



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE December 3, 2004

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Auditor of State David A. Vaudt today released an audit report on Sheldon Community School District in Sheldon, Iowa.

The District has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements include a Statement of Net Assets and a Statement of Activities which provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Also included is Management's Discussion and Analysis of the District's financial statements.

The District's revenues totaled \$9,247,833 for the year ended June 30, 2004. Revenues included \$3,992,989 in local taxes, charges for service of \$766,362, operating grants, contributions and restricted interest of \$1,052,100, capital grants, contributions and restricted interest of \$226,532, local option sales and services tax of \$166,699, unrestricted state grants and contributions of \$3,021,581, unrestricted investment earnings of \$11,507 and other general revenues of \$10,063.

Expenses for District operations totaled \$8,329,126. Expenses included \$5,198,406 for instruction, \$1,965,235 for support services and \$358,088 for food service operations.

A copy of the audit report is available for review in the Office of Auditor of State and the District Secretary's office.

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SHELDON COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

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Sheldon Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2003 Election)		
Dan Van Gorp	President	2005
Linda Porter	Vice President	2003
Kecia Hickman	Board Member	2004
Gary Ihnen	Board Member	2004
Carl Rolf	Board Member	(Resigned)
Mark Brown (Appointed)	Board Member	2005

Board of Education

(After September 2003 Election)

Dan Van Gorp	President	2005
Gary Innen	Vice President	2004
Kecia Hickman	Board Member	2004
Mark Brown	Board Member	2005
Kathy Brock	Board Member	2006

School Officials

Robin Spears	Superintendent	2004
Bill Borchers	District Secretary/Treasurer and Business Manager	2004
Tom Whorley	Attorney	2004

Sheldon Community School District



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Independent Auditor's Report

To the Board of Education of
Sheldon Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Sheldon Community School District, Sheldon Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. 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, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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.


In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Sheldon Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

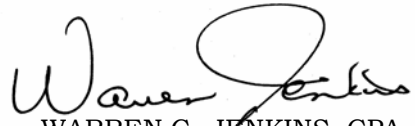
As described in Note 11 to the financial statements, during the year ended June 30, 2004, Sheldon Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated September 24, 2004 on our consideration of Sheldon Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 8 through 16 and 44 through 47 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 Sheldon Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, 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

September 24, 2004

Sheldon Community School District

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sheldon Community School District 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, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$7,042,721 in fiscal 2003 to \$6,797,370 in fiscal 2004, while General Fund expenditures increased from \$6,628,832 in fiscal 2003 to \$6,869,700 in fiscal 2004. The District's General Fund balance decreased from \$1,142,673 in fiscal 2003 to \$1,070,343 in fiscal 2004, a 6% decrease.
- The decrease in General Fund revenues was primarily due to a reduction in state funding resulting from budget cuts implemented at the state level during fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures. The General Fund balance decrease is primarily due to the decreased state funding. This decrease forced the District to cover a portion of the current year General Fund expenditures from the carryover fund balance.
- A decline in interest rates during the past three fiscal years, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone decreasing from \$28,833 in fiscal 2003 to \$13,805 in fiscal 2004.

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 District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Sheldon Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements report Sheldon Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The governmental fund financial statements tell how governmental services were financed in the short term as well as what remains for future spending. The proprietary fund financial statements offer short-term and long-term financial information about activities the District operates like a business. In Sheldon Community School District, the school nutrition program operations are the only enterprise reported as a proprietary fund. The remaining statement provides financial information about activities for which

Sheldon Community School District acts solely as an agent or custodian for the benefit of those outside of District government.

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 District's budget for the year.

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

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

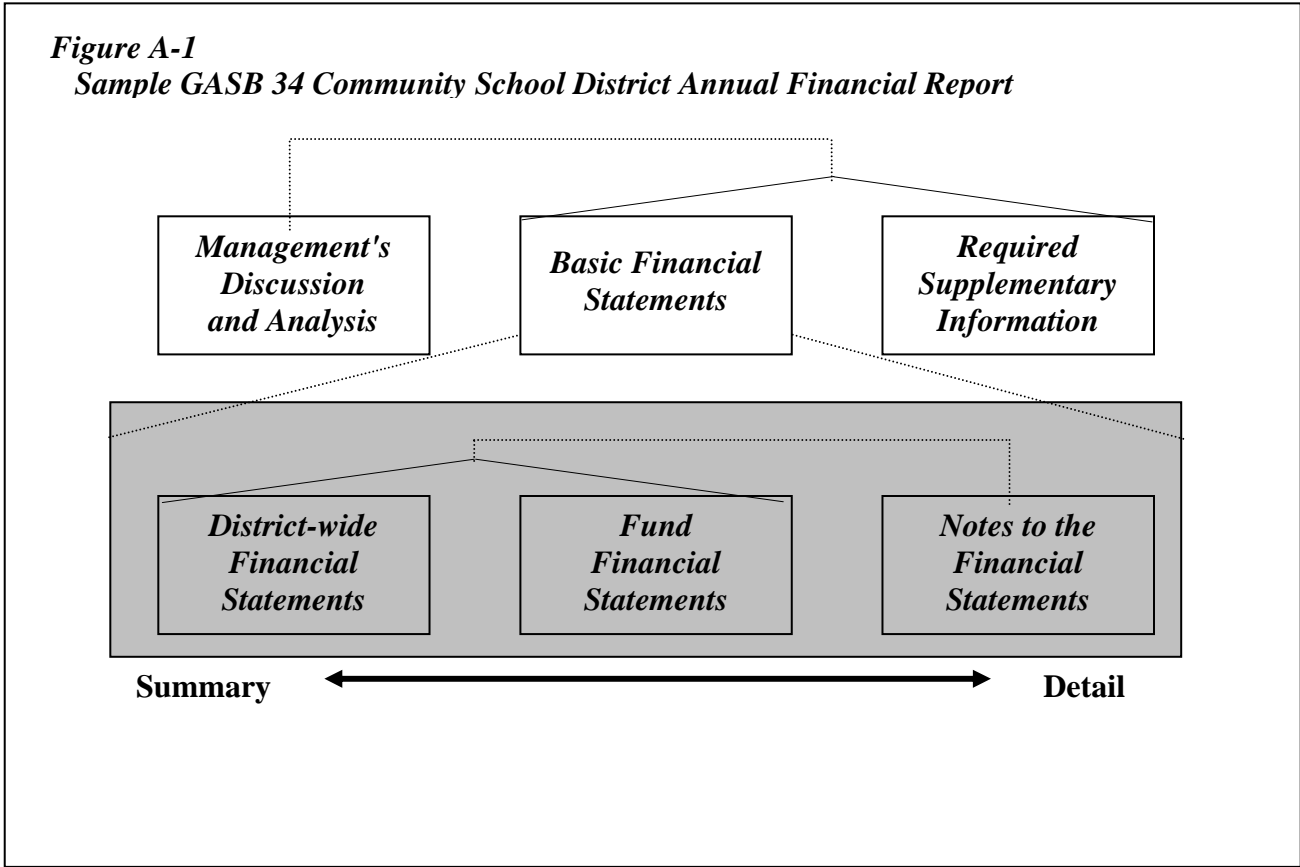


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2
Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary assets and liabilities-Agency Fund
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets—the difference between the District's assets and liabilities—are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds—not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Fund, one type of proprietary fund, is the same as its business type activities, but provides more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

- 3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Agency Funds. Agency Funds are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statement for the District's fiduciary fund is a statement of fiduciary assets and liabilities.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2004.

Figure A-3			
Condensed Statement of Net Assets			
(Expressed in Thousands)			
	Governmental Activities	Business Type Activities	Total District
Current and other assets	\$ 8,430	33	8,463
Capital assets	9,565	11	9,576
Total assets	<u>17,995</u>	<u>44</u>	<u>18,039</u>
Long-term liabilities	6,470	-	6,470
Other liabilities	5,641	-	5,641
Total liabilities	<u>12,111</u>	<u>-</u>	<u>12,111</u>
Net assets:			
Invested in capital assets, net of related debt	3,799	11	3,810
Restricted	832	-	832
Unrestricted	<u>1,253</u>	<u>33</u>	<u>1,286</u>
Total net assets	<u>\$ 5,884</u>	<u>44</u>	<u>5,928</u>

The District's combined net assets increased by nearly 18%, or approximately \$919,000, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints, total \$1,286,834.

Figure A-4 shows the change in net assets for the year ended June 30, 2004.

Figure A-4			
Change in Net Assets			
(Expressed in Thousands)			
	Governmental Activities	Business Type Activities	Total District
Revenues:			
Program revenues:			
Charges for service	\$ 552	214	766
Operating grants, contributions and restricted interest	905	147	1,052
Capital grants, contributions and restricted interest	226	-	226
General revenues:			
Property tax	3,993	-	3,993
Local option sales and services tax	167	-	167
Unrestricted state grants and contributions	3,022	-	3,022
Unrestricted investment earnings	12	-	12
Other	10	-	10
Total revenues	8,887	361	9,248
Program expenses:			
Governmental activities:			
Instruction	5,198	-	5,198
Support services	1,965	-	1,965
Non-instructional programs	50	358	408
Other expenses	758	-	758
Total expenses	7,971	358	8,329
Change in net assets	\$ 916	3	919

Property tax and unrestricted state grants account for 76% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 86% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$8,886,805 and expenses were \$7,971,038. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5		
Total and Net Cost of Governmental Activities		
(Expressed in Thousands)		
	Total Cost of Services	Net Cost of Services
Instruction	\$ 5,198	4,164
Support services	1,965	1,874
Non-instructional programs	50	44
Other expenses	758	205
Total	\$ 7,971	6,287

- The cost financed by users of the District's programs was \$552,045.
- Federal and state governments subsidized certain programs with grants, contributions and restricted interest totaling \$905,535.
- The net cost of governmental activities was financed with \$4,159,688 in property and other taxes and \$3,021,581 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$361,028 and expenses were \$358,088. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2004, the District increased meal prices for the first time in three years. This increase resulted in increased revenue to the School Nutrition Fund which the District has obligated for replacement of obsolete kitchen equipment at the elementary building and kitchen equipment for the new middle school in the next fiscal year.

INDIVIDUAL FUND ANALYSIS

As previously noted, Sheldon Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$2,547,503, below last year's restated ending fund balance of \$5,945,849.

Governmental Fund Highlights

- The General Fund balance decreased from \$1,142,673 to \$1,070,343, due in part to the negotiated salary and benefits settlement, the prior year reduction in state aid and existing expenditure commitments of the District. The District's deteriorating General Fund financial position is the result of many factors. Growth during the year in tax and grants resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures requiring the District to use carryover fund balance to meet its financial obligations during the year.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$92,774 in fiscal 2003 to \$384,970 in fiscal 2004. While revenues increased slightly due to a reimbursement from the State of Iowa for a construction grant on the HVAC upgrading at the Elementary School, the District substantially reduced spending from the PPEL Fund.
- The Capital Projects Fund balance decreased from \$4,421,425 to \$653,893 due to construction costs on completion of the new Middle School. The June 30, 2004 ending balance of \$653,893 consists primarily of unexpended bond proceeds, which will be expended as the project is completed.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from a restated amount of \$41,295 at June 30, 2003 to \$44,235 at June 30, 2004, representing an increase of approximately 7%.

BUDGETARY HIGHLIGHTS

Over the course of the year, Sheldon Community School District amended its annual budget one time to reflect additional revenue and expenditures associated with the middle school building capital project activity.

The District's receipts were \$735,705 greater than budgeted receipts, a variance of 8%.

Total disbursements were \$929,453 less than budgeted disbursements, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional programs function due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested, net of accumulated depreciation, \$9.6 million in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$315,111.

The original cost of the District's capital assets was \$13.4 million. Governmental funds account for \$13.3 million, with the remaining \$0.1 million accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$6,971,669 at June 30, 2004, compared to \$2,285,468 reported at June 30, 2003. This significant increase resulted from construction activity financed by the issuance of voter approved general obligation bonds and revenue bonds totaling \$6,470,000 in fiscal 2002 for construction of a new middle school building.

Figure A-6

**Capital Assets, net of Depreciation
(expressed in thousands)**

	Governmental Activities	Business type Activities	Total District
Land	\$ 85	-	85
Construction in progress	6,972	-	6,972
Buildings	1,226	-	1,226
Improvements other than buildings	1,066	-	1,066
Furniture and equipment	216	11	227
Total	\$ 9,565	11	9,576

Long-Term Debt

At June 30, 2004, the District had \$6,469,634 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 2.6% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

In May 2002, the District's voters authorized the issuance of \$6,470,000 in general obligation bonds to pay for construction of a new middle school building. Planning for the project started in fiscal 2002 and the bonds were sold during fiscal 2003. The District had total outstanding bonded indebtedness at June 30, 2004 of \$6,420,000.

Figure A-7
Outstanding Long-Term Obligations
(expressed in thousands)

General obligation bonds	\$ 6,420
Early retirement	50
	<hr/>
Total	\$ 6,470
	<hr/> <hr/>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of the following existing circumstances that could significantly affect its financial health in the future:

- Fiscal 2004 was the first year of a three-year contract with the Sheldon Education Association (SEA). The District will negotiate a new agreement during fiscal 2006, but will negotiate a new wage settlement during fiscal 2005. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Bill Borchers, District Secretary/Treasurer and Business Manager, Sheldon Community School District, 1700 E. 4th Street, Sheldon, Iowa, 51201.

Basic Financial Statements

Sheldon Community School District

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents:			
ISCAP	\$ 967,759	-	967,759
Other	3,897,569	22,079	3,919,648
Receivables:			
Property tax:			
Delinquent	39,611	-	39,611
Succeeding year	3,120,000	-	3,120,000
Accounts	24,176	-	24,176
Accrued interest:			
ISCAP	2,147	-	2,147
Other	215	2	217
Due from other governments	377,886	-	377,886
Inventories	-	11,716	11,716
Capital assets, net of accumulated depreciation	9,565,120	10,809	9,575,929
Total assets	17,994,483	44,606	18,039,089
Liabilities			
Accounts payable	890,674	300	890,974
Salaries and benefits payable	625,532	71	625,603
Due to other governments	8,024	-	8,024
Accrued interest payable	21,638	-	21,638
Deferred revenue - succeeding year property tax	3,120,000	-	3,120,000
ISCAP warrants payable	962,000	-	962,000
ISCAP accrued interest payable	3,256	-	3,256
ISCAP unamortized premium	9,795	-	9,795
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	240,000	-	240,000
Early retirement payable	49,634	-	49,634
Portion due after one year:			
General obligation bonds payable	6,180,000	-	6,180,000
Total liabilities	12,110,553	371	12,110,924

Sheldon Community School District

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business Type Activities	Total
Net assets			
Invested in capital assets, net of related debt	3,799,013	10,809	3,809,822
Restricted for:			
Management levy	79,152	-	79,152
Physical plant and equipment levy	386,053	-	386,053
Other special revenue purposes	200,443	-	200,443
Debt service	87,430	-	87,430
Capital projects	76,673	-	76,673
DHS Medicaid retainer	1,758	-	1,758
Unrestricted	1,253,408	33,426	1,286,834
Total net assets	\$ 5,883,930	44,235	5,928,165

See notes to financial statements.

Sheldon Community School District

Statement of Activities

Year ended June 30, 2004

	Expenses	Program Revenues		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs				
Governmental activities:				
Instruction:				
Regular instruction	\$ 3,568,099	137,840	428,654	-
Special instruction	788,266	34,739	47,489	-
Other instruction	842,041	374,272	11,629	-
	<u>5,198,406</u>	<u>546,851</u>	<u>487,772</u>	<u>-</u>
Support services:				
Student services	81,986	-	31,564	-
Instructional staff services	124,936	-	-	-
Administration services	853,117	-	2,768	-
Operation and maintenance of plant services	615,680	-	-	-
Transportation services	289,516	-	56,753	-
	<u>1,965,235</u>	<u>-</u>	<u>91,085</u>	<u>-</u>
Non-instructional programs	49,493	5,194	-	-
Other expenditures:				
Facilities acquisition	-	-	-	226,532
Long-term debt interest	267,814	-	1,010	-
AEA flowthrough	325,668	-	325,668	-
Depreciation (unallocated)*	164,422	-	-	-
	<u>757,904</u>	<u>-</u>	<u>326,678</u>	<u>226,532</u>
Total governmental activities	7,971,038	552,045	905,535	226,532
Business type activities:				
Non-instructional programs:				
Food service operations	358,088	214,317	146,565	-
Total	<u>\$ 8,329,126</u>	<u>766,362</u>	<u>1,052,100</u>	<u>226,532</u>

General Revenues:

Property tax levied for:
General purposes
Debt service
Local option sales and services tax
Unrestricted state grants and contributions
Unrestricted investment earnings
Other
Total general revenues
Change in net assets
Net assets beginning of year, as restated
Net assets end of year

* This amount excludes depreciation included in the direct expenses of the various functions.

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(3,001,605)	-	(3,001,605)
(706,038)	-	(706,038)
(456,140)	-	(456,140)
(4,163,783)	-	(4,163,783)
(50,422)	-	(50,422)
(124,936)	-	(124,936)
(850,349)	-	(850,349)
(615,680)	-	(615,680)
(232,763)	-	(232,763)
(1,874,150)	-	(1,874,150)
(44,299)	-	(44,299)
226,532	-	226,532
(266,804)	-	(266,804)
-	-	-
(164,422)	-	(164,422)
(204,694)	-	(204,694)
(6,286,926)	-	(6,286,926)
-	2,794	2,794
(6,286,926)	2,794	(6,284,132)
\$ 3,485,609	-	3,485,609
507,380	-	507,380
166,699	-	166,699
3,021,581	-	3,021,581
11,361	146	11,507
10,063	-	10,063
7,202,693	146	7,202,839
915,767	2,940	918,707
4,968,163	41,295	5,009,458
\$ 5,883,930	44,235	5,928,165

Exhibit C

Sheldon Community School District

Balance Sheet
Governmental Funds

June 30, 2004

	General	Capital Projects	Nonmajor	Total
Assets				
Cash and pooled investments:				
ISCAP	\$ 967,759	-	-	967,759
Other	1,635,894	1,400,969	860,706	3,897,569
Receivables:				
Property tax:				
Delinquent	27,770	-	11,841	39,611
Succeeding year	2,413,000	-	707,000	3,120,000
Accounts	24,176	-	-	24,176
Accrued interest:				
ISCAP	2,147	-	-	2,147
Other	76	3	136	215
Due from other governments	261,976	114,827	1,083	377,886
Total assets	\$ 5,332,798	1,515,799	1,580,766	8,429,363
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 56,025	785,233	49,416	890,674
Salaries and benefits payable	625,532	-	-	625,532
Due to other governments	8,024	-	-	8,024
ISCAP warrants payable	962,000	-	-	962,000
ISCAP accrued interest payable	3,256	-	-	3,256
ISCAP unamortized premium	9,795	-	-	9,795
Deferred revenue:				
Succeeding year property tax	2,413,000	-	707,000	3,120,000
Other	184,823	76,673	1,083	262,579
Total liabilities	4,262,455	861,906	757,499	5,881,860
Fund balances:				
Reserved for:				
DHS Medicaid retainer	1,758	-	-	1,758
Debt service	-	-	109,068	109,068
Unreserved	1,068,585	653,893	714,199	2,436,677
Total fund balances	1,070,343	653,893	823,267	2,547,503
Total liabilities and fund balances	\$ 5,332,798	1,515,799	1,580,766	8,429,363

See notes to financial statements.

Sheldon Community School District

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2004

Total fund balances of governmental funds (page 24)	\$ 2,547,503
 Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	9,565,120
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	262,579
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(21,638)
Long-term liabilities, including bonds and notes payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(6,469,634)</u>
Net assets of governmental activities (page 21)	<u><u>\$ 5,883,930</u></u>

See notes to financial statements.

Exhibit E

Sheldon Community School District

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2004

	General	Capital Projects	Nonmajor	Total
Revenues:				
Local sources:				
Local tax	\$ 2,669,140	166,699	1,136,062	3,971,901
Tuition	172,579	-	-	172,579
Other	29,061	50,462	377,458	456,981
State sources	3,646,519	-	928	3,647,447
Federal sources	280,071	423,327	190,677	894,075
Total revenues	6,797,370	640,488	1,705,125	9,142,983
Expenditures:				
Current:				
Instruction:				
Regular instruction	3,534,552	-	-	3,534,552
Special instruction	788,266	-	-	788,266
Other instruction	478,473	-	363,568	842,041
	4,801,291	-	363,568	5,164,859
Support services:				
Student services	81,986	-	-	81,986
Instructional staff services	124,936	-	-	124,936
Administration services	706,803	-	120,890	827,693
Operation and maintenance of plant services	579,527	-	-	579,527
Transportation services	240,987	-	-	240,987
	1,734,239	-	120,890	1,855,129
Non-instructional programs	8,502	-	-	8,502
Other expenditures:				
Facilities acquisition	-	4,495,795	222,875	4,718,670
Long-term debt:				
Principal	-	-	200,000	200,000
Interest and fiscal charges	-	-	268,501	268,501
AEA flowthrough	325,668	-	-	325,668
	325,668	4,495,795	691,376	5,512,839
Total expenditures	6,869,700	4,495,795	1,175,834	12,541,329
Excess (deficiency) of revenues over (under) expenditures	(72,330)	(3,855,307)	529,291	(3,398,346)
Other financing sources (uses):				
Operating transfers in	-	177,775	247,050	424,825
Operating transfers out	-	(90,000)	(334,825)	(424,825)
Total other financing sources (uses)	-	87,775	(87,775)	-
Net change in fund balances	(72,330)	(3,767,532)	441,516	(3,398,346)
Fund balances beginning of year, as restated (note 11)	1,142,673	4,421,425	381,751	5,945,849
Fund balances end of year	\$ 1,070,343	653,893	823,267	2,547,503

See notes to financial statements.

Sheldon Community School District

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2004

Net change in fund balances - total governmental funds (page 24) \$ (3,398,346)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 4,707,809	
Depreciation expense	<u>(312,781)</u>	4,395,028

Certain revenues not collected for several months after year end are not considered available revenue and are deferred in the governmental funds. (256,178)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 200,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 687

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement		<u>(25,424)</u>
------------------	--	-----------------

Change in net assets of governmental activities (page 21) \$ 915,767

See notes to financial statements.

Sheldon Community School District

Statement of Net Assets
Proprietary Fund

June 30, 2004

	<u>School</u> <u>Nutrition-Nonmajor</u>
Assets	
Cash and cash equivalents	\$ 22,079
Accrued interest receivable	2
Inventories	11,716
Capital assets, net of accumulated depreciation	<u>10,809</u>
Total assets	<u>44,606</u>
Liabilities	
Accounts payable	300
Salaries and benefits payable	<u>71</u>
Total liabilities	<u>371</u>
Net Assets	
Invested in capital assets, net of related debt	10,809
Unrestricted	<u>33,426</u>
Total net assets	<u>\$ 44,235</u>

See notes to financial statements.

Sheldon Community School District

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund

Year ended June 30, 2004

	<u>School</u> <u>Nutrition-Nonmajor</u>
Operating revenues:	
Local sources:	
Charges for service	\$ 214,317
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries and benefits	154,109
Benefits	45,987
Purchased services	3,970
Supplies	151,692
Depreciation	2,330
Total operating expenses	<u>358,088</u>
Operating loss	<u>(143,771)</u>
Non-operating revenues:	
State sources	5,414
Federal sources	141,151
Interest income	146
Total non-operating revenues	<u>146,711</u>
Change in net assets	2,940
Net assets beginning of year, as restated (note 11)	<u>41,295</u>
Net assets end of year	<u>\$ 44,235</u>

See notes to financial statements.

Exhibit I

Sheldon Community School District

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2004

	<u>School</u> <u>Nutrition-Nonmajor</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 214,374
Cash paid to employees for services	(174,315)
Cash paid to suppliers for goods or services	(154,045)
Net cash used by operating activities	<u>(113,986)</u>
Cash flows from non-capital financing activities:	
State grants received	5,414
Federal grants received	113,147
Net cash provided by non-capital financing activities	<u>118,561</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(5,286)
Net cash used by capital and related financing activities	<u>(5,286)</u>
Cash flows from investing activities:	
Interest on investments	<u>161</u>
Net decrease in cash and cash equivalents	(550)
Cash and cash equivalents beginning of year	<u>22,629</u>
Cash and cash equivalents end of year	<u>\$ 22,079</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (143,771)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	28,004
Depreciation	2,330
Increase in inventories	(861)
Decrease in accounts receivable	57
Increase in accounts payable	185
Increase in salaries and benefits payable	<u>70</u>
Net cash used by operating activities	<u>\$ (113,986)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$28,004 of federal commodities.

See notes to financial statements.

Sheldon Community School District

Statement of Fiduciary Assets and Liabilities
Agency Fund

June 30, 2004

Assets

Cash and pooled investments	\$	3,839
Accrued interest receivable		1
Due from other governments		<u>8,975</u>
Total assets		12,815

Liabilities

Due to other governments		<u>12,815</u>
Net assets	\$	<u><u>-</u></u>

See notes to financial statements.

Sheldon Community School District

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

Sheldon Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Sheldon, Iowa, and the predominate agricultural territory in O'Brien County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Sheldon Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District 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 District are such that exclusion would cause the District'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 District 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 District. Sheldon Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organization – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of both the O'Brien County and Sioux County Assessor's Conference Boards.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally 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 Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

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 two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues 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 restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues 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 expenditures, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and the collection and use of the local option sales and services tax.

The District reports the following nonmajor proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District's fiduciary fund is as follows:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a

proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1/3% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 25,000
Buildings	25,000
Improvements other than buildings	5,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	5,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	20-50 years
Improvements other than buildings	5-20 years
Furniture and equipment	2-20 years

Salaries and Benefits Payable–Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue– Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-Term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity—In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets—In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements in the non-instructional programs function exceeded the amount budgeted.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2004 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 District 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 Board of Education; 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 District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$2,462,144 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

The District's other investment is categorized as Category 2, which means the investment is collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

The investment is stated at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

The District's investment at June 30, 2004 is as follows:

<u>Type</u>	<u>Fair Value</u>
Repurchase Agreement	<u>\$ 525,765</u>

(3) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 90,000
	Special Revenue:	
	Physical Plant and Equipment Levy	157,050
Capital Projects	Debt Service	<u>177,775</u>
Total		<u>\$424,825</u>

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

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2004 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2003-04B	1/30/04	1/28/05	\$ 394,670	2,147	392,000	3,256
2004-05A	6/30/04	6/30/05	573,089	-	570,000	-
Total			<u>\$ 967,759</u>	<u>2,147</u>	<u>962,000</u>	<u>3,256</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The District did not obtain or repay any ISCAP advances in the General Fund during the year ended June 30, 2004.

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2003-04B	2.000%	1.392%
2004-05A	3.000	2.463

(5) Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning of Year, as restated (note 11)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 85,175	-	-	85,175
Construction in progress	2,285,468	4,686,201	-	6,971,669
Total capital assets not being depreciated	2,370,643	4,686,201	-	7,056,844
Capital assets being depreciated:				
Buildings	3,174,760	-	-	3,174,760
Improvements other than buildings	1,910,265	-	-	1,910,265
Furniture and equipment	1,142,526	21,608	-	1,164,134
Total capital assets being depreciated	6,227,551	21,608	-	6,249,159
Less accumulated depreciation for:				
Buildings	1,894,533	53,587	-	1,948,120
Improvements other than buildings	678,231	166,533	-	844,764
Furniture and equipment	855,338	92,661	-	947,999
Total accumulated depreciation	3,428,102	312,781	-	3,740,883
Total capital assets being depreciated, net	2,799,449	(291,173)	-	2,508,276
Governmental activities capital assets, net	\$ 5,170,092	4,395,028	-	9,565,120
Business type activities:				
Furniture and equipment	\$ 110,266	5,286	-	115,552
Less accumulated depreciation	102,413	2,330	-	104,743
Business type activities capital assets, net	\$ 7,853	2,956	-	10,809

Depreciation expense was charged to the following functions:

Governmental activities:		
Instruction:		
Regular instruction		\$ 55,155
Support services:		
Operation and maintenance of plant services		3,684
Transportation services		48,528
Non-instructional		40,992
		148,359
Unallocated		164,422
		\$ 312,781
Business type activities:		
Food service operations		\$ 2,330
		\$ 315,111

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 6,470,000	-	50,000	6,420,000	240,000
Notes payable	150,000	-	150,000	-	-
Early retirement	24,210	49,634	24,210	49,634	49,634
				6,469,634	289,634
Total	\$ 6,644,210	49,634	224,210	6,469,634	289,634

The July 1, 2003 long-term liabilities balance for governmental activities has been restated as follows:

Balance June 30, 2003, as previously reported	\$ 6,632,105
Compensated absences were increased due to the implementation of Governmental Accounting Standards Board Interpretation No. 6, <u>Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.</u>	12,105
Balance July 1, 2003, as restated	\$ 6,644,210

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-nine and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. The early retirement incentive for each eligible employee is calculated on a variable percentage based on the age of the employee from 55 to 65 and the difference between the salary schedule base and the employee's total salary in the year preceding retirement.

Early retirement benefits paid during the year ended June 30, 2004 totaled \$24,210.

Bonded Debt

Details of the District's June 30, 2004 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of Sep 1, 2002			
	Interest Rates	Principal	Interest	Total
2005	3.00%	\$ 240,000	259,651	499,651
2006	3.00	250,000	252,451	502,451
2007	3.25	255,000	244,951	499,951
2008	3.25	265,000	236,664	501,664
2009	3.50	275,000	228,051	503,051
2010-2014	3.75-4.00	1,630,000	973,419	2,603,419
2015-2019	4.10-4.40	2,055,000	608,571	2,663,571
2020-2022	4.50-4.70	1,450,000	136,770	1,586,770
Total		\$ 6,420,000	2,940,528	9,360,528

(7) Pension and Retirement Benefits

The District 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 District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$254,805, \$241,784 and \$237,824, respectively, equal to the required contributions for each year.

(8) Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$325,668 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(10) Construction Commitments

The District has entered into various contracts totaling \$6,628,537 for a new middle school building and \$528,966 for renovations to the elementary school. As of June 30, 2004, costs of \$6,306,698 had been incurred against the middle school contract and \$515,630 on the elementary school contract. The balance of \$321,839 remaining on the middle school contract and \$13,336 remaining on the elementary school contract at June 30, 2004 will be paid as work on the projects progresses.

(11) Accounting Change and Restatements

Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, was implemented for the year ended June 30, 2004. The interpretation modifies when early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the District’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements separate the District’s programs between governmental and business type activities. The beginning net assets for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Fund			
	Capital			
	General	Projects	Nonmajor	Total
Net assets June 30, 2003, as previously reported	\$ 1,142,673	4,421,425	369,646	5,933,744
GASB Interpretation 6 adjustments	-	-	12,105	12,105
Net assets July 1, 2003, as restated for governmental funds	\$ 1,142,673	4,421,425	381,751	5,945,849
GASB 34 adjustments:				
Capital assets, net of accumulated depreciation of \$3,428,102				5,170,092
Long-term liabilities:				
Bonds and notes			\$ 6,620,000	
Early retirement			24,210	(6,644,210)
Accrued interest payable				(22,325)
Deferred revenue				518,757
Net assets July 1, 2003, as restated				\$ 4,968,163

The effects of the accounting change and other restatements in the business type activities are summarized as follows:

Beginning capital assets were restated to reclassify certain assets previously reported in governmental activities to business type activities. Beginning accumulated depreciation was restated due to the reclassification of certain assets from the governmental activities to business type activities and a previous error in the calculation of depreciation expense.

Net assets June 30, 2003, as previously reported	\$ 63,613
Adjustments:	
Capital assets	27,497
Accumulated depreciation	<u>(49,815)</u>
Net assets July 1, 2003, as restated	<u><u>\$ 41,295</u></u>

Sheldon Community School District

Required Supplementary Information

Sheldon Community School District

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

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual
Receipts:			
Local sources	\$ 4,559,381	214,536	4,773,917
State sources	3,622,890	5,414	3,628,304
Federal sources	904,621	113,147	1,017,768
Total receipts	<u>9,086,892</u>	<u>333,097</u>	<u>9,419,989</u>
Disbursements:			
Instruction	5,180,925	-	5,180,925
Support services	1,835,040	-	1,835,040
Non-instructional programs	7,972	333,647	341,619
Other expenditures	5,405,500	-	5,405,500
Total disbursements	<u>12,429,437</u>	<u>333,647</u>	<u>12,763,084</u>
Excess (deficiency) of receipts over (under) disbursements	(3,342,545)	(550)	(3,343,095)
Other financing sources, net	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(3,342,545)	(550)	(3,343,095)
Balances beginning of year	<u>7,240,114</u>	<u>22,629</u>	<u>7,262,743</u>
Balances end of year	<u>\$ 3,897,569</u>	<u>22,079</u>	<u>3,919,648</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Actual
		Variance
4,620,281	4,596,812	177,105
3,914,644	3,746,391	(118,087)
376,400	341,081	676,687
8,911,325	8,684,284	735,705
5,467,503	5,467,503	286,578
2,173,790	2,173,790	338,750
321,778	321,778	(19,841)
4,779,578	5,729,466	323,966
12,742,649	13,692,537	929,453
(3,831,324)	(5,008,253)	1,665,158
-	5,000	(5,000)
(3,831,324)	(5,003,253)	1,660,158
5,614,531	7,262,743	-
1,783,207	2,259,490	1,660,158

Sheldon Community School District
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation
 Required Supplementary Information
 Year ended June 30, 2004

	Governmental Funds		
	Cash	Accrual	Modified
	Basis	Adjust- ments	Accrual Basis
Revenues	\$ 9,086,892	56,091	9,142,983
Expenditures	12,429,437	111,892	12,541,329
Net	(3,342,545)	(55,801)	(3,398,346)
Beginning fund balances	7,240,114	(1,294,265)	5,945,849
Ending fund balances	\$ 3,897,569	(1,350,066)	2,547,503

	Proprietary Fund		
	Enterprise		
	Cash	Accrual	Accrual
	Basis	Adjust- ments	Basis
Revenues	\$ 333,097	27,931	361,028
Expenses	333,647	24,441	358,088
Net	(550)	3,490	2,940
Beginning net assets	22,629	18,666	41,295
Ending net assets	\$ 22,079	22,156	44,235

See accompanying independent auditor's report.

Sheldon Community School District

Notes to Required Supplementary Information–Budgetary Reporting

Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$949,888.

During the year ended June 30, 2004, disbursements in the non-instructional programs function exceeded the amount budgeted.

Sheldon Community School District

Other Supplementary Information

Schedule 1

Sheldon Community School District

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2004

	Special Revenue				
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	Total
Assets					
Cash and pooled investments	\$ 127,105	200,421	429,395	103,785	860,706
Receivables:					
Property tax:					
Delinquent	1,677	-	4,938	5,226	11,841
Succeeding year	180,000	-	87,000	440,000	707,000
Accrued interest	4	22	53	57	136
Due from other governments	-	-	1,083	-	1,083
Total assets	\$ 308,786	200,443	522,469	549,068	1,580,766
Liabilities and Fund Equity					
Liabilities:					
Accounts payable	\$ -	-	49,416	-	49,416
Deferred revenue:					
Succeeding year property tax	180,000	-	87,000	440,000	707,000
Other	-	-	1,083	-	1,083
Total liabilities	180,000	-	137,499	440,000	757,499
Fund equity:					
Fund balances:					
Reserved for debt service	-	-	-	109,068	109,068
Unreserved	128,786	200,443	384,970	-	714,199
Total fund equity	128,786	200,443	384,970	109,068	823,267
Total liabilities and fund equity	\$ 308,786	200,443	522,469	549,068	1,580,766

See accompanying independent auditor's report.

Sheldon Community School District

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2004

	Special Revenue				Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	
Revenues:					
Local sources:					
Local tax	\$ 149,998	-	479,095	506,969	1,136,062
Other	324	374,272	1,960	902	377,458
State sources	128	-	389	411	928
Federal sources	-	-	190,677	-	190,677
Total revenues	150,450	374,272	672,121	508,282	1,705,125
Expenditures:					
Current:					
Instruction:					
Other instruction	-	363,568	-	-	363,568
Support services:					
Administration services	120,890	-	-	-	120,890
Other expenditures:					
Facilities acquisition	-	-	222,875	-	222,875
Long-term debt:					
Principal	-	-	-	200,000	200,000
Interest and fiscal charges	-	-	-	268,501	268,501
Total expenditures	120,890	363,568	222,875	468,501	1,175,834
Excess of revenues over expenditures	29,560	10,704	449,246	39,781	529,291
Other financing sources (uses):					
Operating transfers in	-	-	-	247,050	247,050
Operating transfers out	-	-	(157,050)	(177,775)	(334,825)
Total other financing sources (uses)	-	-	(157,050)	69,275	(87,775)
Excess of revenues and other financing sources over expenditures and other financing uses	29,560	10,704	292,196	109,056	441,516
Fund balances beginning of year, as restated	99,226	189,739	92,774	12	381,751
Fund balances end of year	\$ 128,786	200,443	384,970	109,068	823,267

See accompanying independent auditor's report.

Schedule 3

Sheldon Community School District

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Boys Basketball	\$ 1,000	1,297	1,297	1,000
Cross Country	500	1,060	1,060	500
Football	6,500	7,646	7,646	6,500
Boys Golf	700	1,341	1,341	700
Boys Track	1,000	1,057	1,057	1,000
Baseball	1,000	1,035	1,035	1,000
Wrestling	1,000	1,435	1,435	1,000
Girls Basketball	1,000	5,419	5,419	1,000
Girls Softball	1,000	1,835	1,835	1,000
Girls Track	1,000	1,035	1,035	1,000
Girls Volleyball	1,000	1,035	1,035	1,000
Girls Golf	700	801	801	700
Weightlifting	370	400	332	438
Dance Team	6,843	29,900	29,165	7,578
Cheerleaders	9,687	14,128	11,994	11,821
Activity Tickets	-	10,795	10,795	-
Concession - High School	243	38,382	38,220	405
Concession - Middle School	-	4,984	3,415	1,569
Reserved Seat Tickets	(326)	638	-	312
Activity Passes	-	210	210	-
All Sports	20,868	5,096	4,770	21,195
Athletic Uniforms	4,500	3,122	3,122	4,500
Flags	812	548	210	1,150
Spanish Club	11,725	7,646	3,965	15,406
Art Club	2,918	1,675	106	4,487
Science Club	2,691	-	715	1,976
Speech Club	5,926	1,040	3,789	3,177
Family Career & Community Leaders of America (FCCLA)	-	4,458	3,646	812
Fellowship of Christian Athletes (FCA)	1,110	1,200	1,110	1,200
Future Business Leaders	901	736	751	886
Future Farmers of America	13,690	26,083	30,900	8,873
College Farm	5,462	42,278	44,423	3,317
Middle School:				
SOAR	875	7,294	7,051	1,117
Band	150	2,349	1,776	723
Vocal Music	452	475	200	727
Student Council	6,497	8,014	5,395	9,116
Magazine Sales	12	40,107	40,119	-
Playground Equipment	-	1,785	-	1,785

Sheldon Community School District
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts
 Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
High School:				
Student Council	2,512	3,974	3,773	2,713
National Honor Society	(187)	2,994	2,711	95
Leadership Group	201	-	-	201
Band Uniform Rent	5,139	525	68	5,596
Musical	3,605	3,775	4,288	3,092
Annual	3,138	5,865	3,144	5,860
Band	3,116	15,827	12,563	6,380
Jazz Band	(47)	300	158	95
Vocal Music	4,507	4,939	3,324	6,122
Choir Robes	2,876	9,844	12,052	667
Choir Trip	1,972	9,780	2,548	9,204
Swing Choir	2,092	8,594	9,070	1,617
Summer Theater	14,482	8,162	11,803	10,841
Band Trip	10,031	8,285	11,774	6,542
Science Department	100	-	-	100
Elementary Boxtop	4,514	6,063	5,082	5,495
District Hospitality	-	197	-	197
Student Vending Machines	2,248	1,324	1,836	1,736
Investments	4,433	174	3,265	1,342
Class of:				
2000/2010	-	380	325	55
2003/2013	781	511	1,292	-
2004/2014	1,950	920	1,510	1,360
2005/2015	3,500	-	1,774	1,726
2006/2016	3,470	-	-	3,470
2007/2017	3,500	-	33	3,467
2008/2018	-	3,500	-	3,500
Total	\$ 189,739	374,272	363,568	200,443

See accompanying independent auditor's report.

Schedule 4

Sheldon Community School District

Schedule of Changes in Fiduciary Assets and Liabilities -
Agency Fund

Year ended June 30, 2004

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash and pooled investments	\$ 2,913	9,789	8,863	3,839
Receivables:				
Accounts	210	-	210	-
Accrued Interest	1	-	-	1
Due from other governments	8,794	8,975	8,794	8,975
Total assets	\$ 11,918	18,764	17,867	12,815
Liabilities				
Accounts payable	\$ 69	-	69	-
Trusts payable	11,849	18,764	17,798	12,815
Total liabilities	\$ 11,918	18,764	17,867	12,815

See accompanying independent auditor's report.

Sheldon Community School District

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 3,971,901	3,186,542	2,860,636	2,913,234
Tuition	172,579	118,391	153,730	144,252
Other	456,981	595,179	526,095	578,310
State sources	3,647,447	3,917,172	3,901,738	3,801,426
Federal sources	894,075	278,416	254,029	189,025
Total	\$ 9,142,983	8,095,700	7,696,228	7,626,247
Expenditures:				
Instruction:				
Regular instruction	\$ 3,534,552	3,336,688	3,327,480	3,051,435
Special instruction	788,266	687,714	824,714	825,552
Other instruction	842,041	810,318	859,480	838,075
Support services:				
Student services	81,986	241,027	215,154	161,912
Instructional staff services	124,936	135,636	126,830	127,036
Administration services	827,693	728,667	684,547	666,894
Operation and maintenance of plant services	579,527	511,765	531,349	520,053
Transportation services	240,987	211,953	251,185	309,502
Central support services	-	14,560	112,199	7,217
Non-instructional programs	8,502	5,000	-	22,651
Other expenditures:				
Facilities acquisition	4,718,670	2,456,560	338,011	354,814
Long-term debt:				
Principal	200,000	145,000	140,000	168,655
Interest and other charges	268,501	209,444	19,450	25,294
AEA flowthrough	325,688	366,540	349,094	355,112
Total	\$ 12,541,349	9,860,872	7,779,493	7,434,202

See accompanying independent auditor's report.

Schedule 6

Sheldon Community School District
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2004

Grantor/Program	CFDA Number	Grant Number	Expen- ditures
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
Food Distribution (non-cash)	10.550	FY04	\$ 28,004
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY04	14,675
National School Lunch Program	10.555	FY04	98,472
			<u>113,147</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	3609A	12,237
Title I Grants to Local Educational Agencies	84.010	3610	120,283
			<u>132,520</u>
Vocational Education - Basic Grants to States	84.048	FY04	14,764
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY04	6,954
Innovative Education Program Strategies (Title V Program)	84.298	FY04	5,054
Fund for the Improvement of Education	84.215	FY04	173,134
Improving Teacher Quality State Grants	84.367	FY04	47,272
Grants for State Assessments and Related Activities (Title VI A)	84.369	FY04	11,220
Area Education Agency 4: Special Education - Grants to States	84.027	FY04	52,585
U. S. Department of Health and Human Services:			
Iowa Department of Human Services:			
Medical Assistance Program	93.778	FY 04	1,707
Total			<u>\$ 586,361</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Sheldon Community School District and is presented on the accrual or modified accrual 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.

**Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting**

Sheldon Community School District



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

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Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Board of Education of
Sheldon Community School District:

We have audited the financial statements of Sheldon Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated September 24, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Sheldon Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. 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. Prior year statutory comments have all been resolved.

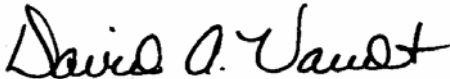
Internal Control Over Financial Reporting

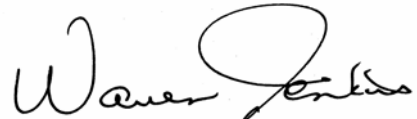
In planning and performing our audit, we considered Sheldon Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over 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 District'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 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 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, of the reportable conditions described above, we believe item II-A-04 is a material weakness. Prior year reportable conditions have all been resolved except for items II-A-04 and II-B-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Sheldon Community School District and other parties to whom Sheldon Community School District may report. 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 Sheldon Community School District 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

September 24, 2004

**Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance**

Sheldon Community School District



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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Des Moines, Iowa 50319-0004

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Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance

To the Board of Education of
Sheldon Community School District:

Compliance

We have audited the compliance of Sheldon Community School District 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 each of its major federal programs for the year ended June 30, 2004. Sheldon Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Sheldon Community School District's management. Our responsibility is to express an opinion on Sheldon Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, 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 provisions 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 Sheldon Community School District'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 Sheldon Community School District's compliance with those requirements.

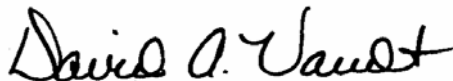
In our opinion, Sheldon Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

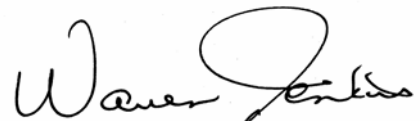
Internal Control Over Compliance

The management of Sheldon Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Sheldon Community School District'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.

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 grants 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. Our consideration of the internal control over compliance 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. 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 Sheldon Community School District and other parties to whom Sheldon Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 24, 2004

Sheldon Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Clustered programs:
 - CFDA Number 10.553–School Breakfast Program
 - CFDA Number 10.555–National School Lunch Program
 - CFDA Number 84.010–Title I Grants to Local Education Agencies
 - CFDA Number 84.215–Fund for the Improvement of Education
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Sheldon Community School District did not qualify as a low-risk auditee.

Sheldon Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-04 Segregation of Duties—One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The investing, bank wire transferring and data processing functions were performed by the same person.

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

Response—We will continue to utilize the services of the part-time employee and research ways to use this employee to help in the segregation of duties.

Conclusion—Response accepted.

II-B-04 Information Systems—During our review of internal control, the existing control activities in the District's computer based financial systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the District's computer based financial systems were noted:

The District does not have written policies over the computer based financial system for:

- Requiring password changes because software does not require the user to change log-ins/passwords periodically.
- Requiring backups be performed weekly and monthly rather than just daily and yearly.

Also, the District does not have a written disaster recovery plan covering the computer based financial system.

Recommendation – The District should develop written policies addressing the above items in order to improve the District's control over the computer based financial systems. A written disaster recovery plan should be developed.

Response – We will develop written policies to address the information system's security weaknesses and work on developing a written disaster recovery plan.

Conclusion—Response accepted.

Sheldon Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No material weaknesses in internal control over the major programs were noted.

Sheldon Community School District
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2004

Part IV: Other Findings Related to Statutory Reporting:

IV-A-03 Official Depositories—A resolution naming official depositories has been approved by the District. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004, except as follows:

<u>Depository</u>	<u>Maximum Authorized Deposit</u>
Citizens State Bank	\$2,000,000

Recommendation – A new resolution in amounts sufficient to cover anticipated balances should have been approved by the District before balances were allowed to exceed the maximum.

Response – The District will monitor the balances to ensure the maximum authorized deposit limits are not exceeded.

Conclusion—Response accepted.

IV-B-03 Certified Budget—Disbursements for the year ended June 30, 2004 exceeded the amended certified budgeted amount in the non-instructional programs function.

Recommendation—The certified budget should have been amended as required by Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response—The District will monitor and amend the budget before expenditures exceed the amount budgeted in the various functional areas.

Conclusion—Response accepted.

IV-C-03 Questionable Disbursements—No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

IV-D-03 Travel Expense—No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-E-03 Business Transactions—No business transactions between the District and District officials or employees were noted.

IV-F-03 Bond Coverage—Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

Sheldon Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

- IV-G-03 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.
- IV-H-03 Certified Enrollment – No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
- IV-I-03 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
- IV-J-03 Certified Annual Report – The Certified Annual Report was not filed timely with the Iowa Department of Education.

Recommendation – The Certified Annual Report, required to be filed with the Iowa Department of Education by September 15 each year, should be submitted timely.

Response – The District will attempt to file the Certified Annual Report prior to the September 15 deadline in the future.

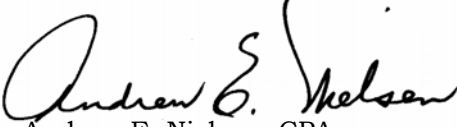
Conclusion – Response accepted.

Sheldon Community School District

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager
Nancy F. Curtis, CPA, Senior Auditor II
Trevor L. Theulen, Assistant Auditor
Cheryl R. McNaught, Assistant Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State