08-DRI-251 and 10-HSG-023
Federal Award Year: 2012
U.S. Department of Transportation
Passed through the Iowa Department of Economic Development

III-A-12 Segregation of Duties - The City did not properly segregate custody, recordkeeping and reconciling functions for receipts and disbursements, including those related to Federal Programs. See audit finding II-A-12.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-12 Certified Budget - Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the public safety, culture and recreation and community and economic development functions. Chapter 384.20 of the Code of Iowa states, in part, "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-12 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-12 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

CITY OF SHEFFIELD, IOWA
Schedule of Findings
Year Ended June 30, 2012

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

IV-D-12 Business Transactions - No business transactions between the City and City officials or employees were noted.

IV-E-12 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 ensure the coverage is adequate for current operations.

IV-F-12 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not. However, the minutes were not signed as required by Chapter 380.7 of the Code of Iowa. The minutes should be signed to authenticate the record.

Recommendation - The City should sign the council minutes as required by the Code of Iowa and maintain a book of official minutes.

Response - We will do this in the future.

Conclusion - Response accepted.

IV-G-12 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-12 Financial Condition - The Special Revenue, Employee Benefits, Debt Service and Enterprise, Sewer Funds had deficit balances of \$8,508, \$12,772 and \$285,635, respectively, at June 30, 2012.

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial condition.

Response - The Sewer fund deficit was due to mispostings of construction costs and receipts of grant monies. The Debt Service and Employee Benefits fund deficits will be eliminated upon receipt of property tax.

Conclusion - Response accepted.