



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

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David A. Vaudt, CPA  
Auditor of State

NEWS RELEASE

FOR RELEASE \_\_\_\_\_ November 8, 2005

Contact: Andy Nielsen  
515/281-5834

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

The District's revenues totaled \$9,337,458 for the year ended June 30, 2005. Revenues included \$2,973,321 in local taxes, charges for service of \$903,685, operating grants, contributions and restricted interest of \$1,030,970, capital grants, contributions and restricted interest of \$10,625, instructional support surtax of \$209,353, local option sales and services tax of \$525,373, unrestricted state grants and contributions of \$3,541,180, unrestricted investment earnings of \$34,222 and other general revenues of \$108,729.

Expenses for District operations totaled \$9,017,974. Expenses included \$5,571,584 for instruction, \$1,861,077 for support services, \$22,096 for non-instructional programs (excluding food service operations), \$1,168,050 for other expenditures and \$395,167 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 and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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**SHELDON COMMUNITY SCHOOL DISTRICT**

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

**JUNE 30, 2005**

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**Sheldon Community School District**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**Board of Education**

**(Before September 2004 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

**Board of Education**

**(After September 2004 Election)**

Dan Van Gorp	President	2005
Gary Innen	Vice President	2007
Mark Brown	Board Member	2005
Kathy Brock	Board Member	2006
Kecia Hickman	Board Member	2007

**School Officials**

Robin Spears	Superintendent	2005
Bill Borchers	District Secretary/Treasurer and Business Manager	2005
Tom Whorley	Attorney	2005

**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, 2005, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

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, 2005, 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.

In accordance with Government Auditing Standards, we have also issued our report dated September 14, 2005 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 8 through 16 and 42 through 45 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise 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, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in 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 14, 2005

**Sheldon Community School District**

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2005 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$6,797,370 in fiscal 2004 to \$7,141,470 in fiscal 2005, while General Fund expenditures increased from \$6,869,700 in fiscal 2004 to \$7,303,271 in fiscal 2005. The District's General Fund balance decreased from \$1,070,343 in fiscal 2004 to \$908,542 in fiscal 2005, a 15% decrease.
- The increase in General Fund revenues was primarily due to an increase in state funding during fiscal 2005. The increase in expenditures was due primarily to increased expenditures for supplies and equipment for the Special Education Program. The General Fund balance decrease is primarily due to repaying the State for the excess Special Education Balance from the 2003-2004 School year. The District covered a portion of current year General Fund expenditures from the carryover fund balance.

### **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.

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

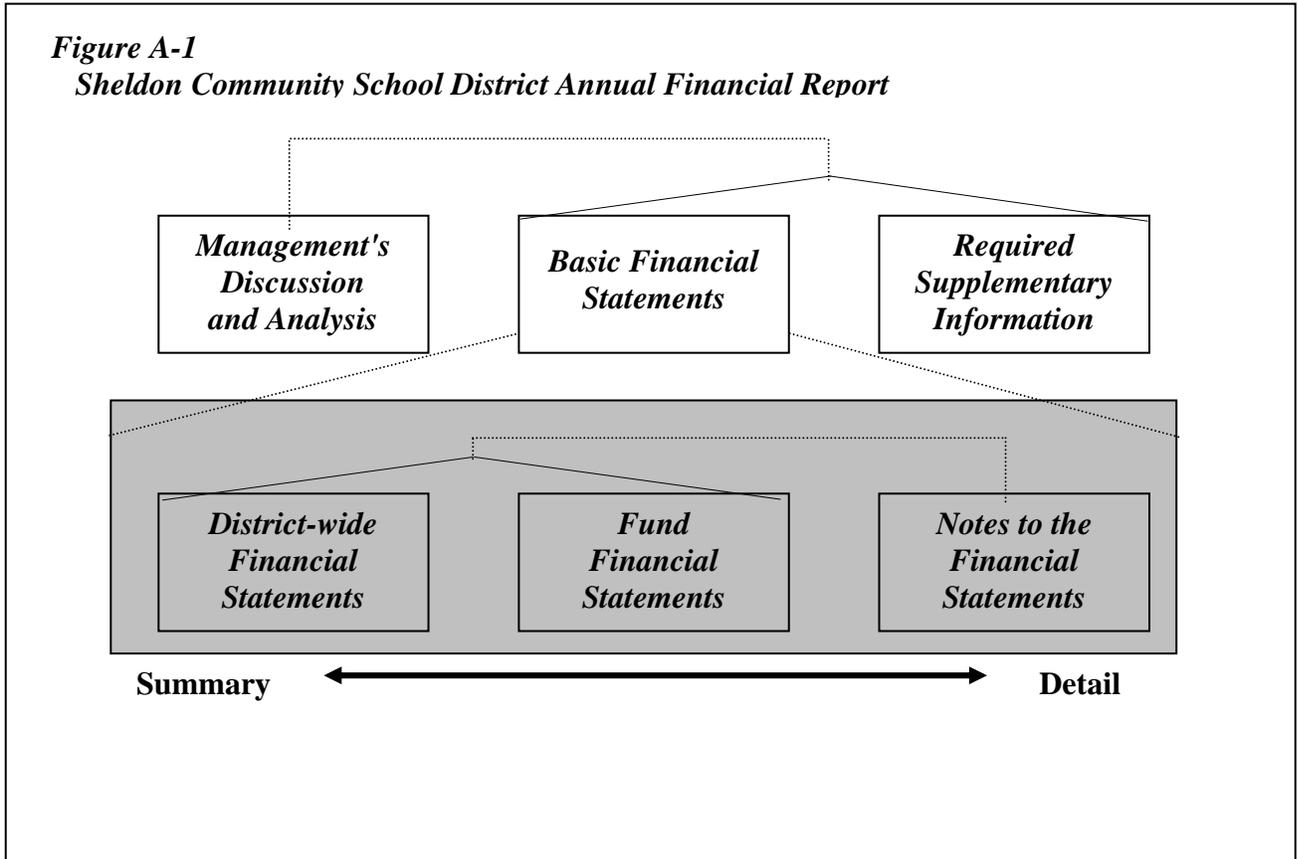


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

**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	Instances in which the District administers resources on behalf of someone else
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary assets and liabilities-Agency Fund</li> </ul>
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, the Special Revenue Funds, the Debt Service Fund and the 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 net assets, 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 net assets.

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

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

As described in Note 11 on page 39, beginning governmental activities net assets decreased by \$557,592 to correct prior year accumulated depreciation. To enhance comparability, all amounts presented for fiscal year 2004 in this discussion and analysis were restated, where applicable, to reflect these changes as if the changes had been made in the prior year.

Figure A-3 below provides a summary of the District's total net assets at June 30, 2005 compared to June 30, 2004.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
Current and other assets	\$ 6,462	8,430	1	33	6,463	8,463	-23.6%
Capital assets	9,273	9,007	28	11	9,301	9,018	3.1%
Total assets	15,735	17,437	29	44	15,764	17,481	-9.8%
Long-term liabilities	6,180	6,470	-	-	6,180	6,470	-4.5%
Other liabilities	3,889	5,641	5	-	3,894	5,641	-31.0%
Total liabilities	10,069	12,111	5	-	10,074	12,111	-16.8%
Net assets:							
Invested in capital assets, net of related debt	3,093	3,241	28	11	3,121	3,252	-4.0%
Restricted	1,481	832	-	-	1,481	832	78.0%
Unrestricted	1,092	1,253	(4)	33	1,088	1,286	-15.4%
Total net assets	\$ 5,666	5,326	24	44	5,690	5,370	6.0%

The District's combined net assets increased by 6.0%, or approximately \$320,000, 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. The District's restricted net assets increased approximately \$649,000, or 78%, over the prior year. The increase was primarily a result of decreased expenditures in the Physical Plant and Equipment Levy Fund and an increase in local option sales and services tax revenues.

Unrestricted net assets – the part of net assets than can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$198,000, or 15.4%. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

Figure A-4 shows the change in net assets for the years ended June 30, 2005 and 2004.

**Figure A-4**  
**Changes in Net Assts of Governmental and Business Type Activities**  
**(Expressed in Thousands)**

	Governmental		Business Type		Total	
	Activities		Activities		District	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for service	\$ 667	552	237	214	904	766
Operating grants, contributions and restricted interest	893	905	138	147	1,031	1,052
Capital grants, contributions and restricted interest	11	227	-	-	11	227
General revenues:						
Property tax	2,973	3,808	-	-	2,973	3,808
Instructional support surtax	209	185	-	-	209	185
Local option sales and services tax	525	167	-	-	525	167
Unrestricted state grants and contributions	3,541	3,022	-	-	3,541	3,022
Unrestricted investment earnings	34	11	-	-	34	11
Gain on disposal of capital assets	81	-	-	-	81	-
Other	29	10	-	-	29	10
Total revenues	<u>8,963</u>	<u>8,887</u>	<u>375</u>	<u>361</u>	<u>9,338</u>	<u>9,248</u>
Program expenses:						
Instruction	5,572	5,198	-	-	5,572	5,198
Support services	1,861	1,965	-	-	1,861	1,965
Non-instructional programs	22	50	395	358	417	408
Other expenses	1,168	758	-	-	1,168	758
Total expenses	<u>8,623</u>	<u>7,971</u>	<u>395</u>	<u>358</u>	<u>9,018</u>	<u>8,329</u>
Increase (decrease) in net assets	340	916	(20)	3	320	919
Net assets beginning of year, as restated	5,326	4,410	44	41	5,370	4,451
Net assets end of year	<u>\$ 5,666</u>	<u>5,326</u>	<u>24</u>	<u>44</u>	<u>5,690</u>	<u>5,370</u>

Property tax and unrestricted state grants account for 73% 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 \$8,962,457 and expenses were \$8,622,807. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues and balances.

The following table presents the total and net cost of the District's major governmental activities for fiscal 2005: 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	\$ 5,572	4,406
Support services	1,861	1,801
Non-instructional programs	22	18
Other expenses	1,168	827
Total	<u>\$ 8,623</u>	<u>7,052</u>

- The cost financed by users of the District's programs was \$667,155.
- Federal and state governments subsidized certain programs with grants, contributions and restricted interest totaling \$892,799.
- The net cost of governmental activities was financed with \$3,708,047 in property and other tax, including local option sales and services tax, and \$3,541,180 in unrestricted state grants and contributions.

### **Business Type Activities**

Revenues for business type activities were \$375,001 and expenses were \$395,167. 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, 2005, the District replaced obsolete kitchen equipment at the elementary building and purchased kitchen equipment for the new middle school.

### **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 \$2,409,231, below last year's ending fund balance of \$2,547,503.

### **Governmental Fund Highlights**

- The General Fund balance decreased from \$1,070,343 to \$908,542, due in part to repaying the excess Special Education balance for the school year 2003-2004. 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 \$384,970 in fiscal 2004 to \$499,007 in fiscal 2005. The revenues decreased substantially due to the District's voters not approving the Physical Plant and Equipment Levy for the year ended June 30, 2005. Expenditures also decreased substantially due to completion of the new middle school and the elementary school renovations during the year.
- The Capital Projects Fund balance decreased from \$653,893 to \$551,346 due to construction costs to complete the new Middle School. The decrease was offset by a significant increase in local option sales and services tax revenues.

### **Proprietary Fund Highlights**

School Nutrition Fund net assets decreased from \$44,235 at June 30, 2004 to \$24,069 at June 30, 2005, representing a decrease of approximately 46% due primarily to the District replacing obsolete kitchen equipment at the elementary building and purchasing kitchen equipment for the new middle school.

## 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 \$424,237 greater than budgeted receipts, a variance of 4.8%.

Total disbursements were \$331,161 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 other expenditures 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, 2005, the District had invested, net of accumulated depreciation, \$9.3 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 6 to the financial statements. Depreciation expense for the year was \$495,133 for both governmental and business type activities.

The original cost of the District's capital assets was \$13.6 million. Governmental funds account for \$13.5 million, with the remaining \$0.1 million accounted for in the Proprietary, School Nutrition Fund.

During the year, the new middle school building and the renovations at the elementary school were completed and placed in service resulting in a decrease in construction in progress of \$7,241,100 and a corresponding increase in buildings.

**Figure A-6**  
**Capital Assets, net of Depreciation**  
**(expressed in thousands)**

	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
Land	\$ 284	85	-	-	284	85	234.1%
Construction in progress	-	6,972	-	-	-	6,972	-100.0%
Buildings	7,696	669	-	-	7,696	669	1050.4%
Improvements other than buildings	925	1,066	-	-	925	1,066	-13.2%
Furniture and equipment	343	216	28	11	371	227	63.4%
Infrastructure	25	-	-	-	25	-	100.0%
<b>Total</b>	<b>\$ 9,273</b>	<b>9,008</b>	<b>28</b>	<b>11</b>	<b>9,301</b>	<b>9,019</b>	<b>3.1%</b>

## Long-Term Debt

At June 30, 2005, the District had \$6,180,000 in general obligation debt outstanding. This represents a decrease of approximately 4.5% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

<b>Figure A-7</b>			
<b>Outstanding Long-Term Obligations</b>			
<b>(expressed in thousands)</b>			
	Total District		Total Change
	June 30,		June 30,
	2005	2004	2004-2005
General obligation bonds	\$ 6,180	6,420	-3.7%
Early retirement	-	50	-100.0%
Total	\$ 6,180	6,470	-4.5%

## 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:

- The wage settlement for fiscal 2006 included an increase in the amount of the health insurance premium the District furnishes its Certified Staff and an increase in the base salary for the Certified Staff. 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**

**Exhibit A**

## Sheldon Community School District

## Statement of Net Assets

June 30, 2005

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents:			
ISCAP	\$ 465,051	-	465,051
Other	2,970,426	2,130	2,972,556
Receivables:			
Property tax:			
Delinquent	34,646	-	34,646
Succeeding year	2,590,000	-	2,590,000
Accounts	3,695	11	3,706
Accrued interest:			
ISCAP	99	-	99
Other	901	6	907
Due from other governments	381,478	-	381,478
Advances to/from other funds	16,000	(16,000)	-
Inventories	-	14,930	14,930
Capital assets, net of accumulated depreciation	9,272,821	28,163	9,300,984
<b>Total assets</b>	<b>15,735,117</b>	<b>29,240</b>	<b>15,764,357</b>
<b>Liabilities</b>			
Accounts payable	123,663	215	123,878
Salaries and benefits payable	633,890	-	633,890
Due to other governments	51,109	-	51,109
Accrued interest payable	21,038	-	21,038
Deferred revenue:			
Succeeding year property tax	2,590,000	-	2,590,000
Other	122	4,956	5,078
ISCAP warrants payable	463,000	-	463,000
ISCAP accrued interest payable	89	-	89
ISCAP unamortized premium	6,218	-	6,218
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	250,000	-	250,000
Portion due after one year:			
General obligation bonds payable	5,930,000	-	5,930,000
<b>Total liabilities</b>	<b>10,069,129</b>	<b>5,171</b>	<b>10,074,300</b>

Sheldon Community School District

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business Type Activities	Total
<b>Net assets</b>			
Invested in capital assets, net of related debt	3,092,821	28,163	3,120,984
Restricted for:			
Management levy	148,988	-	148,988
Physical plant and equipment levy	499,007	-	499,007
Other special revenue purposes	193,360	-	193,360
Debt service	90,756	-	90,756
Capital projects	547,540	-	547,540
DHS Medicaid retainer	1,758	-	1,758
Unrestricted	1,091,758	(4,094)	1,087,664
<b>Total net assets</b>	<b>\$ 5,665,988</b>	<b>24,069</b>	<b>5,690,057</b>

See notes to financial statements.

**Exhibit B**

## Sheldon Community School District

## Statement of Activities

Year ended June 30, 2005

	Expenses	Program Revenues		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs</b>				
Governmental activities:				
Instruction:				
Regular instruction	\$ 3,695,098	195,411	404,916	-
Special instruction	930,811	-	71,436	-
Other instruction	945,675	467,976	25,848	-
	<u>5,571,584</u>	<u>663,387</u>	<u>502,200</u>	<u>-</u>
Support services:				
Student services	72,821	-	19,308	-
Instructional staff services	98,347	-	-	-
Administration services	773,754	-	205	-
Operation and maintenance of plant services	649,462	-	-	-
Transportation services	239,062	-	40,740	-
Central support services	27,631	-	-	-
	<u>1,861,077</u>	<u>-</u>	<u>60,253</u>	<u>-</u>
Non-instructional programs	22,096	3,768	-	-
Other expenditures:				
Facilities acquisition	263,632	-	-	10,625
Long-term debt interest	259,451	-	4,678	-
AEA flowthrough	325,668	-	325,668	-
Depreciation (unallocated)*	319,299	-	-	-
	<u>1,168,050</u>	<u>-</u>	<u>330,346</u>	<u>10,625</u>
Total governmental activities	8,622,807	667,155	892,799	10,625
Business type activities:				
Non-instructional programs:				
Food service operations	395,167	236,530	138,171	-
Total	<u>\$ 9,017,974</u>	<u>903,685</u>	<u>1,030,970</u>	<u>10,625</u>
<b>General Revenues:</b>				
Property tax levied for:				
General purposes				
Debt service				
Capital outlay				
Instructional support surtax				
Local option sales and services tax				
Unrestricted state grants and contributions				
Unrestricted investment earnings				
Gain on disposal of capital assets				
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
(3,094,771)	-	(3,094,771)
(859,375)	-	(859,375)
(451,851)	-	(451,851)
(4,405,997)	-	(4,405,997)
(53,513)	-	(53,513)
(98,347)	-	(98,347)
(773,549)	-	(773,549)
(649,462)	-	(649,462)
(198,322)	-	(198,322)
(27,631)	-	(27,631)
(1,800,824)	-	(1,800,824)
(18,328)	-	(18,328)
(253,007)	-	(253,007)
(254,773)	-	(254,773)
-	-	-
(319,299)	-	(319,299)
(827,079)	-	(827,079)
(7,052,228)	-	(7,052,228)
-	(20,466)	(20,466)
(7,052,228)	(20,466)	(7,072,694)
\$ 2,449,449	-	2,449,449
438,099	-	438,099
85,773	-	85,773
209,353	-	209,353
525,373	-	525,373
3,541,180	-	3,541,180
33,922	300	34,222
81,128	-	81,128
27,601	-	27,601
7,391,878	300	7,392,178
339,650	(20,166)	319,484
5,326,338	44,235	5,370,573
\$ 5,665,988	24,069	5,690,057

**Exhibit C**

## Sheldon Community School District

Balance Sheet  
Governmental Funds

June 30, 2005

	General	Nonmajor	Total
<b>Assets</b>			
Cash and pooled investments:			
ISCAP	\$ 465,051	-	465,051
Other	1,442,235	1,528,191	2,970,426
Receivables:			
Property tax:			
Delinquent	26,680	7,966	34,646
Succeeding year	2,139,000	451,000	2,590,000
Accounts	2,020	1,675	3,695
Accrued interest:			
ISCAP	99	-	99
Other	369	532	901
Due from other governments	332,747	48,731	381,478
Advance to other funds	16,000	-	16,000
<b>Total assets</b>	<b>\$ 4,424,201</b>	<b>2,038,095</b>	<b>6,462,296</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 38,721	84,942	123,663
Salaries and benefits payable	633,890	-	633,890
Due to other governments	49,645	1,464	51,109
ISCAP warrants payable	463,000	-	463,000
ISCAP accrued interest payable	89	-	89
ISCAP unamortized premium	6,218	-	6,218
Deferred revenue:			
Succeeding year property tax	2,139,000	451,000	2,590,000
Other	185,096	-	185,096
Total liabilities	<b>3,515,659</b>	<b>537,406</b>	<b>4,053,065</b>
Fund balances:			
Reserved for:			
DHS Medicaid retainer	1,758	-	1,758
Debt service	-	111,794	111,794
Advances to other funds	16,000	-	16,000
Unreserved, reported in:			
General Fund	890,784	-	890,784
Special revenue funds	-	837,549	837,549
Capital projects fund	-	551,346	551,346
Total fund balances	<b>908,542</b>	<b>1,500,689</b>	<b>2,409,231</b>
<b>Total liabilities and fund balances</b>	<b>\$ 4,424,201</b>	<b>2,038,095</b>	<b>6,462,296</b>

See notes to financial statements.

Sheldon Community School District

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

June 30, 2005

<b>Total fund balances of governmental funds (page 22)</b>	\$ 2,409,231
<b><i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i></b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	9,272,821
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	184,974
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.	(21,038)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(6,180,000)</u>
<b>Net assets of governmental activities (page 19)</b>	<b><u><u>\$ 5,665,988</u></u></b>

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, 2005

	General	Nonmajor	Total
<b>Revenues:</b>			
Local sources:			
Local tax	\$ 2,477,212	1,227,882	3,705,094
Tuition	195,411	-	195,411
Other	37,569	512,287	549,856
State sources	4,157,790	622	4,158,412
Federal sources	273,488	76,673	350,161
Total revenues	<u>7,141,470</u>	<u>1,817,464</u>	<u>8,958,934</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular instruction	3,730,320	-	3,730,320
Special instruction	979,108	-	979,108
Other instruction	464,743	480,932	945,675
	<u>5,174,171</u>	<u>480,932</u>	<u>5,655,103</u>
Support services:			
Student services	72,821	-	72,821
Instructional staff services	136,586	-	136,586
Administration services	661,172	162,216	823,388
Operation and maintenance of plant services	649,462	-	649,462
Transportation services	246,718	-	246,718
Central support services	27,631	-	27,631
	<u>1,794,390</u>	<u>162,216</u>	<u>1,956,606</u>
Non-instructional programs	9,042	-	9,042
Other expenditures:			
Facilities acquisition	-	733,736	733,736
Long-term debt:			
Principal	-	240,000	240,000
Interest and fiscal charges	-	260,051	260,051
AEA flowthrough	325,668	-	325,668
	<u>325,668</u>	<u>1,233,787</u>	<u>1,559,455</u>
Total expenditures	<u>7,303,271</u>	<u>1,876,935</u>	<u>9,180,206</u>
Deficiency of revenues under expenditures	(161,801)	(59,471)	(221,272)
Other financing sources (uses):			
Sale of real property	-	83,000	83,000
Operating transfers in	-	60,000	60,000
Operating transfers out	-	(60,000)	(60,000)
Total other financing sources (uses)	<u>-</u>	<u>83,000</u>	<u>83,000</u>
Net change in fund balances	(161,801)	23,529	(138,272)
Fund balances beginning of year	<u>1,070,343</u>	<u>1,477,160</u>	<u>2,547,503</u>
Fund balances end of year	<u>\$ 908,542</u>	<u>1,500,689</u>	<u>2,409,231</u>

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, 2005

**Net change in fund balances - total governmental funds (page 24)** \$ (138,272)

***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 and contributed assets exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 749,758	
Contributed capital assets	8,159	
Depreciation expense	(490,752)	267,165
		<hr/>

Certain revenues not collected for several months after year end are not considered available revenue and are deferred in the governmental funds (77,605)

In the Statement of Activities, the gain on the disposal of capital assets is reported whereas the governmental funds report the proceeds from the sale as an increase in financial resources. (1,872)

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. 240,000

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. 600

Early retirement 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. 

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49,634

**Change in net assets of governmental activities (page 21)** 

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\$ 339,650

See notes to financial statements.

**Exhibit G**

## Sheldon Community School District

Statement of Net Assets  
Proprietary Fund

June 30, 2005

	<u>School</u> <u>Nutrition-Nonmajor</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 2,130
Receivables:	
Accounts	11
Accrued interest	6
Inventories	14,930
Capital assets, net of accumulated depreciation	28,163
<b>Total assets</b>	<u>45,240</u>
<b>Liabilities</b>	
Accounts payable	215
Deferred revenue	4,956
Advances from other funds	16,000
<b>Total liabilities</b>	<u>21,171</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	28,163
Unrestricted	(4,094)
<b>Total net assets</b>	<u>\$ 24,069</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, 2005

	<u>School</u> <u>Nutrition-Nonmajor</u>
Operating revenues:	
Local sources:	
Charges for service	\$ 236,530
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries and benefits	184,147
Purchased services	6,940
Supplies	199,699
Depreciation	4,381
Total operating expenses	<u>395,167</u>
Operating loss	<u>(158,637)</u>
Non-operating revenues:	
State sources	5,442
Federal sources	132,729
Interest income	300
Total non-operating revenues	<u>138,471</u>
Change in net assets	(20,166)
Net assets beginning of year	<u>44,235</u>
Net assets end of year	<u>\$ 24,069</u>

See notes to financial statements.

**Exhibit I**

## Sheldon Community School District

Statement of Cash Flows  
Proprietary Fund

Year ended June 30, 2005

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 241,475
Cash paid to employees for services	(184,217)
Cash paid to suppliers for goods or services	(188,571)
Net cash used by operating activities	<u>(131,313)</u>
Cash flows from non-capital financing activities:	
State grants received	5,442
Federal grants received	111,361
Operating transfer in	16,000
Net cash provided by non-capital financing activities	<u>132,803</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(21,735)</u>
Cash flows from investing activities:	
Interest on investments	<u>296</u>
Net decrease in cash and cash equivalents	(19,949)
Cash and cash equivalents beginning of year	<u>22,079</u>
Cash and cash equivalents end of year	<u>\$ 2,130</u>
<b>Reconciliation of operating loss to net cash used by operating activities:</b>	
Operating loss	\$ (158,637)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	21,368
Depreciation	4,381
(Increase) in inventories	(3,214)
(Increase) in accounts receivable	(11)
(Decrease) in accounts payable	(85)
(Decrease) in salaries and benefits payable	(71)
Increase in deferred revenue	4,956
Net cash used by operating activities	<u>\$ (131,313)</u>

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2005, the District received \$21,368 of federal commodities.

See notes to financial statements.

## Sheldon Community School District

Statement of Fiduciary Net Assets  
Agency Fund

June 30, 2005

**Assets**

Cash and pooled investments	\$	4,460
Receivables:		
Accounts		122
Accrued interest		9
Due from other governments		<u>8,975</u>

**Total assets**

13,566

**Liabilities**

Due to other governments		<u>13,566</u>
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**Net assets**\$ -

See notes to financial statements.

Sheldon Community School District

Notes to Financial Statements

June 30, 2005

**(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 jointly governed organizations that provide services to the District but do 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 fund:

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 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 1½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

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 and unspent grant proceeds.

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 not available for appropriation or 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, 2005, disbursements in the other expenditures function exceeded the amount budgeted.

**(2) Cash and Pooled Investments**

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

The 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.

At June 30, 2005 the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>
Repurchase Agreement	<u>\$ 381,650</u>	Monthly

In addition, the District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$2,139,592 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

Concentration of credit risk. The District places no limit on the amount that may be invested in any one issuer. The District's investment in the Repurchase Agreement is 15 percent of the District's total investments.

**(3) Interfund Transfers**

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 60,000

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

**(4) Interfund Assets/Liabilities**

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

Receivable Fund	Payable Fund	Amount
General	Enterprise: School Nutrition	\$ 16,000

This represents a loan from the General Fund to the School Nutrition Fund for operations.

**(5) 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, 2005 is as follows:

Series	Warrant Date	Final	Accrued		Accrued
		Warrant Maturity	Investments	Interest Receivable	Warrants Payable
2005-06A	6/28/05	6/28/06	\$ 465,051	99	463,000 89

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, 2005.

The warrant bears interest and the available proceeds of the warrant are invested at the interest rate shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2005-06A	3.500%	3.903%

**(6) Capital Assets**

Capital assets activity for the year ended June 30, 2005 was as follows:

	Balance Beginning of Year, as restated (note 11)	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 85,175	200,673	(1,872)	283,976
Construction in progress	6,971,669	269,431	(7,241,100)	-
Total capital assets not being depreciated	<u>7,056,844</u>	<u>470,104</u>	<u>(7,242,972)</u>	<u>283,976</u>
Capital assets being depreciated:				
Buildings	3,174,760	7,241,100	(556,792)	9,859,068
Improvements other than buildings	1,910,265	26,690	-	1,936,955
Furniture and equipment	1,164,134	235,160	(30,491)	1,368,803
Infrastructure	-	25,963	-	25,963
Total capital assets being depreciated	<u>6,249,159</u>	<u>7,528,913</u>	<u>(587,283)</u>	<u>13,190,789</u>
Less accumulated depreciation for:				
Buildings	2,504,912	215,223	(556,792)	2,163,343
Improvements other than buildings	845,564	166,086	-	1,011,650
Furniture and equipment	947,999	108,578	(30,491)	1,026,086
Infrastructure	-	865	-	865
Total accumulated depreciation	<u>4,298,475</u>	<u>490,752</u>	<u>(587,283)</u>	<u>4,201,944</u>
Total capital assets being depreciated, net	<u>1,950,684</u>	<u>7,038,161</u>	<u>-</u>	<u>8,988,845</u>
Governmental activities capital assets, net	<u>\$ 9,007,528</u>	<u>7,508,265</u>	<u>(7,242,972)</u>	<u>9,272,821</u>
<b>Business type activities:</b>				
Furniture and equipment	\$ 115,552	21,735	-	137,287
Less accumulated depreciation	104,743	4,381	-	109,124
Business type activities capital assets, net	<u>\$ 10,809</u>	<u>17,354</u>	<u>-</u>	<u>28,163</u>
Depreciation expense was charged to the following functions:				
Governmental activities:				
Instruction:				
Regular instruction				\$ 49,022
Special instruction				12,074
Support services:				
Instructional staff services				9,560
Operation and maintenance of plant services				9,349
Transportation services				51,704
Non-instructional				39,744
				<u>171,453</u>
Unallocated				319,299
Total depreciation expense - governmental activities				<u>\$ 490,752</u>
Business type activities:				
Food service operations				<u>\$ 4,381</u>

**(7) Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 6,420,000	-	240,000	6,180,000	250,000
Early retirement	49,634	-	49,634	-	-
Total	\$ 6,469,634	-	289,634	6,180,000	250,000

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five but not more than age sixty on the effective date of retirement and must have completed fifteen years of 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, paid in one lump sum upon retirement, is calculated as the difference between the salary schedule base in effect for the employee's last year of employment and the employee's total current salary for that year.

Early retirement benefits paid during the year ended June 30, 2005 totaled \$49,634.

Bonded Debt

Details of the District's June 30, 2005 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of Sep 1, 2002			
	Interest Rates	Principal	Interest	Total
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	3.75	300,000	218,426	518,426
2011-2015	3.75-4.10	1,705,000	909,732	2,614,732
2016-2020	4.20-4.50	2,140,000	520,581	2,660,581
2021-2022	4.60-4.70	990,000	70,020	1,060,020
Total		\$ 6,180,000	2,680,876	8,860,876

**(8) 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, 2005, 2004 and 2003. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$245,155, \$254,805 and \$241,784, respectively, equal to the required contributions for each year.

**(9) 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.

**(10) 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, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

**(11) Restatement**

Beginning net assets for governmental activities has been restated to correct errors in reporting prior year accumulated depreciation. The restatement decreased the beginning net assets as follows:

	<u>Amount</u>
Net assets June 30, 2004, as previously reported	\$ 5,883,930
Correction of prior year accumulated depreciation	<u>(557,592)</u>
Net assets July 1, 2004, as restated	<u><u>\$ 5,326,338</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, 2005

	Governmental Funds Actual	Proprietary Fund Actual
Receipts:		
Local sources	\$ 4,416,880	241,771
State sources	4,170,568	5,442
Federal sources	327,217	111,361
Total receipts	<u>8,914,665</u>	<u>358,574</u>
Disbursements:		
Instruction	5,602,428	-
Support services	1,989,208	-
Non-instructional programs	8,009	394,523
Other expenditures	2,309,163	-
Total disbursements	<u>9,908,808</u>	<u>394,523</u>
Excess (deficiency) of receipts over (under) disbursements	(994,143)	(35,949)
Other financing sources, net	<u>67,000</u>	<u>16,000</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(927,143)	(19,949)
Balances beginning of year	<u>3,897,569</u>	<u>22,079</u>
Balances end of year	<u>\$ 2,970,426</u>	<u>2,130</u>

See accompanying independent auditor's report.

Total Actual	Budgeted Amounts		Final to Actual Variance
	Original	Final	
4,658,651	4,179,174	4,179,174	479,477
4,176,010	4,316,328	4,316,328	(140,318)
438,578	353,500	353,500	85,078
9,273,239	8,849,002	8,849,002	424,237
5,602,428	5,755,248	5,755,248	152,820
1,989,208	2,317,671	2,317,671	328,463
402,532	310,500	403,193	661
2,309,163	1,933,380	2,158,380	(150,783)
10,303,331	10,316,799	10,634,492	331,161
(1,030,092)	(1,467,797)	(1,785,490)	755,398
83,000	500	-	83,000
(947,092)	(1,467,297)	(1,785,490)	838,398
3,919,648	2,889,324	2,889,324	1,030,324
2,972,556	1,422,027	1,103,834	1,868,722

Sheldon Community School District  
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation  
 Required Supplementary Information  
 Year ended June 30, 2005

	Governmental Funds		
	Cash	Accrual	Modified
	Basis	Adjust- ments	Accrual Basis
Revenues	\$ 8,914,665	44,269	8,958,934
Expenditures	9,908,808	(728,602)	9,180,206
Net	(994,143)	772,871	(221,272)
Other financing sources	67,000	16,000	83,000
Beginning fund balances	3,897,569	(1,350,066)	2,547,503
Ending fund balances	\$ 2,970,426	(561,195)	2,409,231

	Proprietary Fund		
	Enterprise		
	Cash	Accrual	Accrual
	Basis	Adjust- ments	Basis
Revenues	\$ 358,574	16,427	375,001
Expenses	394,523	644	395,167
Net	(35,949)	15,783	(20,166)
Other financing sources	16,000	(16,000)	-
Beginning fund balances	22,079	22,156	44,235
Ending fund balances	\$ 2,130	21,939	24,069

See accompanying independent auditor's report.

Sheldon Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2005

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

In accordance with the Code of Iowa, the 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 or fund type. 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 \$317,693.

During the year ended June 30, 2005, disbursements in the other expenditures 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, 2005

	Special Revenue					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	Capital Projects	
<b>Assets</b>						
Cash and pooled investments	\$ 146,622	189,231	522,113	106,880	563,345	1,528,191
Receivables:						
Property tax:						
Delinquent	2,119	-	933	4,914	-	7,966
Succeeding year	324,000	-	80,000	47,000	-	451,000
Accounts	1,675	-	-	-	-	1,675
Accrued interest	36	323	161	-	12	532
Due from other governments	-	-	-	-	48,731	48,731
<b>Total assets</b>	<b>\$ 474,452</b>	<b>189,554</b>	<b>603,207</b>	<b>158,794</b>	<b>612,088</b>	<b>2,038,095</b>
<b>Liabilities and Fund Equity</b>						
Liabilities:						
Accounts payable	\$ -	-	24,200	-	60,742	84,942
Due to other governments	1,464	-	-	-	-	1,464
Deferred revenue:						
Succeeding year property tax	324,000	-	80,000	47,000	-	451,000
Total liabilities	325,464	-	104,200	47,000	60,742	537,406
Fund equity:						
Fund balances:						
Reserved for debt service	-	-	-	111,794	-	111,794
Unreserved, reported in:						
Special revenue funds	148,988	189,554	499,007	-	-	837,549
Capital projects fund	-	-	-	-	551,346	551,346
Total fund equity	148,988	189,554	499,007	111,794	551,346	1,500,689
<b>Total liabilities and fund equity</b>	<b>\$ 474,452</b>	<b>189,554</b>	<b>603,207</b>	<b>158,794</b>	<b>612,088</b>	<b>2,038,095</b>

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, 2005

	Special Revenue					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	Capital Projects	
Revenues:						
Local sources:						
Local tax	\$ 179,092	-	85,698	437,719	525,373	1,227,882
Other	3,159	470,043	18,499	4,678	15,908	512,287
State sources	167	-	75	380	-	622
Federal sources	-	-	-	-	76,673	76,673
Total revenues	182,418	470,043	104,272	442,777	617,954	1,817,464
Expenditures:						
Current:						
Instruction:						
Other instruction	-	480,932	-	-	-	480,932
Support services:						
Administration services	162,216	-	-	-	-	162,216
Other expenditures:						
Facilities acquisition	-	-	73,235	-	660,501	733,736
Long-term debt:						
Principal	-	-	-	240,000	-	240,000
Interest and fiscal charges	-	-	-	260,051	-	260,051
Total expenditures	162,216	480,932	73,235	500,051	660,501	1,876,935
Excess (deficiency) of revenues over (under) expenditures	20,202	(10,889)	31,037	(57,274)	(42,547)	(59,471)
Other financing sources (uses):						
Sale of real property	-	-	83,000	-	-	83,000
Operating transfers in	-	-	-	60,000	-	60,000
Operating transfers out	-	-	-	-	(60,000)	(60,000)
Total other financing sources (uses)	-	-	83,000	60,000	(60,000)	83,000
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	20,202	(10,889)	114,037	2,726	(102,547)	23,529
Fund balances beginning of year	128,786	200,443	384,970	109,068	653,893	1,477,160
Fund balances end of year	\$ 148,988	189,554	499,007	111,794	551,346	1,500,689

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, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Boys Basketball	\$ 1,000	1,771	1,771	1,000
Cross Country	500	1,001	1,001	500
Football	6,500	6,581	6,581	6,500
Boys Golf	700	1,308	1,308	700
Boys Track	1,000	1,373	1,373	1,000
Baseball	1,000	2,135	2,135	1,000
Wrestling	1,000	4,858	4,458	1,400
Girls Basketball	1,000	1,367	1,367	1,000
Girls Softball	1,000	1,735	1,335	1,400
Girls Track	1,000	1,370	1,370	1,000
Girls Volleyball	1,000	1,335	1,335	1,000
Girls Golf	700	668	468	900
Weightlifting	438	400	229	610
Dance Team	7,578	7,767	9,289	6,056
Cheerleaders	11,821	14,966	9,372	17,415
Activity Tickets	-	12,800	12,800	-
Concession - High School	405	37,540	37,528	417
Concession - Middle School	1,569	6,936	5,186	3,319
Reserved Seat Tickets	312	38	-	349
Activity Passes	-	315	315	-
All Sports	21,195	4,006	12,277	12,924
Athletic Uniforms	4,500	9,786	9,786	4,500
Flags	1,150	923	1,058	1,015
Spanish Club	15,406	4,657	2,157	17,905
Art Club	4,487	1,350	-	5,837
Science Club	1,976	400	75	2,302
Speech Club	3,177	2,489	4,620	1,047
Family Career & Community Leaders of America (FCCLA)	812	1,636	1,986	462
Fellowship of Christian Athletes (FCA)	1,200	1,200	1,200	1,200
Future Business Leaders	886	710	309	1,287
Future Farmers of America	8,873	16,569	19,432	6,010
College Farm	3,317	48,219	51,240	297
Middle School:				
SOAR	1,117	6,973	5,807	2,283
Band	723	2,214	2,163	774
Vocal Music	727	487	63	1,151
Student Council	9,116	6,245	6,198	9,163
Magazine Sales	-	41,928	41,928	-
Playground Equipment	1,785	-	-	1,785

Sheldon Community School District  
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts  
 Year ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
High School:				
Student Council	2,713	10,490	11,204	1,998
National Honor Society	95	1,661	1,741	15
Leadership Group	201	-	-	201
Band Uniform Rent	5,596	1,232	1,015	5,813
Musical	3,092	3,358	3,829	2,621
Annual	5,860	5,234	1,741	9,352
Band	6,380	5,950	10,111	2,219
Jazz Band	95	600	639	56
Vocal Music	6,122	4,665	5,951	4,835
Choir Robes	667	1,041	1,692	16
Choir Trip	9,204	18,292	27,369	127
Swing Choir	1,617	4,506	2,454	3,669
Summer Theater	10,841	9,629	13,009	7,462
Music Department Trip	-	91,475	89,465	2,011
Band Trip	6,542	36,512	36,052	7,001
Science Department	100	-	-	100
Elementary Boxtop	5,495	4,109	5,643	3,960
District Hospitality	197	-	-	197
Student Vending Machines	1,736	958	2,596	98
Investments	1,342	2,067	2,089	1,320
Community Musical	-	7,958	2,138	5,821
Class of:				
2000/2010	55	-	-	55
2004/2014	1,360	-	314	1,046
2005/2015	1,726	750	845	1,631
2006/2016	3,470	-	1,415	2,055
2007/2017	3,467	-	100	3,367
2008/2018	3,500	-	-	3,500
2009/2019	-	3,500	-	3,500
Total	\$ 200,443	470,043	480,932	189,554

See accompanying independent auditor's report.

**Schedule 4**

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## Sheldon Community School District

Schedule of Changes in Fiduciary Assets and Liabilities -  
Agency Fund

Year ended June 30, 2005

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
<b>Assets</b>				
Cash and pooled investments	\$ 3,839	9,812	9,191	4,460
Receivables:				
Accounts	-	122	-	122
Accrued interest	1	9	1	9
Due from other governments	8,975	8,975	8,975	8,975
<b>Total assets</b>	<b>\$ 12,815</b>	<b>18,918</b>	<b>18,167</b>	<b>13,566</b>
<b>Liabilities</b>				
Due to other governments	\$ 12,815	18,918	18,167	13,566

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 Five Years

	Modified Accrual Basis				
	2005	2004	2003	2002	2001
Revenues:					
Local sources:					
Local tax	\$ 3,705,094	3,971,901	3,186,542	2,860,636	2,913,234
Tuition	195,411	172,579	118,391	153,730	144,252
Other	549,856	456,981	595,179	526,095	578,310
State sources	4,158,412	3,647,447	3,917,172	3,901,738	3,801,426
Federal sources	350,161	894,075	278,416	254,029	189,025
Total	<u>\$ 8,958,934</u>	<u>9,142,983</u>	<u>8,095,700</u>	<u>7,696,228</u>	<u>7,626,247</u>
Expenditures:					
Instruction:					
Regular instruction	\$ 3,730,320	3,534,552	3,336,688	3,327,480	3,051,435
Special instruction	979,108	788,266	687,714	824,714	825,552
Other instruction	945,675	842,041	810,318	859,480	838,075
Support services:					
Student services	72,821	81,986	241,027	215,154	161,912
Instructional staff services	136,586	124,936	135,636	126,830	127,036
Administration services	823,388	827,693	728,667	684,547	666,894
Operation and maintenance of plant services	649,462	579,527	511,765	531,349	520,053
Transportation services	246,718	240,987	211,953	251,185	309,502
Central support services	27,631	-	14,560	112,199	7,217
Non-instructional programs	9,042	8,502	5,000	-	22,651
Other expenditures:					
Facilities acquisition	733,736	4,718,670	2,456,560	338,011	354,814
Long-term debt:					
Principal	240,000	200,000	145,000	140,000	168,655
Interest and fiscal charges	260,051	268,501	209,444	19,450	25,294
AEA flowthrough	325,668	325,688	366,540	349,094	355,112
Total	<u>\$ 9,180,206</u>	<u>12,541,349</u>	<u>9,860,872</u>	<u>7,779,493</u>	<u>7,434,202</u>

See accompanying independent auditor's report.

**Sheldon Community School District**



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

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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

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

To the 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 as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 14, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 (A) is a material weakness.

Compliance and Other Matters

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 grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our

tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the 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.

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 14, 2005

Sheldon Community School District

Schedule of Findings

Year ended June 30, 2005

**Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

- (A) 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 – Maximum internal control has been exercised based on the number of individuals employed in the accounting area.

Conclusion – Response acknowledged. The District should continue to review control procedures to obtain the maximum internal control possible, including utilizing other employees to provide independent review of investment transactions.

- (B) 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 – A policy on scheduling backups will be started.

Conclusion – Response acknowledged. The District should also develop written policies to require periodic password changes and a written disaster recovery plan should be developed.

Sheldon Community School District

Schedule of Findings

Year ended June 30, 2005

**Other Findings Related to Statutory Reporting:**

(1) Official Depositories – Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

(2) Certified Budget – Disbursements for the year ended June 30, 2005 exceeded the amended budget amount in the other expenditures function.

Recommendation – The 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 continue to monitor expenditures to insure that they do not exceed the budget.

Conclusion – Response accepted.

(3) Questionable Disbursements – No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

(4) 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.

(5) Business Transactions – No business transactions between the District and District officials or employees were noted.

(6) 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.

(7) Board Minutes – Except as follows, no transactions requiring Board approval which had not been approved by the Board were noted.

During the year ended June 30, 2005, the District transferred funds from the General Fund to the School Nutrition Fund. The transfer was not approved by the Board prior to the actual transfer.

Recommendation – The Board should approve all transfers between funds prior to the transfers.

Response – All transfers between funds will be approved by the Board before they are completed.

Conclusion – Response accepted.

(8) Certified Enrollment – No variances in the basic enrollment data certified to the Iowa Department of Education were noted.

(9) 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.

Sheldon Community School District

Schedule of Findings

Year ended June 30, 2005

- (10) 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.

- (11) Unclaimed Property – Section 556.11 of the Code of Iowa requires all unclaimed property, including outstanding payroll checks greater than a year old and all other checks greater than three years old, to be reported to the State Treasurer as unclaimed property by November 1 for the preceding fiscal year. The District did not properly report these items to the State Treasurer for the fiscal year ended June 30, 2005.

Recommendation – The District should comply with Chapter 556.11 of the Code of Iowa.

Response – The outstanding checks will be reviewed and Chapter 556.11 of the Code of Iowa will be followed.

Conclusion – Response accepted.

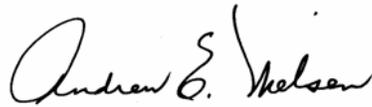
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Sheldon Community School District

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager  
Kathleen S. Caggiano, Senior Auditor  
Cheryl R. McNaught, CPA, Assistant Auditor



Andrew E. Nielsen, CPA  
Deputy Auditor of State