



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

NEWS RELEASE

FOR RELEASE _____ February 27, 2006

Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$8,952,479 for the year ended June 30, 2005, a less than 1% decrease from the prior year. The receipts included \$1,905,832 in property tax, \$1,022,084 from tax increment financing, \$2,516,283 from charges for service, \$1,075,387 from operating grants, contributions and restricted interest, \$497,867 from capital grants, contributions and restricted interest, \$703,860 from local option sales tax, \$137,547 from unrestricted interest on investments, \$1,020,510 from note proceeds and \$73,109 from other general receipts.

Disbursements for the year totaled \$13,241,061, a 54% increase from the prior year, and included \$1,165,018 for debt service, \$1,136,641 for culture and recreation and \$1,129,387 for capital projects. The City also paid \$618,019 to a bond agent to refund certain notes. Disbursements for business type activities totaled \$6,786,826. The significant increase in disbursements is due primarily to the construction of a water treatment plant and elevated storage facility.

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

###

CITY OF NEVADA

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

JUNE 30, 2005

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-13
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	16-17
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	18-19
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	C	21
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D	22
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	E	23
Notes to Financial Statements		24-32
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		34-35
Notes to Required Supplementary Information – Budgetary Reporting		36
Other Supplementary Information:	<u>Schedule</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	38-39
Schedule of Indebtedness	2	40-41
Bond and Note Maturities	3	42-43
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	4	44
Schedule of Expenditures of Federal Awards	5	45
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 <u>Government Auditing Standards</u>		47-48
Independent Auditor’s Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133		49-50
Schedule of Findings and Questioned Costs		51-57
Staff		58

City of Nevada

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Patrick Sheets	Mayor	Jan 2006
Dean Handsaker	Mayor Pro tem	Jan 2006
William Huls	Council Member	Jan 2006
Walt McDonald	Council Member	Jan 2006
Elisa Gibson	Council Member	Jan 2008
Gearold E. Gull II	Council Member	Jan 2008
William Tufford	Council Member	Jan 2008
David Haugland	City Administrator	Indefinite
Teresa Peterson-Smith	City Clerk	Indefinite
Don Juhl	Attorney	Indefinite

City of Nevada



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Nevada, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Nevada's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

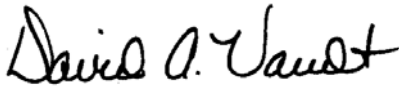
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Nevada as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

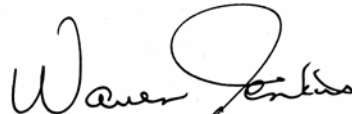
In accordance with Government Auditing Standards, we have also issued our report dated August 30, 2005 on our consideration of the City of Nevada's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Nevada's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 30, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Nevada provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

The City implemented new reporting standards last fiscal year with significant changes in content and structure. Comparable information with the prior year is now available and will be more meaningful in explaining the City's financial position and results of operations.

2005 FINANCIAL HIGHLIGHTS

- Total receipts of the City decreased \$31,635, a change of less than one percent, from fiscal year 2004 to fiscal year 2005. Capital grants decreased by \$437,494, or 46.77%. Property tax levied for general purposes increased slightly by \$63,706, or 4.46%, while property tax levied for debt service decreased by \$45,426, or 9.87%, and tax increment financing increased \$121,004 (13.43%). Unrestricted interest decreased by 59.60%, or \$202,886.
- Total disbursements increased 53.71%, or \$4,626,637, in fiscal year 2005 from fiscal year 2004. Public safety disbursements increased by \$49,911, or 5.83%. Public works disbursements increased by \$94,359 (purchase of pickups, integrated tool carrier and snow blower). Culture and recreation increased by \$111,944 (includes our first year of scheduled disbursements from hotel/motel tax receipts of \$10,015, additional work in parks funded through a park open spaces grant of approximately \$7,000 and additional park capital disbursements through capital revolving of \$8,571). Debt service also decreased by 20.63%, or \$302,795, due to the refinancing of the waste water treatment (WWT) refunding notes. Capital projects decreased by \$272,117, or 19.42%, since the majority of capital projects were for business type activities and less governmental activities capital projects were in progress. The City also paid \$618,019 to a refunding bond agent to refund certain notes. A 162.98% increase, or \$4,206,056, in business type disbursements was due to the construction of a new water treatment plant and elevated storage facility.
- The City's total cash basis net assets decreased by 38.24%, or \$4,288,582, from June 30, 2004 to June 30, 2005. Of this amount, the net assets of the governmental activities increased \$116,002 and the net assets of the business type activities decreased by \$4,404,584.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

BASIS OF ACCOUNTING

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

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

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

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax, road use tax, state and federal grants and user fees finance most of these activities.
- Business Type Activities include the water and the sanitary sewer systems and all capital projects associated with these activities. 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 into the next fiscal year. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Funds, such as Hattery Trust and Cemetery Perpetual Care. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are increased or reduced financial resources that can be spent in the near future to finance the City's programs.

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

2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

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

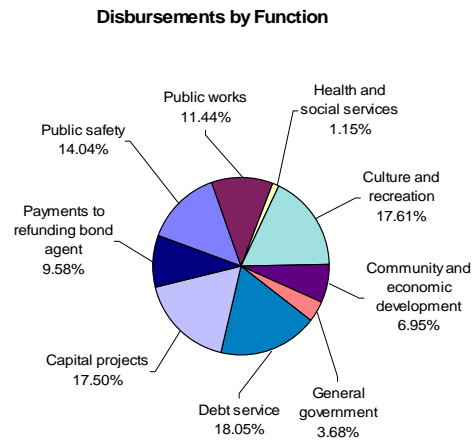
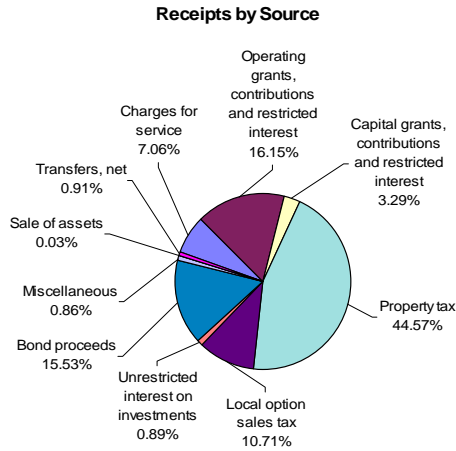
Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Governmental Activities

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$5,626,291 to \$5,742,293. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2005	2004
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 463,808	412,386
Operating grants, contributions and restricted interest	1,060,891	895,447
Capital grants, contributions and restricted interest	216,439	690,415
General receipts:		
Property tax	2,927,916	2,788,632
Local option sales tax	703,860	724,304
Unrestricted interest on investments	58,605	185,108
Note proceeds	1,020,510	837,875
Miscellaneous	56,255	65,159
Sale of property	1,953	-
Transfers, net	60,000	239,959
Total receipts and transfers	<u>6,570,237</u>	<u>6,839,285</u>
Disbursements:		
Public safety	906,201	856,290
Public works	738,196	643,837
Health and social services	74,300	59,186
Culture and recreation	1,136,641	1,024,697
Community and economic development	448,877	367,876
General government	237,596	212,451
Debt service	1,165,018	1,467,813
Capital projects	1,129,387	1,401,504
Payments to refunding bond agent	618,019	-
Total disbursements	<u>6,454,235</u>	<u>6,033,654</u>
Increase in cash basis net assets	116,002	805,631
Cash basis net assets beginning of year	<u>5,626,291</u>	<u>4,820,660</u>
Cash basis net assets end of year	<u>\$ 5,742,293</u>	<u>5,626,291</u>



The City's total receipts for governmental activities decreased by 1.35%, or \$89,089. The total cost of all programs and services decreased by \$197,438, or 3.27%. The decrease in disbursements was primarily the result of lower debt service costs due to refinancing, as well as a decrease in capital projects.

The City held property tax rates for 2005 at \$14.87863 per \$1,000 of taxable valuation (2004 - \$14.35684). The City's property tax rates have not increased significantly in nine years – the average rate being \$14.51462 per \$1,000 of taxable valuation. The tax increment valuation has increased steadily for the last seven years, from \$15,797,290 to \$30,252,923.

The cost of all governmental activities this year was \$5,836,216. However, as shown in the Statement of Activities and Net Assets on pages 16-17, the amount taxpayers ultimately financed for these activities was only \$4,095,078 because some of the cost was paid by those directly benefiting from the programs (\$463,808) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$1,277,330). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, were \$1,741,138. The City paid for the remaining "public benefit" portion of governmental activities with \$4,095,078 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Business Activities

Total business type activities receipts for the 2005 fiscal year were \$2,442,242. Receipts were up from the previous year due to the first phase of a three-year adjustment in water rates to finance the new water treatment plant. Total business type activities disbursements for the 2005 fiscal year were \$6,786,826 compared to \$2,580,770 last year. This increase in disbursements was due to the construction of the elevated storage facility and the water treatment plant project. The cash balance decreased by \$4,404,584 from the prior year because of the two projects.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2005	2004
Receipts:		
Program receipts:		
Charges for service	\$ 2,052,475	1,984,517
Operating grants, contributions and restricted interest	14,496	-
Capital grants, contributions and restricted interest	281,428	244,946
Sale of property	14,901	-
Unrestricted interest on investments	78,942	155,325
Total receipts	<u>2,442,242</u>	<u>2,384,788</u>
Disbursements and transfers:		
Water	5,164,264	766,479
Sewer	1,622,562	1,814,291
Transfers, net	60,000	239,959
Total disbursements and transfers	<u>6,846,826</u>	<u>2,820,729</u>
Decrease in cash basis net assets	(4,404,584)	(435,941)
Cash basis net assets beginning of year	<u>5,589,551</u>	<u>6,025,492</u>
Cash basis net assets end of year	<u>\$ 1,184,967</u>	<u>5,589,551</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Nevada completed the year, its governmental funds reported a combined fund balance of \$5,742,313.

- The General Fund (General, Hotel/Motel and General Capital Revolving) cash balance increased by \$3,416 from the prior year to \$1,972,832.
- The Road Use Tax Fund cash balance decreased by \$72,894 to \$430,408 during the fiscal year. This decrease was due to the purchase of an integrated tool carrier and snow blower (\$139,267).
- The Local Option Sales and Services Tax Fund cash balance increased by \$55,175 to \$623,472 during the fiscal year.
- The Urban Renewal Tax Increment Fund cash balance was \$783,128 at the end of the fiscal year, an increase of \$133,244 from the previous year. The transfer out of more than \$500,000 to the Four-Plex Ball Fields will not be made until 2006 when actual closeout costs of the project are known.
- The Debt Service Fund cash balance increased by \$85,101 to \$361,902 during the fiscal year. Several small street projects are scheduled to be constructed to use the balance in 2006.
- The Capital Projects Fund began the year with a cash balance of \$316,185 and ended with a balance of \$1,109,344, an increase of \$793,159. These cash balances fluctuate greatly between years due to the timing of projects and funding. At the end of the year, there were funds for two uncompleted projects (Lincoln Highway/600th Avenue Improvements and the Four-Plex Ball Fields) that will be completed in fiscal year 2006.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$4,079,122 from \$3,110,747 to a deficit balance of \$968,375, due to the construction of an elevated storage facility and water treatment plant. The deficit balance was covered in 2006 with the receipt of State Revolving Funds used to finance the water treatment plant.
- The Sewer Fund cash balance decreased by \$324,578 to \$2,153,005, primarily due to completion of the wastewater treatment plant expansion (funded from operating funds and major contributor to the plant).

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was approved on November 8, 2004, resulting in an increase in operating disbursements of \$2,755,759 for a CEBA grant pass-through, note sale and refinancing, disbursement of grant funds received and for projects. The second amendment was approved on March 28, 2005, increasing operating disbursements by \$5,357,648 to provide for projects (Lincoln Highway/600th Avenue Improvements and Water Treatment Plant) and debt payments. The City had sufficient cash balances or planned receipt of State Revolving Funds to absorb these additional costs.

DEBT ADMINISTRATION

On June 30, 2005, the City had \$4,915,000 in outstanding bonds and other long-term debt, compared to \$5,680,000 last year, as shown below.

Outstanding Debt at Year-End		
	June 30,	
	2005	2004
General obligation notes:		
5/1/1999-WWT Refunding Notes - 1,300,000	\$ -	610,000
4/1/2002-Gates Hall Remodeling - 770,000	645,000	690,000
4/1/2003-Streets GO Corporate Purpose - 1,200,000	485,000	720,000
8/15/2004-WWT and Airport Road - 1,035,000	790,000	-
Revenue bonds and notes:		
1/3/1995-Sewer Revolving - \$1,114,000	625,000	680,000
12/1/2002-Sewer Refunding - \$640,000	170,000	330,000
Urban renewal tax increment financing revenue bonds:		
10/1/1999-Nevada Business Park - \$1,130,000	635,000	745,000
4/1/2002-Lincoln Highway II - \$720,000	540,000	605,000
11/1/2003-W. Industrial Park Storm Sewer - \$850,000	380,000	565,000
Local option sales and services tax revenue bonds:		
8/1/2001-SCORE Park Grading/Maint Bldg. - \$1,000,000	645,000	735,000
Total	<u>\$4,915,000</u>	<u>5,680,000</u>

Debt decreased as a result of principal payments on all debt issues. The City did refinance the 5/1/1999-WWT Refunding Notes that were paid in full on August 1, 2004. The new issue dated 8/15/2004-WWT and Airport RD 5th Addition-\$1,035,000 will be partially funded by the Wastewater Utility and Tax Increment Finance Revenue for the portion used to fund the Airport Road 5th Addition Public Improvements. The City pursues an aggressive payback schedule on most of the debt issues outstanding. This allows the City the flexibility to issue new debt to finance additional projects on a regular basis.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits (\$248,093,815 X 5% = \$12,404,691). The City's outstanding general obligation debt of \$4,120,000 is significantly below its constitutional debt limit of \$12,404,691.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Nevada's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates and fees charged for various City activities.

The City's taxable valuation increased by approximately \$4,300,000 between fiscal years 2005 and 2006, resulting in an increase in general fund tax of \$39,071. The assessed property valuation actually increased from \$248,093,815 for fiscal year 2005 (January 1, 2003) to \$261,084,429 for fiscal year 2006 (January 1, 2004).

Tax increment financing collections are budgeted to increase in fiscal year 2006 by \$346,642, from \$941,341 in 2005 to \$1,287,983. This increase in funds will be used to pay for additional debt incurred by the issuance of the GO bonds for the Airport Road 5th Addition Public Improvements, the Four-Plex Ball Fields and other projects.

The City's expected receipts for fiscal year 2006 are \$15,189,541 (includes proposed debt issuance for the new water treatment plant through the State Revolving Fund of approximately \$4,300,000) as opposed to fiscal year 2005 budgeted receipts of \$12,577,635 (includes \$3,200,000 debt issuance for the water treatment plant through State Revolving Fund).

The City's disbursements are expected to increase from \$19,296,054 in fiscal year 2005 to \$20,254,435 in fiscal year 2006, primarily due to the construction of a new water treatment plant and elevated storage facility. The elevated storage facility project has been completed and work on the treatment plant continues to be on schedule for a completion in late spring/early summer 2006. The City also completed construction of an expansion project on the Wastewater Treatment Plant facility during fiscal year 2005. This project was financed by existing fund balances and participation by a local business that needed capacity in the facility.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by \$5,064,894 by the close of 2006.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

City of Nevada

Basic Financial Statements

City of Nevada

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2005

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Primary Government:				
Governmental activities:				
Public safety	\$ 906,201	68,881	55,062	4,253
Public works	738,196	6,857	559,677	15,578
Health and social services	74,300	-	-	-
Culture and recreation	1,136,641	367,582	186,890	42,262
Community and economic development	448,877	13,042	210,445	-
General government	237,596	7,446	4,855	13,579
Debt service	1,165,018	-	43,662	38,760
Capital projects	1,129,387	-	300	102,007
Total governmental activities	5,836,216	463,808	1,060,891	216,439
Business type activities:				
Water	5,164,264	1,035,507	-	21,112
Sewer	1,622,562	1,016,968	14,496	260,316
Total business type activities	6,786,826	2,052,475	14,496	281,428
Total Primary Government	\$ 12,623,042	2,516,283	1,075,387	497,867
Component Unit:				
Nevada Economic Development Council	\$ 451,752	11,901	102,848	-
General Receipts:				
Property and other city tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Unrestricted interest on investments				
Note proceeds (net of \$14,490 discount)				
Payments to refunding bond agent				
Miscellaneous				
Sale of property				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
Urban renewal purposes				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets				Component Unit
Primary Government			Total	Nevada Economic Development Council
Governmental Activities	Business Type Activities			
(778,005)	-	(778,005)	-	
(156,084)	-	(156,084)	-	
(74,300)	-	(74,300)	-	
(539,907)	-	(539,907)	-	
(225,390)	-	(225,390)	-	
(211,716)	-	(211,716)	-	
(1,082,596)	-	(1,082,596)	-	
(1,027,080)	-	(1,027,080)	-	
(4,095,078)	-	(4,095,078)	-	
-	(4,107,645)	(4,107,645)	-	
-	(330,782)	(330,782)	-	
-	(4,438,427)	(4,438,427)	-	
(4,095,078)	(4,438,427)	(8,533,505)	-	
-	-	-	(337,003)	
1,490,959	-	1,490,959	-	
1,022,084	-	1,022,084	-	
414,873	-	414,873	-	
703,860	-	703,860	-	
58,605	78,942	137,547	-	
1,020,510	-	1,020,510	-	
(618,019)	-	(618,019)	-	
56,255	-	56,255	18,333	
1,953	14,901	16,854	284,860	
60,000	(60,000)	-	-	
4,211,080	33,843	4,244,923	303,193	
116,002	(4,404,584)	(4,288,582)	(33,810)	
5,626,291	5,589,551	11,215,842	363,098	
\$ 5,742,293	1,184,967	6,927,260	329,288	
\$ 430,408	-	430,408	-	
547,128	-	547,128	-	
697,902	260,367	958,269	-	
2,094,043	-	2,094,043	-	
1,972,812	924,600	2,897,412	329,288	
\$ 5,742,293	1,184,967	6,927,260	329,288	

City of Nevada

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

As of and for the year ended June 30, 2005

	Special Revenue			
	General	Road Use Tax	Local Option Sales and Services Tax	Urban Renewal Tax Increment
Receipts:				
Property tax	\$ 1,088,403	-	-	-
Tax increment financing	-	-	-	1,022,084
Other city tax	59,061	-	703,860	-
Licenses and permits	55,050	-	-	-
Use of money and property	119,567	983	13,537	26,918
Intergovernmental	289,765	568,180	-	-
Charges for service	243,717	-	-	-
Special assessments	-	-	-	-
Miscellaneous	149,056	-	-	-
Total receipts	2,004,619	569,163	717,397	1,049,002
Disbursements:				
Operating:				
Public safety	818,007	29,618	5,505	-
Public works	20,639	625,899	91,617	-
Health and social services	-	-	74,300	-
Culture and recreation	1,092,345	-	2,835	-
Community and economic development	293,568	-	87,203	53,189
General government	223,297	-	14,148	-
Debt service	-	-	126,555	442,260
Capital projects	-	-	-	-
Total disbursements	2,447,856	655,517	402,163	495,449
Excess (deficiency) of receipts over (under) disbursements	(443,237)	(86,354)	315,234	553,553
Other financing sources (uses):				
Corporate purpose and refunding note proceeds (net of \$14,490 discount)	-	-	-	-
Payments to refunding bond agent	-	-	-	-
Sale of property	603	1,350	-	-
Operating transfers in	531,182	12,110	-	4,027
Operating transfers out	(85,132)	-	(260,059)	(424,336)
Total other financing sources (uses)	446,653	13,460	(260,059)	(420,309)
Net change in cash balances	3,416	(72,894)	55,175	133,244
Cash balances beginning of year	1,969,416	503,302	568,297	649,884
Cash balances end of year	\$ 1,972,832	430,408	623,472	783,128
Cash Basis Fund Balances				
Reserved for debt service	\$ -	-	100,000	236,000
Unreserved:				
General fund	1,972,832	-	-	-
Special revenue funds	-	430,408	523,472	547,128
Capital projects fund	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	\$ 1,972,832	430,408	623,472	783,128

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
399,073	-	327,157	1,814,633
-	-	-	1,022,084
15,800	-	16,338	795,059
-	-	-	55,050
16,744	8,358	41,160	227,267
-	17,243	30,041	905,229
-	-	5,580	249,297
38,760	-	-	38,760
-	92,799	138,541	380,396
470,377	118,400	558,817	5,487,775
-	-	52,726	905,856
-	-	-	738,155
-	-	-	74,300
-	-	40,082	1,135,262
-	-	14,902	448,862
-	-	-	237,445
596,203	-	-	1,165,018
-	1,129,387	-	1,129,387
596,203	1,129,387	107,710	5,834,285
(125,826)	(1,010,987)	451,107	(346,510)
620,510	400,000	-	1,020,510
(618,019)	-	-	(618,019)
-	-	-	1,953
208,436	1,418,123	7,684	2,181,562
-	(13,977)	(1,338,058)	(2,121,562)
210,927	1,804,146	(1,330,374)	464,444
85,101	793,159	(879,267)	117,934
276,801	316,185	1,340,494	5,624,379
361,902	1,109,344	461,227	5,742,313
361,902	-	-	697,902
-	-	-	1,972,832
-	-	362,058	1,863,066
-	1,109,344	-	1,109,344
-	-	99,169	99,169
361,902	1,109,344	461,227	5,742,313

City of Nevada

City of Nevada

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

As of and for the year ended June 30, 2005

Total governmental funds cash balances (page 19) \$ 5,742,313

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

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

(20)

Cash basis net assets of governmental activities (page 17) \$ 5,742,293

Net change in cash balances (page 19) \$ 117,934

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

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

(1,932)

Change in cash balance of governmental activities (page 17) \$ 116,002

See notes to financial statements.

Exhibit D

City of Nevada

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

As of and for the year ended June 30, 2005

	Enterprise Funds			Internal Service Fund
	Water	Sewer	Total	Flexible Benefits
Operating receipts:				
Use of money and property	\$ 8,640	-	8,640	-
Intergovernmental	-	13,888	13,888	-
Charges for service	944,625	1,040,834	1,985,459	32,638
Miscellaneous	82,242	23,789	106,031	-
Total operating receipts	1,035,507	1,078,511	2,114,018	32,638
Operating disbursements:				
Governmental activities:				
Public safety	-	-	-	4,341
Public works	-	-	-	521
Culture and recreation	-	-	-	17,359
Community and economic development	-	-	-	195
General government	-	-	-	1,903
Business type activities	1,187,221	1,365,816	2,553,037	11,135
Total operating disbursements	1,187,221	1,365,816	2,553,037	35,454
Deficiency of operating receipts under operating disbursements	(151,714)	(287,305)	(439,019)	(2,816)
Non-operating receipts (disbursements):				
Contribution from customer	-	209,797	209,797	-
Interest on investments	47,000	56,526	103,526	-
Construction of plant and tower	(3,967,317)	-	(3,967,317)	-
Sale of property	1,900	13,001	14,901	-
Debt service	(8,991)	(256,597)	(265,588)	-
Total non-operating receipts (disbursements)	(3,927,408)	22,727	(3,904,681)	-
Deficiency of receipts under disbursements	(4,079,122)	(264,578)	(4,343,700)	(2,816)
Operating transfers out	-	(60,000)	(60,000)	-
Net change in cash balances	(4,079,122)	(324,578)	(4,403,700)	(2,816)
Cash balances beginning of year	3,110,747	2,477,583	5,588,330	3,133
Cash balances end of year	\$ (968,375)	2,153,005	1,184,630	317
Cash Basis Fund Balances				
Reserved for debt service	\$ -	260,367	260,367	-
Unreserved	(968,375)	1,892,638	924,263	317
Total cash basis fund balances	\$ (968,375)	2,153,005	1,184,630	317

See notes to financial statements.

City of Nevada

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

As of and for the year ended June 30, 2005

Total enterprise funds cash balances (page 22) \$ 1,184,630

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

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

337

Cash basis net assets of business type activities (page 17) \$ 1,184,967

Net change in cash balances (page 22) \$ (4,403,700)

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

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

(884)

Change in cash balance of business type activities (page 17) \$ (4,404,584)

See notes to financial statements.

City of Nevada

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

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

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

Jointly Governed Organizations

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

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

B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

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

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

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

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

The City reports the following major proprietary funds:

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

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

The City also reports the following proprietary fund:

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

C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements did not exceed the amount budgeted by function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

(3) Bonds and Notes Payable

On August 15, 2004, the City issued \$1,035,000 of general obligation corporate purpose and refunding notes, with interest rates ranging from 1.90% to 3.25%. \$635,000 of the notes were used for a current refunding of the general obligation refunding notes issued May 1, 1999.

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

Year Ending June 30,	General Obligation Notes		Urban Renewal Tax Increment Financing Revenue Bonds		Local Option Sales and Services Tax Revenue Bonds		Revenue Bonds and Notes		Total	
			Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2006	\$ 545,000	65,040	370,000	69,370	95,000	32,015	230,000	33,900	1,240,000
2007	560,000	51,675	380,000	56,250	100,000	27,550	60,000	25,651	1,100,000	161,126
2008	100,000	36,122	200,000	41,695	105,000	22,750	65,000	22,927	470,000	123,494
2009	265,000	32,373	210,000	31,570	110,000	17,605	65,000	19,976	650,000	101,524
2010	55,000	23,035	220,000	20,702	115,000	12,105	70,000	17,025	460,000	72,867
2011 - 2015	320,000	71,205	175,000	13,828	120,000	6,240	305,000	35,412	920,000	126,685
2016	75,000	4,050	-	-	-	-	-	-	75,000	4,050
Total	\$ 1,920,000	283,500	1,555,000	233,415	645,000	118,265	795,000	154,891	4,915,000	790,071

The urban renewal tax increment financing revenue bonds were issued for the purpose of planning, undertaking and carrying out an urban renewal project within the Nevada Urban Renewal Area, consisting of the construction of the Nevada Business Park Project and the Lincoln Highway Phase II Project. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds can only be expended for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

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

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

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

On January 14, 2005, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of \$8,438,000 of water revenue bonds with interest at 3.0% per annum. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa to pay the cost of constructing improvements and extensions to the water treatment plant. The City will draw down funds from the Trustee upon request to reimburse the City for costs as they are incurred. At June 30, 2005, the City had not drawn any funds. A formal repayment schedule has not yet been adopted.

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

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the fund.
- (b) Sufficient monthly transfers shall be made to a water revenue bond sinking account for the purpose of making the bond principal and interest payments when due.

(4) Pension and Retirement Benefits

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

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 payroll, except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.90%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$92,972, \$88,345 and \$89,138, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory time hours for subsequent use or for payment upon termination, retirement or death. City employees may also accumulate earned but unused sick leave hours for subsequent use or for payment upon retirement or death, up to a maximum of \$1,500. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, compensatory time and sick leave payments payable to employees at June 30, 2005, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$121,000
Sick leave	3,000
Compensatory time	<u>19,000</u>
Total	<u>\$143,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2005.

(6) Contractual Commitments

The City has entered into various construction contracts totaling approximately \$11,529,000. The unpaid contract balances as of June 30, 2005 totaled approximately \$8,294,000, which will be paid as work on the projects progresses.

The City has also entered into a contract with the Nevada Economic Development Council to provide financial assistance of \$80,000 for fiscal year 2006.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales and Services Tax	\$ 176,500
	Employee Benefits	312,674
	Emergency	33,391
	Gates Hall Trust	3,617
	Park and Recreation Open Space	5,000
		<u>531,182</u>
Special Revenue:		
Cemetery Foundation Trust	General	74
Road Use Tax	Special Revenue:	
	Local Option Sales and Services Tax	12,110
Urban Renewal Tax Increment	Capital Projects	4,027
Trees Forever	Special Revenue:	
	Local Option Sales and Services Tax	4,000
Parks and Recreation Open Space	Permanent:	
	Parks Planting (Hattery)	3,610
		<u>23,821</u>
Debt Service	General	78,663
	Special Revenue:	
	Urban Renewal Tax Increment	59,823
	Capital Projects	9,950
	Enterprise:	
	Sewer	60,000
		<u>208,436</u>
Capital Projects	General	6,395
	Special Revenue:	
	Local Option Sales and Services Tax	67,449
	Urban Renewal Tax Increment	364,513
	S.C.O.R.E. Undesignated	979,766
		<u>1,418,123</u>
Total		<u>\$ 2,181,562</u>

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

(8) Industrial Development Revenue Bonds

The City has issued a total of \$2,363,229 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$1,793,141 is outstanding at June 30, 2005. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

(9) Landfill Contract

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

(10) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 509 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2005 were \$91,691.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2005, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

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

The City also carries commercial insurance purchased from other insurers for coverage associated with worker's compensation coverages. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Development Agreements

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

The City has rebated a total of \$332,875 of incremental tax under the agreements. The outstanding balance of the agreements at June 30, 2005 was \$70,172.

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

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

(12) Deficit Fund Balance

The Water Fund had a deficit balance of \$968,375 at June 30, 2005. The deficit balance was a result of project costs incurred prior to request of funds. The deficit will be eliminated upon receipt of state revolving loan funds.

(13) Subsequent Event

In July 2005, the City issued \$1,545,000 of general obligation bonds to finance the cost of street, water and storm sewer improvements.

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 1,814,633	-	-
Tax increment financing	1,022,084	-	-
Other city tax	795,059	-	-
Licenses and permits	55,050	-	-
Use of money and property	227,267	112,166	997
Intergovernmental	905,229	13,888	20,607
Charges for service	249,297	2,018,097	32,638
Special assessments	38,760	-	-
Miscellaneous	380,396	330,729	28,353
Total receipts	<u>5,487,775</u>	<u>2,474,880</u>	<u>82,595</u>
Disbursements:			
Public safety	905,856	4,341	57,067
Public works	738,155	521	521
Health and social services	74,300	-	-
Culture and recreation	1,135,262	17,359	17,359
Community and economic development	448,862	195	195
General government	237,445	1,903	1,903
Debt service	1,165,018	-	-
Capital projects	1,129,387	-	-
Business type activities	-	6,797,077	11,135
Total disbursements	<u>5,834,285</u>	<u>6,821,396</u>	<u>88,180</u>
Deficiency of receipts under disbursements	(346,510)	(4,346,516)	(5,585)
Other financing sources (uses), net	464,444	(60,000)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	117,934	(4,406,516)	(5,585)
Balances beginning of year	5,624,379	5,591,463	58,047
Balances end of year	<u>\$ 5,742,313</u>	<u>1,184,947</u>	<u>52,462</u>

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
1,814,633	1,791,398	1,791,398	23,235
1,022,084	941,341	941,341	80,743
795,059	690,477	690,477	104,582
55,050	39,975	39,975	15,075
338,436	101,899	101,899	236,537
898,510	631,589	831,589	66,921
2,234,756	2,116,396	2,038,606	196,150
38,760	5,000	5,000	33,760
682,772	690,889	733,925	(51,153)
<u>7,880,060</u>	<u>7,008,964</u>	<u>7,174,210</u>	<u>705,850</u>
853,130	829,131	1,018,570	165,440
738,155	777,779	848,401	110,246
74,300	75,300	75,300	1,000
1,135,262	1,094,528	1,183,930	48,668
448,862	237,276	527,415	78,553
237,445	252,879	278,529	41,084
1,165,018	1,114,169	1,797,529	632,511
1,129,387	1,360,000	2,750,750	1,621,363
6,785,942	5,441,585	10,815,630	4,029,688
<u>12,567,501</u>	<u>11,182,647</u>	<u>19,296,054</u>	<u>6,728,553</u>
(4,687,441)	(4,173,683)	(12,121,844)	7,434,403
404,444	3,200,000	4,200,000	(3,795,556)
(4,282,997)	(973,683)	(7,921,844)	3,638,847
11,157,795	8,356,820	11,160,930	(3,135)
<u>6,874,798</u>	<u>7,383,137</u>	<u>3,239,086</u>	<u>3,635,712</u>

City of Nevada

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except blended component units and Internal Service 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 non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Funds and the 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, two budget amendments increased budgeted disbursements by \$8,113,407. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements did not exceed the amount budgeted by function.

Other Supplementary Information

City of Nevada

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

As of and for the year ended June 30, 2005

	Special							
	Employee		Cemetery	Cemetery	Library	Fire	S.C.O.R.E.	S.C.O.R.E.
	Benefits	Emergency	Memorials	Foundation	Trust	Trust	Undesignated	Operation & Maintenance
Receipts:								
Property tax	\$ 295,798	31,359	-	-	-	-	-	-
Other city tax	14,772	1,566	-	-	-	-	-	-
Use of money and property	4,389	466	147	-	2,667	-	24,406	114
Intergovernmental	-	-	-	-	8,434	-	-	-
Charges for service	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	6	14,316	201	46,446	-
Total receipts	<u>314,959</u>	<u>33,391</u>	<u>147</u>	<u>6</u>	<u>25,417</u>	<u>201</u>	<u>70,852</u>	<u>114</u>
Disbursements:								
Public safety	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	80	24,849	-	-	-
Community and economic development	-	-	-	-	-	-	-	-
Total disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>80</u>	<u>24,849</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>314,959</u>	<u>33,391</u>	<u>147</u>	<u>(74)</u>	<u>568</u>	<u>201</u>	<u>70,852</u>	<u>114</u>
Other financing sources (uses):								
Operating transfers in	-	-	-	74	-	-	-	-
Operating transfers out	<u>(312,674)</u>	<u>(33,391)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(979,766)</u>	<u>-</u>
Total other financing sources (uses)	<u>(312,674)</u>	<u>(33,391)</u>	<u>-</u>	<u>74</u>	<u>-</u>	<u>-</u>	<u>(979,766)</u>	<u>-</u>
Net change in cash balances	2,285	-	147	-	568	201	(908,914)	114
Cash balances beginning of year	-	-	5,619	-	104,650	-	908,914	4,363
Cash balances end of year	<u>\$ 2,285</u>	<u>-</u>	<u>5,766</u>	<u>-</u>	<u>105,218</u>	<u>201</u>	<u>-</u>	<u>4,477</u>
Cash Basis Fund Balances								
Unreserved:								
Special revenue funds	\$ 2,285	-	5,766	-	105,218	201	-	4,477
Permanent funds	-	-	-	-	-	-	-	-
Total cash basis fund balances	<u>\$ 2,285</u>	<u>-</u>	<u>5,766</u>	<u>-</u>	<u>105,218</u>	<u>201</u>	<u>-</u>	<u>4,477</u>

See accompanying independent auditor's report.

Revenue										Permanent	
Gates Hall Trust	Gates Hall Piano	Parks and Recreation Open Space	Columbarium Maintenance	Trees Forever	Police Forfeiture	Nevada Firefighters Incorporated	Nevada First Responders	Cemetery Perpetual Care	Parks Planting (Hattery)	Total	
-	-	-	-	-	-	-	-	-	-	327,157	
-	-	-	-	-	-	-	-	-	-	16,338	
-	440	6,944	9	226	239	743	254	-	116	41,160	
-	-	-	-	1,000	-	8,185	12,422	-	-	30,041	
-	-	-	179	-	-	-	-	5,401	-	5,580	
-	-	40,000	-	9,219	-	16,057	12,296	-	-	138,541	
-	440	46,944	188	10,445	239	24,985	24,972	5,401	116	558,817	
-	-	-	-	-	-	31,527	21,199	-	-	52,726	
1,936	400	12,817	-	-	-	-	-	-	-	40,082	
-	-	-	-	14,902	-	-	-	-	-	14,902	
1,936	400	12,817	-	14,902	-	31,527	21,199	-	-	107,710	
(1,936)	40	34,127	188	(4,457)	239	(6,542)	3,773	5,401	116	451,107	
-	-	3,610	-	4,000	-	-	-	-	-	7,684	
(3,617)	-	(5,000)	-	-	-	-	-	-	(3,610)	(1,338,058)	
(3,617)	-	(1,390)	-	4,000	-	-	-	-	(3,610)	(1,330,374)	
(5,553)	40	32,737	188	(457)	239	(6,542)	3,773	5,401	(3,494)	(879,267)	
85,553	17,089	45,790	294	6,892	9,154	28,018	26,896	88,768	8,494	1,340,494	
80,000	17,129	78,527	482	6,435	9,393	21,476	30,669	94,169	5,000	461,227	
80,000	17,129	78,527	482	6,435	9,393	21,476	30,669	-	-	362,058	
-	-	-	-	-	-	-	-	94,169	5,000	99,169	
80,000	17,129	78,527	482	6,435	9,393	21,476	30,669	94,169	5,000	461,227	

City of Nevada
Schedule of Indebtedness
Year ended June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Refunding	May 1, 1999	4.00-4.25%	\$ 1,300,000
Corporate purpose	Apr 1, 2002	3.00-5.40	770,000
Street improvement	Apr 1, 2003	1.50-2.55	1,200,000
Corporate purpose and refunding	Aug 15, 2004	1.90-3.25	1,035,000
Total			
Urban renewal tax increment:			
Revenue bonds	Oct 1, 1999	4.80-5.40%	\$ 1,130,000
Revenue bonds	Apr 1, 2002	3.25-5.25	720,000
Revenue bonds	Nov 1, 2003	1.55-2.70	850,000
Total			
Local option sales and services tax:			
Revenue bonds	Aug 1, 2001	4.30-5.20%	\$ 1,000,000
Revenue bonds and notes:			
Sewer revolving bonds	Jan 3, 1995	4.54%	\$ 1,114,000
Sewer notes	Dec 1, 2002	2.25-3.25	640,000
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
610,000	-	610,000	-	6,337
690,000	-	45,000	645,000	33,363
720,000	-	235,000	485,000	15,757
-	1,035,000	245,000	790,000	21,083
<u>\$ 2,020,000</u>	<u>1,035,000</u>	<u>1,135,000</u>	<u>1,920,000</u>	<u>76,540</u>
745,000	-	110,000	635,000	39,050
605,000	-	65,000	540,000	29,095
565,000	-	185,000	380,000	13,015
<u>\$ 1,915,000</u>	<u>-</u>	<u>360,000</u>	<u>1,555,000</u>	<u>81,160</u>
735,000	-	90,000	645,000	36,155
680,000	-	55,000	625,000	30,872
330,000	-	160,000	170,000	10,085
<u>\$ 1,010,000</u>	<u>-</u>	<u>215,000</u>	<u>795,000</u>	<u>40,957</u>

City of Nevada
Bond and Note Maturities
June 30, 2005

Year Ending June 30,	General Obligation Notes						Total
	Corporate Purpose		Street Improvement		Corporate Purpose and Refunding		
	Issued Apr 1, 2002		Issued Apr 1, 2003		Issued Aug 15, 2004		
	Interest		Interest		Interest		
Rates	Amount	Rates	Amount	Rates	Amount		
2006	4.10%	\$ 45,000	2.20%	\$ 240,000	2.40%	\$ 260,000	545,000
2007	4.30	50,000	2.55	245,000	2.70	265,000	560,000
2008	4.50	50,000	-	-	3.00	50,000	100,000
2009	4.70	50,000	-	-	3.25	215,000	265,000
2010	4.80	55,000	-	-	-	-	55,000
2011	4.90	60,000	-	-	-	-	60,000
2012	5.00	60,000	-	-	-	-	60,000
2013	5.10	65,000	-	-	-	-	65,000
2014	5.20	65,000	-	-	-	-	65,000
2015	5.30	70,000	-	-	-	-	70,000
2016	5.40	75,000	-	-	-	-	75,000
Total		<u>\$ 645,000</u>		<u>\$ 485,000</u>		<u>\$ 790,000</u>	<u>1,920,000</u>

Year Ending June 30,	Local Option		Revenue Bonds and Notes				Total
	Sales and Services		Sewer Revolving Bonds		Sewer Notes		
	Tax Revenue Bonds		Issued Jan 3, 1995		Issued Dec 1, 2002		
	Issued Aug 1, 2001		Interest		Interest		
Rates	Amount	Rates	Amount	Rates	Amount		
2006	4.70%	\$ 95,000	4.54%	\$ 60,000	3.25%	\$ 170,000	230,000
2007	4.80	100,000	4.54	60,000	-	-	60,000
2008	4.90	105,000	4.54	65,000	-	-	65,000
2009	5.00	110,000	4.54	65,000	-	-	65,000
2010	5.10	115,000	4.54	70,000	-	-	70,000
2011	5.20	120,000	4.54	70,000	-	-	70,000
2012	-	-	4.54	75,000	-	-	75,000
2013	-	-	4.54	80,000	-	-	80,000
2014	-	-	4.54	80,000	-	-	80,000
Total		<u>\$ 645,000</u>		<u>\$ 625,000</u>		<u>\$ 170,000</u>	<u>795,000</u>

See accompanying independent auditor's report.

Urban Renewal Tax Increment Revenue Bonds							
Year Ending June 30,	Issued Oct 1, 1999		Issued Apr 1, 2002		Issued Nov 1, 2003		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2006	5.15%	\$ 115,000	4.35%	\$ 65,000	2.30%	\$ 190,000	370,000
2007	5.20	120,000	4.55	70,000	2.70	190,000	380,000
2008	5.25	125,000	4.75	75,000	-	-	200,000
2009	5.30	135,000	4.95	75,000	-	-	210,000
2010	5.40	140,000	5.05	80,000	-	-	220,000
2011	-	-	5.15	85,000	-	-	85,000
2012	-	-	5.25	90,000	-	-	90,000
Total		<u>\$ 635,000</u>		<u>\$ 540,000</u>		<u>\$ 380,000</u>	<u>1,555,000</u>

Schedule 4

City of Nevada

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

For the Last Three Years

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

See accompanying independent auditor's report.

City of Nevada
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2005

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expendi- tures
Indirect:			
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	STP-RR00(90)--2C-00	\$ 17,243
U.S. Environmental Protection Agency:			
Iowa Department of Natural Resources:			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	FS-85-04-DWSRF-022	3,337,524
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Public Assistance Grants	97.036	169-55695-00	<u>2,241</u>
Total			<u>\$ 3,357,008</u>

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

See accompanying independent auditor's report.

City of Nevada



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Nevada, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated August 30, 2005. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

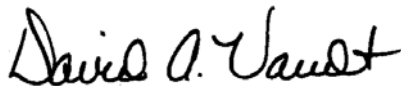
Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 30, 2005



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

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

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Nevada, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2005. The City of Nevada's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Nevada's management. Our responsibility is to express an opinion on the City of Nevada's compliance based on our audit.

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

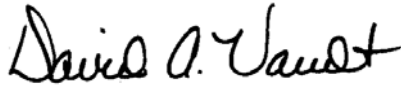
In our opinion, the City of Nevada complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

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

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

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



DAVID A. VAUDT, CPA
Auditor of State

August 30, 2005



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

City of Nevada

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

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, which were not considered to be material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 66.468 – Capitalization Grants for Drinking Water State Revolving Funds.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Nevada did not qualify as a low-risk auditee.

City of Nevada

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-05 Park and Recreation Receipts – The Parks and Recreation Department collects fees for various activities and facility rentals. The Department issues a pre-numbered receipt, deposits the receipts and forwards the deposit slip to the City Clerk. However, the City does not account for the numerical sequence of the pre-numbered receipts.

Recommendation – The City should account for the numerical sequence of the pre-numbered receipts.

Response – The Clerk’s office has started tracking numerically all receipts received from Parks and Recreation and will follow up on any missing receipts to determine the cause.

Conclusion – Response accepted.

II-B-05 Credit Cards – The City has credit cards for use by various employees while on City business. Two are issued to the City Administrator and the Assistant Director in the Parks and Recreation Department. The other credit cards are checked out as needed from the City Clerk. The City has not adopted a formal policy to regulate the use of credit cards.

Recommendation – The Council should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – The City staff will prepare a credit card policy for approval by the Council.

Conclusion – Response accepted.

II-C-05 Nevada Economic Development Council (NEDC) – During our review of internal control, the existing controls were evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the Council’s financial statement. Generally, one individual has control over collecting, depositing and posting for which no compensating controls exist.

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

City of Nevada

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Response – Nevada Economic Development Council will segregate duties to the extent possible and will use a member of the Executive Board of the NEDC to review monthly transactions and reconciliations. Such reviews will be evidenced by signature of reviewer. In addition, a listing of all checks written or to be written are presented to the board and approved via the consent agenda at each monthly board meeting. Monthly financial statements are provided to all board members and to the City of Nevada officials.

Conclusion – Response acknowledged. The City and the Nevada Economic Development Council should continue efforts to improve internal control, including a time table for completion.

- II-D-05 Nevada Firefighters Incorporated – During our review of internal control, the existing controls were evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the entity's financial statement. Generally, one individual has control over collecting, depositing, posting, disbursing and bank reconciliations for which no compensating controls exist.

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

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

Supporting documentation should be maintained for all disbursements.

Response – We will start every month having the President and/or Vice-President go through the bank statement and the check register as a check and balance system for our accounts. Supporting documentation will be maintained for all disbursements.

Conclusion – Response acknowledged. The City and Nevada Fire Fighters Incorporated should continue efforts to improve internal control, including a time table for completion.

- II-E-05 Nevada First Responders – During our review of internal control, the existing controls were evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the entity's financial statement. Generally, one individual has control over collecting, depositing, posting, disbursing and bank reconciliations for which no compensating controls exist.

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

City of Nevada

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

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

Supporting documentation should be maintained for all disbursements.

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

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

Conclusion – Response acknowledged. The City and Nevada First Responders should continue efforts to improve internal control, including a time table for completion.

City of Nevada
Schedule of Findings and Questioned Costs
Year ended June 30, 2005

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITION:

No material weaknesses in internal control over compliance were noted.

City of Nevada

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Part IV: Other Findings Related to Statutory Reporting:

- IV-A-05 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
- IV-B-05 Certified Budget – Disbursements during the year ended June 30, 2005 did not exceed the amounts budgeted.
- IV-C-05 Questionable Disbursements – No disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- IV-D-05 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- IV-E-05 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Jerry Mitchell, City employee, Owner of Mitchell Saw Sharpening	Chains, sharpening	\$ 179

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

- IV-F-05 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- IV-G-05 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- IV-H-05 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.
- IV-I-05 Revenue Bonds and Notes – The City has complied with the sewer revenue bond and note requirements for the year ended June 30, 2005.
- IV-J-05 Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.

City of Nevada

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Response – The City has been in contact with our bank and will collect the image of the front and back of all checks for this fiscal year electronically and this file will be available annually.

Conclusion – Response accepted.

IV-K-05 City Code of Ordinances – The City Code of Ordinances has not been recodified in the last five years as required.

Recommendation – Chapter 380.8(1) of the Code of Iowa requires the City Code of Ordinances be recodified at least once every five years.

Response – The Code has been submitted for final editing.

Conclusion – Response accepted.

IV-L-05 Financial Condition – The Water Fund had a deficit balance at June 30, 2005 of \$968,375.

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

Response – The Water Fund was in a deficit balance due to the Water Plant expenditures that had not yet been reimbursed by the State Revolving Loan Fund. A request for reimbursement has been submitted, the funds received, and the fund is no longer in a deficit balance.

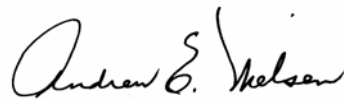
Conclusion – Response accepted.

City of Nevada

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Lesley R. Geary, CPA, Senior Auditor II
Stephanie A. Bernard, Staff Auditor
Jessica L. Christensen, Assistant Auditor
Joseph M. Seuntjens, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State