

**CITY OF SHELDON  
INDEPENDENT AUDITORS' REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION  
JUNE 30, 2004**

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CITY OF SHELDON  
OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Duane Wahlstrom	Mayor	January 2006
Edgar DeVries	Council Member - to 12-31-2003	
Mark Postma	Council Member	January 2006
Kevin Welch	Council Member	January 2008
Dave Popkes	Council Member	January 2006
Kurt Tatsumi	Council Member	January 2008
Ron Rensink	Council Member - replaced Devries	January 2008
Scott Wynja	City Manager	
Arlene Budden	Clerk/Treasurer	January
Jack DeHoogh	Attorney	January
Skip Tanner	Airport Commissioner	July 2004
Warren Wolf	Airport Commissioner	July 2008
Steve Drenkow	Airport Commissioner	July 2004
Rob Dixon	Airport Commissioner	July 2005
Scot Meinecke	Airport Commissioner	July 2007
Carlene Kehrberg	Park Commissioner	July 2004
Thel Boone	Park Commissioner	July 2004
Jlynn Postma	Park Commissioner	July 2007
Lori Meinecke	Park Commissioner	July 2005
Terry Ashland	Park Commissioner	July 2005
Kathy VanderVliet	Library Trustee	July 2009
Rosalind Geels	Library Trustee	July 2009
Jane Cain	Library Trustee	July 2004
Mark Brown	Library Trustee	July 2006
Lisa Meendering	Library Trustee	July 2007
Lynda Huisman	Library Trustee	July 2005
Judy Honkomp	Library Trustee	July 2007
Raeanne Tatsumi	Museum Trustee	July 2008
Gleora DeBruin	Museum Trustee	July 2008
Joe Wildeman	Museum Trustee	July 2007
Cindy Runger	Museum Trustee	July 2006
Mark Klemme	Museum Trustee	July 2004
John VanderPlaats	Museum Trustee	July 2004
Merlynn Callenius	Museum Trustee	July 2005

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Sheldon  
Sheldon, IA 51201

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 the City of Sheldon, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Sheldon's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that 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 financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Sheldon at June 30, 2004 and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 17 to the financial statements, during the year ended June 30, 2004, the City of Sheldon adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; Statement No. 41, *Budgetary Comparison Schedule - Perspective Differences*; and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2005 on our consideration of the City of Sheldon's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis and budgetary comparison information on pages 4 through 11 and 51 through 55 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Sheldon's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (not presented herein) and expressed a qualified opinion on those financial statements due to the omission of the general fixed asset account group. Other supplementary information included in Schedules 1 through 3 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.

*Winter, Stone & Co LLP*

January 19, 2005

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Sheldon provides this management's discussion and analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

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

### 2004 Financial Highlights

- Revenues of the City's governmental activities increased 18.75%, or approximately \$686,000 from fiscal 2003 to fiscal 2004. Property tax increased approximately \$91,600.
- Program expenses increased by 18.2% or approximately \$709,000, in fiscal 2004 from fiscal 2003. Public safety, public works, and community and economic development expenses decreased approximately \$106,000, \$74,000 and \$55,000 respectively. Capital projects increased approximately \$1,010,000.
- The City's net assets increased 6.87%, or approximately \$837,000, from June 30, 2003 to June 30, 2004. Of this amount, the net assets of the governmental funds increased by approximately \$503,000 and the net assets of the business type activities increased by approximately \$334,000.

### Using This Annual Report

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the non-major governmental funds.

## **Basis of Accounting**

The City financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The City prepares its budget and maintains its financial records on the cash basis. For this discussion, certain comparisons of GAAP and cash basis numbers are presented.

## **Reporting The City's Financial Activities**

### Government-wide Financial Statement

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

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

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year.

The Statement of Net Assets and the Statement of Activities report two kinds of activities:

- Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

### Fund Financial Statements

The City has three kinds of funds:

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

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

2. Proprietary funds account for the City's Enterprise and Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City. The Internal Service Fund is used to account for the City's self-insurance activities.

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

- Fiduciary funds are used to report assets held in trust or agency capacity for others. The City's fiduciary fund is used to account for employee cafeteria funds.

The required financial statement for fiduciary funds includes a statement of fiduciary assets and liabilities.

### Government-Wide Financial Analysis

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for governmental and business type activities.

#### Net Assets as of June 30, 2004

	Governmental Activities	Business Type Activities	Total
Current and other assets .....	\$ 4,604,764	\$1,152,351	\$ 5,757,115
Capital assets .....	<u>9,051,035</u>	<u>5,688,314</u>	<u>14,739,349</u>
Total assets	<u>13,655,799</u>	<u>6,840,665</u>	<u>20,496,464</u>
Long-term liabilities .....	3,956,389	776,535	4,732,924
Other liabilities .....	<u>2,691,500</u>	<u>35,988</u>	<u>2,727,488</u>
Total liabilities	<u>6,647,889</u>	<u>812,523</u>	<u>7,460,412</u>
Net assets:			
Invested in capital assets - net of related debt .....	5,178,332	4,958,314	10,136,646
Restricted .....	1,077,946	174,208	1,252,154
Unrestricted .....	<u>751,632</u>	<u>895,620</u>	<u>1,647,252</u>
Total net assets	<u>\$ 7,007,910</u>	<u>\$6,028,142</u>	<u>\$13,036,052</u>

Changes in Net Assets for the Year Ended June 30, 2004

	Governmental Activities	Business Type Activities	Total
Revenues:			
Charges for services .....	\$ 599,026	\$1,232,348	\$ 1,831,374
Operating grants, contributions, and restricted interest .....	504,755	3,087	507,842
Capital grants, contributions, and restricted interest .....	293,654		293,654
General revenues:			
Property and other city .....	1,608,837		1,608,837
Tax increment financing .....	796,738		796,738
Local option sales tax .....	311,979		311,979
Unrestricted grants and contributions .....	47,646		47,646
Unrestricted investment earnings .....	26,948	10,725	37,673
Unrestricted miscellaneous .....	44,858		44,858
Operating transfers .....	27,309	(27,309)	
Fixed asset transfers .....	<u>(324,686)</u>	<u>324,686</u>	
Total revenues	<u>3,937,064</u>	<u>1,543,537</u>	<u>5,480,601</u>
Program expenses:			
Public safety .....	792,021		792,021
Public works .....	1,064,590		1,064,590
Health and social services .....	500		500
Culture and recreation .....	618,620		618,620
Community and economic development .....	334,373		334,373
General government .....	445,439		445,439
Debt service .....	178,241		178,241
Water .....		689,123	689,123
Sewer .....		<u>520,462</u>	<u>520,462</u>
Total expenses	<u>3,433,784</u>	<u>1,209,585</u>	<u>4,643,369</u>
Change in net assets	503,280	333,952	837,232
Net assets - beginning of year, as restated .....	<u>6,504,630</u>	<u>5,694,190</u>	<u>12,198,820</u>
Net assets - end of year	<u>\$7,007,910</u>	<u>\$6,028,142</u>	<u>\$13,036,052</u>

Net assets of governmental activities increased from FY03 by approximately \$503,000 or 7.74%. Net assets of business type activities increased from FY03 by approximately \$334,000 or 5.86%. The largest portion of the City'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 that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Other restricted net assets is land held by the City to be sold or granted to businesses for economic development purposes.

**Individual Major Governmental Fund Analysis**

Changes in Fund Balances - Governmental Funds  
For the Year Ended June 30, 2004

	Cash Basis <u>All Funds</u>	GAAP <u>All Funds</u>
Receipts/revenues .....	\$4,337,456	\$4,345,831
Disbursements/expenditures .....	<u>4,642,752</u>	<u>4,601,984</u>
Net	(305,296)	(256,153)
Other financing sources .....	<u>181,768</u>	<u>(23,613)</u>
Decrease in fund balances	(123,528)	(279,766)
Fund balance - beginning of year, as restated .....	<u>1,553,050</u>	<u>1,949,508</u>
Fund balance - end of year	<u>\$1,429,522</u>	<u>\$1,669,742</u>

Governmental funds reported a combined fund balance of \$1,669,742 at June 30, 2004 which was \$279,766 less than the fund balance at June 30, 2003.

The general fund, tax increment financing, and debt service fund showed modest changes of \$(48,159), \$34,694, and \$14,734, respectively.

The capital projects fund showed a decline of \$261,815 due primarily to improvements in the Schemper and Rungers additions.

**Individual Major Business Type Fund Analysis**

Changes in Net Assets - Proprietary Funds  
For the Year Ended June 30, 2004

	Cash Basis Enterprise <u>Funds</u>	GAAP Enterprise <u>Funds</u>
Receipts/revenues .....	\$1,684,172	\$1,622,753
Disbursements/expenditures .....	<u>1,534,029</u>	<u>1,547,976</u>
Net	150,143	74,777
Net transfers .....	<u>(27,309)</u>	<u>297,377</u>
Increase in net assets	122,834	372,154
Net assets - beginning of year .....	<u>975,523</u>	<u>5,786,871</u>
Net assets - end of year	<u>\$1,098,357</u>	<u>\$6,159,025</u>

Proprietary funds reported combined net assets of \$6,159,025 at June 30, 2004 which was an increase of \$372,154 over the net assets at June 30, 2003.

The water fund reported a net loss before transfers from governmental funds of \$26,881. The loss is due to depreciation of \$111,222 and Lewis and Clark payments of \$133,511.

The sewer fund reported a modest net income before transfers of \$43,776 which included depreciation expense of \$151,164.

The transfers in from governmental funds is primarily the water and sewer portion of the Rungers and Schemper infrastructure project which was paid by the capital projects fund. The total transferred in for these projects was \$324,686.

**Budgetary Highlights**

Over the course of the year, the City amended the budget once. The amendment was approved on January 21, 2004. The amendment was for additional disbursements in various departments. The City either had sufficient cash balances or the disbursements were paid with grant funds that were awarded.

**Capital Assets and Debt Administration**

Capital Assets Administration

The City's capital assets include land, buildings, and improvements, equipment, streets, water and sewer systems, lighting, systems, traffic signals, and other infrastructure. Capital assets for governmental activities totaled \$9,051,035 (net of accumulated depreciation) at June 30, 2004. Capital assets for business type activities totaled \$5,688,314 (net of accumulated depreciation) at June 30, 2004. See Note 4 to the financial statements for more information about the City's capital assets.

Major additions during the year included airport ramp improvements, infrastructure additions at Rungers and Schemper additions, a sewer heating system, and a new skate park.

Debt Administration

At June 30, 2004, the City had \$4,602,703 in bonds and other long-term debt, compared to \$5,369,005 last year as shown below.

Outstanding Debt at Year-End

	June 30,	
	<u>2004</u>	<u>2003</u>
Tax increment financing .....	\$1,470,166	\$1,638,605
Sewer utility .....	690,000	721,000
Lease purchase agreement .....	57,596	87,895
1.8 million issue .....	1,325,000	1,415,000
Super 8 Motel .....	89,000	108,000
Fire truck/park loan .....	43,505	22,000
General obligation bonds .....	555,000	990,000
Airport improvement loan .....	<u>372,436</u>	<u>386,505</u>
 Total	 <u>\$4,602,703</u>	 <u>\$5,369,005</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$4,602,703 is well within its constitutional debt limit of \$9,204,948.

#### **Economic Factors and Next Year's Budgets and Rates**

The City of Sheldon's elected and appointed officials and department heads considered many factors when setting the fiscal year 2004-2005 budget, tax rates, and fees that will be charged for various City activities.

When adopting the budget for the next fiscal year, it was recommended that all departments, boards and commissions cut 10% from their previous budget. The administration also recommended closing the Communication Center for dispatching services and combine services with the county. With only a slight increase in property tax valuations for the general fund, expected lower revenues from the state in municipal assistance, property tax roll-back, and other rising expenses, the City considered many options for reductions in the budget. The City has added no major new programs to the 2004-2005 budget.

#### **Comparisons 2003-2004 to 2004-2005 Management Analysis**

As the City of Sheldon proceeds into the 2004-2005 budget, there were significant changes that have taken place. The major difference was in the way dispatching and communications was handled in the emergency services departments. With the reduction in state municipal assistance, and the continuation of the residential property tax roll-back, we must continue to create ways to function with increased expenses and reduced revenue. Although there were many changes that have taken place with the communications process, it has gone quite well through the transition. During the budget process, the council took a serious look at increasing revenues to offset the reductions. Increased user fees have helped to offset some of those increased expenses while at the same time reducing the tax burden.

Major projects that have taken place in the general fund area were the airport taxiway improvement, and a new skate park in City Park. These projects were mainly supported by grants, reserved revenues and fundraisers.

Over the last couple of years there has been a significant increase in available dollars in tax increment financing. This is mainly due to the amount of development that has taken place in a number of TIF districts such as the Schemper, Sunshine, and Rungers additions. The city will continue to see this increase over the next few years until some of the TIF areas are released to the general tax roles. As the TIF amounts increase, we must take a serious look at paying off some of the TIF debt and releasing TIF districts to help cover the increased expenses in the general fund area.

Over the last few years, the City of Sheldon has increased water and sewer rates by a combined total of 15%. There have been recent improvements to the wastewater plant ventilation system and the new control panel. In the near future, there will be additional improvements such as the Lewis and Clark Rural Water System, looping water mains and a possible additional water tower. It is very likely that rate increases will have to be considered to make these improvements. We will also pursue possible grants and other funding sources to help make these improvements.

### **Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Arlene Budden, City Clerk/Treasurer or Scott Wynja, City Manager, 416 9th St., Sheldon, Iowa.

EXHIBIT A

CITY OF SHELDON  
 STATEMENT OF NET ASSETS  
 JUNE 30, 2004

	Governmental <u>Activities</u>	Business Type <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and pooled investments .....	\$ 1,557,387	\$ 754,594	\$ 2,311,981
Receivables - net, where applicable, of allowances for uncollectibles:			
Property tax:			
Delinquent .....	6,594		6,594
Succeeding year .....	1,428,647		1,428,647
Tax increment financing:			
Delinquent .....	2,423		2,423
Succeeding year .....	988,123		988,123
Accounts and unbilled usage .....	89,723	147,845	237,568
Special assessments .....	60,516		60,516
Accrued interest .....	3,299	1,211	4,510
Real estate contracts .....	10,685		10,685
Due from other governments .....	121,161		121,161
Inventories .....		46,982	46,982
Prepaid expenses .....	122,678		122,678
Land held for resale .....	213,528		213,528
Restricted assets:			
Cash and pooled investments .....		195,014	195,014
Accrued interest receivable .....		69	69
Loan fees - net of accumulated amortization .....		6,636	6,636
Capital assets - net of accumulated depreciation ....	<u>9,051,035</u>	<u>5,688,314</u>	<u>14,739,349</u>
 TOTAL ASSETS	 <u>13,855,799</u>	 <u>6,840,665</u>	 <u>20,496,464</u>

EXHIBIT A

CITY OF SHELDON  
 STATEMENT OF NET ASSETS - Continued  
 JUNE 30, 2004

	Governmental <u>Activities</u>	Business Type <u>Activities</u>	<u>Total</u>
<b>LIABILITIES</b>			
Accounts payable .....	\$ 146,755	\$ 16,966	\$ 163,721
Medical claims payable .....	22,585	11,635	34,220
Salaries payable .....	10,032	5,133	15,165
Accrued interest payable .....	30,231	2,254	32,485
Deferred revenues:			
Succeeding year property tax .....	1,428,647		1,428,647
Succeeding year tax increment financing .....	988,123		988,123
Others .....	65,127		65,127
Long-term liabilities:			
Portion due of payable within one year:			
Customer deposits .....		20,875	20,875
Compensated absences .....	83,686	25,660	109,346
General obligation bonds .....	520,000	40,000	560,000
Sales tax bonds .....	105,000		105,000
Revenue notes .....		32,000	32,000
Other long-term debt .....	139,510		139,510
Portion due of payable after one year:			
General obligation bonds .....	1,085,000		1,085,000
Sales tax bonds .....	1,220,000		1,220,000
Revenues notes .....		658,000	658,000
Other long-term debt .....	<u>803,193</u>		<u>803,193</u>
<b>TOTAL LIABILITIES</b>	<u>6,647,889</u>	<u>812,523</u>	<u>7,460,412</u>
<b>NET ASSETS</b>			
Invested in capital assets - net of related debt .....	5,178,332	4,958,314	10,136,646
Restricted for:			
Debt service .....	41,043		41,043
Land held for resale .....	213,528		213,528
Special revenue purposes .....	823,375		823,375
Revenue note retirement .....		17,929	17,929
Sewer improvement .....		90,000	90,000
Sewer replacement .....		66,279	66,279
Unrestricted .....	<u>751,632</u>	<u>895,620</u>	<u>1,647,252</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 7,007,910</u>	<u>\$ 6,028,142</u>	<u>\$13,036,052</u>

CITY OF SHELDON  
 STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2004

		Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
<b>FUNCTIONS/PROGRAMS:</b>				
<b>GOVERNMENTAL ACTIVITIES:</b>				
Public safety .....	\$ 792,021	\$ 131,434	\$ 14,140	
Public works .....	1,064,590	322,377	412,235	\$289,027
Health and social services .....	500			
Culture and recreation .....	618,620	108,790	59,108	
Community and economic development ...	334,373	20,150	19,126	4,627
General government .....	445,439	16,275	146	
Interest and fees on long-term debt .....	178,241			
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>3,433,784</b>	<b>599,026</b>	<b>504,755</b>	<b>293,654</b>
 <b>BUSINESS TYPE ACTIVITIES:</b>				
Water .....	689,123	663,801	412	
Sewer .....	520,462	568,547	2,675	
<b>TOTAL BUSINESS TYPE ACTIVITIES</b>	<b>1,209,585</b>	<b>1,232,348</b>	<b>3,087</b>	
 <b>TOTAL</b>	 <b>\$4,643,369</b>	 <b>\$1,831,374</b>	 <b>\$507,842</b>	 <b>\$293,654</b>
 <b>GENERAL REVENUES:</b>				
Property and other city taxes levied for:				
General purposes .....				
Debt service .....				
Tax increment financing .....				
Local option sales tax .....				
Unrestricted grants and contributions .....				
Unrestricted investment earnings .....				
Unrestricted miscellaneous .....				
Operating transfers .....				
Fixed asset transfers .....				
<b>TOTAL GENERAL REVENUES</b>				
 <b>CHANGE IN NET ASSETS .....</b>				
 <b>NET ASSETS - BEGINNING OF YEAR -</b>				
as restated .....				
 <b>NET ASSETS - END OF YEAR</b>				

Exhibit B

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental</u> <u>Activities</u>	<u>Business Type</u> <u>Activities</u>	<u>Total</u>
\$ (646,447)		\$ (646,447)
(40,951)		(40,951)
(500)		(500)
(450,722)		(450,722)
(290,470)		(290,470)
(429,018)		(429,018)
<u>(178,241)</u>	<u>                    </u>	<u>(178,241)</u>
<u>(2,036,349)</u>	<u>                    </u>	<u>(2,036,349)</u>
	\$ (24,910)	(24,910)
	50,760	50,760
	<u>25,850</u>	<u>25,850</u>
<u>(2,036,349)</u>	<u>25,850</u>	<u>(2,010,499)</u>
1,217,303		1,217,303
391,534		391,534
796,738		796,738
311,979		311,979
47,646		47,646
26,948	10,725	37,673
44,858		44,858
27,309	(27,309)	
<u>(324,686)</u>	<u>324,686</u>	
<u>2,539,629</u>	<u>308,102</u>	<u>2,847,731</u>
503,280	333,952	837,232
<u>6,504,630</u>	<u>5,694,190</u>	<u>12,198,820</u>
<u>\$7,007,910</u>	<u>\$6,028,142</u>	<u>\$13,036,052</u>

CITY OF SHELDON  
 BALANCE SHEET - GOVERNMENTAL FUNDS  
 JUNE 30, 2004

ASSETS

	<u>General</u>	<u>Tax Increment Financing</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<b>ASSETS:</b>				
Cash and pooled investments .....	\$ 544,194	\$ 217,145	\$ 38,699	\$ 78,781
Receivables - net, where applicable, of allowance for uncollectibles:				
Property tax:				
Delinquent .....	3,418		1,512	
Succeeding year .....	718,708		372,213	
Tax increment financing:				
Delinquent .....		2,423		
Succeeding year .....		988,123		
Accounts .....	85,034			
Special assessments .....	60,516			
Accrued interest .....	693	663	832	170
Real estate contracts .....				10,685
Due from other governments .....	15,039	16,236		16,130
Land held for resale .....	<u>          </u>	<u>          </u>	<u>          </u>	<u>213,528</u>
<b>TOTAL ASSETS</b>	<b><u>\$1,427,602</u></b>	<b><u>\$1,224,590</u></b>	<b><u>\$413,256</u></b>	<b><u>\$319,294</u></b>

LIABILITIES AND FUND EQUITY

<b>LIABILITIES:</b>				
Accounts payable .....	\$ 88,564			\$ 42,129
Salaries payable .....	6,852			
Deferred revenue:				
Succeeding year property tax .....	718,708		\$372,213	
Succeeding year tax increment financing		\$ 988,123		
Other .....	<u>80,245</u>			<u>5,074</u>
<b>TOTAL LIABILITIES</b>	<b><u>894,369</u></b>	<b><u>988,123</u></b>	<b><u>372,213</u></b>	<b><u>47,203</u></b>
<b>FUND BALANCES:</b>				
Reserved for debt service .....			41,043	
Reserved for land held for resale .....				213,528
Unreserved:				
Designated for future equipment purchases .....	153,127			
Undesignated:				
Reported in:				
General fund .....	380,106			
Special revenue funds .....		236,467		
Capital projects funds .....				58,563
<b>TOTAL FUND BALANCES</b>	<b><u>533,233</u></b>	<b><u>236,467</u></b>	<b><u>41,043</u></b>	<b><u>272,091</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$1,427,602</u></b>	<b><u>\$1,224,590</u></b>	<b><u>\$413,256</u></b>	<b><u>\$319,294</u></b>

EXHIBIT C

Total Nonmajor Governmental Funds	Total
\$ 529,819	\$1,408,638
1,664	6,594
337,726	1,428,647
	2,423
	988,123
	85,034
	60,516
911	3,269
	10,685
73,756	121,161
<u>          </u>	<u>213,528</u>
<u>\$ 943,876</u>	<u>\$4,328,618</u>
\$ 16,062	\$ 146,755
3,180	10,032
337,726	1,428,647
	988,123
	<u>85,319</u>
<u>356,968</u>	<u>2,658,876</u>
	41,043
	213,528
99,916	253,043
	380,106
486,992	723,459
	<u>58,563</u>
<u>586,908</u>	<u>1,669,742</u>
<u>\$ 943,876</u>	<u>\$4,328,618</u>

See Notes to Financial Statements

EXHIBIT D

CITY OF SHELDON  
RECONCILIATION OF THE BALANCE SHEET -  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2004

TOTAL GOVERNMENTAL FUND BALANCES PER EXHIBIT C .....	\$1,669,742
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of the assets is \$14,477,554 and the accumulated depreciation is \$5,426,519. ....	9,051,035
Prepaid expenses are not available to pay current period expenses and, therefore, are not recorded in the funds. ....	122,678
Certain other receivables are not available to pay current period expenses and, therefore, are deferred in the funds. ....	20,192
The internal service fund is used by the City to charge the cost of partial self funding the City's health insurance benefit plan to the individual funds. A portion of the assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Assets. ....	130,883
Long-term liabilities, including bonds and other long-term debt, compensated absences, and accrued interest payable, are not due and payable within the current period and, therefore, are not reported as liabilities in the funds. ....	<u>(3,986,620)</u>
 NET ASSETS OF GOVERNMENTAL ACTIVITIES PER EXHIBIT A	 <u>\$7,007,910</u>

**CITY OF SHELDON**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

	<u>General</u>	<u>Tax Increment Financing</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<b>REVENUES:</b>				
Property tax .....	\$ 736,553		\$380,458	
Tax increment financing .....		\$ 796,738		
Other city taxes .....	55,348		11,076	
Licenses and permits .....	9,745			
Use of money and property .....	71,829	2,562	3,422	\$ 1,584
Intergovernmental .....	375,572			92,953
Charges for services .....	489,557			
Special assessments .....	13,317			
Miscellaneous .....	99,145	20,000		6,100
<b>TOTAL REVENUES</b>	<u>1,851,066</u>	<u>819,300</u>	<u>394,956</u>	<u>100,637</u>
<b>EXPENDITURES:</b>				
Public safety .....	575,808			
Public works .....	325,080			
Health and social services .....	500			
Culture and recreation .....	406,404			
Community and economic development ...	12,220	43,854		
General government .....	250,522			
Debt service .....	22,330	108,323	624,603	
Capital projects .....	380,479	117,744		582,463
<b>TOTAL EXPENDITURES</b>	<u>1,973,343</u>	<u>269,921</u>	<u>624,603</u>	<u>582,463</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(122,277)</u>	<u>549,379</u>	<u>(229,647)</u>	<u>(481,826)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in .....	69,443	21,614	244,381	336,052
Operating transfers out .....	(38,830)	(536,299)		(21,614)
Loan proceeds .....	43,505			
Gain (loss) on sale of lots .....				(94,427)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>74,118</u>	<u>(514,685)</u>	<u>244,381</u>	<u>220,011</u>
<b>NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS</b>	<u>(48,159)</u>	<u>34,694</u>	<u>14,734</u>	<u>(261,815)</u>
<b>FUND BALANCES - BEGINNING OF YEAR - as restated .....</b>	<u>581,392</u>	<u>201,773</u>	<u>26,309</u>	<u>533,906</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 533,233</u>	<u>\$ 236,467</u>	<u>\$ 41,043</u>	<u>\$272,091</u>

See Notes to Financial Statements

EXHIBIT E

Total Nonmajor Governmental Funds	Total
\$ 374,412	\$1,491,423
	796,738
362,969	429,393
	9,745
6,436	85,833
411,750	880,275
	489,557
	13,317
<u>24,305</u>	<u>149,550</u>
<u>1,179,872</u>	<u>4,345,831</u>
172,042	747,850
437,721	762,801
	500
56,541	462,945
36,651	92,725
158,196	408,718
170,913	926,169
<u>119,590</u>	<u>1,200,276</u>
<u>1,151,654</u>	<u>4,601,984</u>
<u>28,218</u>	<u>(256,153)</u>
10,642	682,132
(58,080)	(654,823)
	43,505
<u>          </u>	<u>(94,427)</u>
<u>(47,438)</u>	<u>(23,613)</u>
(19,220)	(279,766)
<u>606,128</u>	<u>1,949,508</u>
<u>\$ 586,908</u>	<u>\$1,669,742</u>

EXHIBIT F

CITY OF SHELDON  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO  
 THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2004

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS  
 PER EXHIBIT E ..... \$ (279,766)

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN  
 THE STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:

Governmental funds report capital outlays as expenditures while  
 governmental activities report depreciation expense to allocate  
 those expenditures over the life of the assets. Capital expenditures  
 exceeded depreciation expense for the year, as follows:

Expenditures for capital assets .....	\$1,017,513	
Transferred to water and sewer .....	(324,686)	
Depreciation expense .....	<u>(654,381)</u>	38,446

Prepaid expenses are not available to pay current period expenses  
 and, therefore, are not recorded in the funds. The change in  
 prepaid expenses results in differences between the statements,  
 as follows:

Prepaid expenses - end of year .....	122,678	
Prepaid expenses - beginning of year .....	<u>(102,000)</u>	20,678

Certain other receivables are not available to pay current period  
 expenses and, therefore, are deferred in the funds. The change  
 in these deferred amounts results in differences between the  
 statements, as follows:

Ambulance and other receivables deferred - end of year .....	19,729	
Special assessments deferred - end of year .....	463	
Ambulance and other receivables deferred - beginning of year .....	(25,301)	
Special assessments deferred - beginning of year .....	<u>(13,452)</u>	(18,561)

Proceeds from issuing long-term liabilities provide current financial  
 resources to the governmental funds, but issuing debt increases  
 long-term liabilities in the Statement of Net Assets. 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. Current year repayments exceeded new issues,  
 as follows:

Repayments .....	748,807	
New issues .....	<u>(43,505)</u>	705,302

EXHIBIT F

CITY OF SHELDON  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO  
THE STATEMENT OF ACTIVITIES - Continued  
FOR THE YEAR ENDED JUNE 30, 2004

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditure in governmental funds. The change in these accrued expenses results in differences between the statements, as follows:

Compensated absences - end of year .....	\$ (83,686)	
Accrued interest payable - end of year .....	(30,231)	
Compensated absences - beginning of year .....	83,546	
Accrued interest payable - beginning of year .....	<u>29,350</u>	\$ (1,021)

The internal service fund is used by the City to charge the cost of partial self funding the City's health insurance benefit plan to the individual funds. A portion of the change in net assets of the internal service fund is reported with governmental activities. ....

38,202

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES  
PER EXHIBIT B

\$ 503,280

CITY OF SHELDON  
 STATEMENT OF NET ASSETS - PROPRIETARY FUNDS  
 JUNE 30, 2004

ASSETS	Enterprise Funds			Internal
	Water	Sewer	Total	Service
	Water	Sewer	Total	Self-Insurance
ASSETS				
Cash and pooled investments .....	\$ 560,004	\$ 117,961	\$ 677,965	\$225,378
Receivables - net of allowance for uncollectibles:				
Accounts and unbilled usage .....	80,445	64,985	145,430	7,104
Accrued interest .....	1,036	160	1,196	45
Inventories .....	33,748	13,234	46,982	
Restricted assets:				
Revenue note and interest sinking account:				
Cash and pooled investments .....		17,915	17,915	
Accrued interest .....		14	14	
Revenue note improvement account:				
Cash and pooled investments .....		90,000	90,000	
Revenue note debt service account:				
Cash and pooled investments .....		66,224	66,224	
Accrued interest .....		55	55	
Customer deposits - cash .....	20,875		20,875	
Loan fees - net of accumulated amortization		6,636	6,636	
Capital assets - net of accumulated depreciation .....	<u>2,355,351</u>	<u>3,332,963</u>	<u>5,688,314</u>	
TOTAL ASSETS	<u>3,051,459</u>	<u>3,710,147</u>	<u>6,761,606</u>	<u>232,527</u>
LIABILITIES:				
Accounts payable .....	11,283	5,683	16,966	
Medical claims payable .....				34,220
Salaries payable .....	2,757	2,376	5,133	
Payable from restricted assets:				
Accrued interest payable .....		2,254	2,254	
Customer deposits .....	20,875		20,875	
Revenue bonds payable .....		690,000	690,000	
Compensated absences .....	14,706	10,954	25,660	
General obligation bonds payable .....		<u>40,000</u>	<u>40,000</u>	
TOTAL LIABILITIES	<u>49,621</u>	<u>751,267</u>	<u>800,888</u>	<u>34,220</u>
NET ASSETS:				
Invested in capital assets - net of related debt	2,355,351	2,602,963	4,958,314	
Restricted for:				
Revenue note retirement .....		17,929	17,929	
Sewer improvement .....		90,000	90,000	
Sewer replacement .....		66,279	66,279	
Unrestricted .....	<u>646,487</u>	<u>181,709</u>	<u>828,196</u>	<u>198,307</u>
TOTAL NET ASSETS	<u>\$3,001,838</u>	<u>\$2,958,880</u>	<u>\$5,960,718</u>	<u>\$198,307</u>

EXHIBIT H

CITY OF SHELDON  
RECONCILIATION OF STATEMENT OF NET ASSETS - PROPRIETARY FUNDS TO  
THE STATEMENT OF NET ASSETS  
JUNE 30, 2004

TOTAL NET ASSETS - ENTERPRISE FUNDS PER EXHIBIT G ..... \$5,960,718

AMOUNTS REPORTED FOR BUSINESS TYPE ACTIVITIES IN THE  
STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:

The internal service fund is used by the City to charge the cost of partial self  
funding the City's health insurance benefit plan to the individual funds. A portion  
of the assets and liabilities of the internal service fund are included in business  
type activities in the Statement of Net Assets. .... 67,424

TOTAL NET ASSETS - BUSINESS TYPE ACTIVITIES PER EXHIBIT A \$6,028,142

EXHIBIT I

**CITY OF SHELDON**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

	Enterprise Funds			Internal
	Water	Sewer	Total	Service
<b>OPERATING REVENUES:</b>				<u>Self-Insurance</u>
Charges for services .....	\$ 661,698	\$ 559,529	\$1,221,227	
Reimbursements from operating funds .....				\$284,199
Reimbursements from employees .....				63,251
Insurance reimbursements .....				27,543
Miscellaneous:				
Miscellaneous .....	<u>2,103</u>	<u>9,018</u>	<u>11,121</u>	
<b>TOTAL OPERATING REVENUES</b>	<u>663,801</u>	<u>568,547</u>	<u>1,232,348</u>	<u>374,993</u>
<b>OPERATING EXPENSES:</b>				
Business type activities:				
Cost of sales and services .....	587,328	346,828	934,156	
Depreciation .....	111,222	151,164	262,386	
Amorization .....		437	437	
Insurance charges and claims .....				<u>319,536</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>698,550</u>	<u>498,429</u>	<u>1,196,979</u>	<u>319,536</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(34,749)</u>	<u>70,118</u>	<u>35,369</u>	<u>55,457</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>				
Interest income .....	7,868	5,119	12,987	2,425
Interest expense:				
Revenue note .....		(28,161)	(28,161)	
General obligation debt .....		(3,300)	(3,300)	
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<u>7,868</u>	<u>(26,342)</u>	<u>(18,474)</u>	<u>2,425</u>
<b>NET INCOME (LOSS) BEFORE TRANSFERS FROM GOVERNMENTAL FUNDS</b>	<u>(26,881)</u>	<u>43,776</u>	<u>16,895</u>	<u>57,882</u>
Operating transfers in .....	6,402		6,402	
Operating transfers out .....	(33,711)		(33,711)	
Capital assets transferred in .....	<u>162,343</u>	<u>162,343</u>	<u>324,686</u>	
<b>CHANGE IN NET ASSETS</b>	<u>108,153</u>	<u>206,119</u>	<u>314,272</u>	<u>57,882</u>
<b>NET ASSETS - BEGINNING OF YEAR - as restated .....</b>	<u>2,893,685</u>	<u>2,752,761</u>	<u>5,646,446</u>	<u>140,425</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$3,001,838</u>	<u>\$2,958,880</u>	<u>\$5,960,718</u>	<u>\$198,307</u>

EXHIBIT J

CITY OF SHELDON  
RECONCILIATION OF STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN  
NET ASSETS - PROPRIETARY FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2004

TOTAL CHANGE IN NET ASSETS - ENTERPRISE FUNDS PER EXHIBIT I ..... \$ 314,272

AMOUNTS REPORTED FOR BUSINESS TYPE ACTIVITIES IN THE  
STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:

The internal service fund is used by the City to charge the cost of partial self  
funding the City's health insurance benefit plan to the individual funds. A portion  
of the change in net assets of the internal service fund is reported with business  
type activities. .... 19,680

CHANGE IN NET ASSETS OF BUSINESS TYPE ACTIVITIES PER EXHIBIT B \$ 333,952

EXHIBIT K

CITY OF SHELDON  
 STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2004

	Enterprise Funds			Internal Service
	Water	Sewer	Total	Self-Insurance
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers .....	\$ 676,189	\$ 558,883	\$1,235,072	
Cash received from employees and insurance .....				\$137,846
Other operating receipts .....	2,103	9,018	11,121	
Cash payments from operating funds .....				284,199
Cash payments to employees for services .....	(187,761)	(174,481)	(362,242)	
Cash payments for goods and services ....	(412,889)	(185,964)	(598,853)	(317,852)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>77,642</u>	<u>207,456</u>	<u>285,098</u>	<u>104,193</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Operating transfers in .....	6,402		6,402	
Operating transfers out .....	(33,711)		(33,711)	
NET CASH (USED FOR) NONCAPITAL FINANCING ACTIVITIES	<u>(27,309)</u>	<u>          </u>	<u>(27,309)</u>	<u>          </u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of fixed assets .....	(6,000)	(156,520)	(162,520)	
Principal paid on revenue note .....		(31,000)	(31,000)	
Principal paid on general obligation debt ..		(30,000)	(30,000)	
Interest paid on revenue note .....		(28,262)	(28,262)	
Interest paid on general obligation debt ....		(3,300)	(3,300)	
NET CASH (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(6,000)</u>	<u>(249,082)</u>	<u>(255,082)</u>	<u>          </u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest on investments .....	7,702	5,631	13,333	2,601
NET CASH PROVIDED BY INVESTING ACTIVITIES .....	<u>7,702</u>	<u>5,631</u>	<u>13,333</u>	<u>2,601</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	52,035	(35,995)	16,040	106,794
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR .....	<u>528,844</u>	<u>328,095</u>	<u>856,939</u>	<u>118,584</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 580,879</u>	<u>\$ 292,100</u>	<u>\$ 872,979</u>	<u>\$225,378</u>

EXHIBIT K

CITY OF SHELDON  
 STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - Continued  
 FOR THE YEAR ENDED JUNE 30, 2004

	Enterprise Funds			Internal
	Water	Sewer	Total	Service
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				<u>Self-Insurance</u>
OPERATING INCOME (LOSS) .....	\$ (34,749)	\$ 70,118	\$ 35,369	\$ 55,457
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Depreciation .....	111,222	151,164	262,386	
Amortization .....		437	437	
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable and unbilled usage .....	(7,409)	(645)	(8,054)	47,052
(Increase) decrease in inventories .....	7,037	(9,606)	(2,569)	
Increase in accounts payable .....	401	66	467	
Increase in medical claims payable .....				1,684
Increase in salaries payable .....	80	35	115	
Increase in customer deposits .....	3,700		3,700	
(Decrease) in compensated absences ..	(2,640)	(4,113)	(6,753)	
TOTAL ADJUSTMENTS	<u>112,391</u>	<u>137,338</u>	<u>249,729</u>	<u>48,736</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 77,642</u>	<u>\$207,456</u>	<u>\$285,098</u>	<u>\$104,193</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON THE STATEMENT OF NET ASSETS				
Cash and pooled investments .....	\$560,004	\$117,961	\$677,965	\$225,378
Restricted assets - cash and pooled investments:				
Revenue note and interest sinking account .....		17,915	17,915	
Revenue note improvement account .....		90,000	90,000	
Revenue note debt service account .....		66,224	66,224	
Customer deposits .....	<u>20,875</u>		<u>20,875</u>	
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$580,879</u>	<u>\$292,100</u>	<u>\$872,979</u>	<u>\$225,378</u>
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:				
A water and sewer project was paid by a governmental funds type and transferred to the enterprise funds. Cost transferred in	<u>\$162,343</u>	<u>\$162,343</u>	<u>\$324,686</u>	<u>\$</u>

EXHIBIT L

CITY OF SHELDON  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
JUNE 30, 2004

	Agency Cafeteria <u>Plan</u>
ASSETS:	
Cash and pooled investments .....	\$ 20,884
Accrued interest receivable .....	<u>15</u>
TOTAL ASSETS	<u>20,899</u>
LIABILITIES:	
Cafeteria plan benefits payable .....	<u>20,899</u>
NET ASSETS	<u>\$</u>

EXHIBIT M

CITY OF SHELDON  
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
 FIDUCIARY FUND  
 FOR THE YEAR ENDED JUNE 30, 2004

	Agency Cafeteria <u>Plan</u>
ASSETS AND LIABILITIES:	
Balance - beginning of year .....	\$ 50,849
ADDITIONS:	
Contributions .....	27,015
Interest income .....	25
REDUCTIONS:	
Cafeteria plan benefits paid .....	<u>(56,990)</u>
 BALANCE - END OF YEAR	 <u>\$ 20,899</u>

CITY OF SHELDON  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Sheldon is a political subdivision of the State of Iowa located in O'Brien and Sioux Counties. It was first incorporated in 1876 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council-Manager form of government with the Mayor and Council Members elected on a non-partisan basis. The City of Sheldon provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. It also provides water and sewer utilities.

The financial statements of the City of Sheldon have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

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

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Northwest Iowa Area Solid Waste Agency, O'Brien County Emergency Management Association, O'Brien County E911 Board, Lewis and Clark Rural Water, and other various organizations.

**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 primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Net Assets presents the City'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. Additionally, the City has reported an investment in land held for resale as restricted.

*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 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 and contributions 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 funds, and fiduciary funds even though the latter are excluded from the government-wide statements. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

*The General Fund* is the general operating fund of the City. All general tax 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, the fixed charges, and the capital improvement costs not paid from other funds.

*Special Revenue: The Tax Increment Financing Revenues Fund* is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

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

*The Capital Projects Fund* is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

*Enterprise:*

*The Water Fund* is used to account for the operation and maintenance of the City's water system.

*The Sewer Fund* is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

Additionally, the City reports the following funds:

*Proprietary Fund* - An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

*Fiduciary Fund - Agency Fund* is used to account for assets held by the City as an agent for individuals.

### **C. Measurement Focus and Basis of Accounting**

The government-wide and proprietary 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 City considers revenues to be available if they are collected within 60 days after year end.

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants, and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

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 are reported as other financing sources.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block 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 City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

The proprietary funds of the City apply 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 City's Enterprise Funds are charged 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 City maintains its financial records on the cash basis. The financial statements of the City 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 financial statements:

Cash, Pooled Investments, and Cash Equivalents - The cash balances of most City funds are pooled and invested. Interest earned on investments is recorded in the General Fund unless otherwise provided by law. Investments consist of interest-bearing cash accounts, certificates of deposit, and perfected repurchase agreements which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents.

Property Tax Receivable, Including Tax Increment Financing - Property tax, including tax increment financing, 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 City to the County Board of Supervisors. Current year property tax receivable represent taxes collected by the County but not remitted to the City at June 30, 2004 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 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 have 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 revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March 2003.

Accounts and Unbilled Usage Receivable - Accounts receivable are recorded in the enterprise funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Special Assessments Receivable - Special assessments receivable represents the amounts due from individuals for work done which benefits their property. These assessments are payable by individuals in not less than ten nor more than twenty annual installments. Each annual installment with interest on the unpaid balance is due on September 30 and is subject to the same interest and penalties as other tax.

Due From Other Governments - Due from other governments represents various shared revenues, grants, and reimbursements due from other governments. Shared revenues are recognized during the period received by the collecting authority, the State of Iowa.

Inventories - Proprietary Fund inventories of materials and supplies are valued at cost, which approximates market, using the first-in, first-out (FIFO) method. The cost of inventories in the governmental funds are recorded as an expenditure at the time individual inventory items are purchased.

**Restricted Assets** - Proceeds from debt and funds set aside for payment of the enterprise fund revenue note are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include property held for resale in capital project funds which represents land which the City has purchased. The City intends to sell the property as soon as possible. In addition, other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

**Capital Assets** - Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the government) 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 if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of \$5,000 and estimated useful lives in excess of two years.

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	40 - 50 years
Improvements other than buildings	10 - 40 years
Vehicles	5 - 10 years
Equipment	5 - 20 years
Infrastructure	10 - 40 years

**Deferred Revenue** - Although certain revenues are measurable, they are not available. Available means collectible 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 delinquent property tax receivable, special assessments receivable, real estate contracts receivable, 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 and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied, special assessments that are ag deferred, and deferred income on the sale of lots.

**Compensated Absences** - City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Road Use Funds.

Long-term Liabilities - In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Assets and the proprietary fund Statement of Net Assets.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**2. CASH AND INVESTMENTS**

The City's demand deposits, savings accounts, and certificates of deposit at June 30, 2004 were entirely covered by Federal depository insurance or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the members of the pool to insure there will be no loss of public funds.

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

The City's cash and investments consisted of the following at June 30, 2004:

Cash on hand .....	\$ 160
Demand deposits .....	118,927
Certificates of deposit/savings accounts .....	1,547,465
Repurchase agreements .....	<u>861,327</u>
	<u>\$2,527,879</u>

The City's investments in repurchase agreements are collateralized by obligations of the United States government or its agencies. The City has signed a custodial agreement with the custodian.

The repurchase agreements are reported at cost, which approximates market value. These investments are classified as category 1 as to custody credit risk which means they are insured or registered with the securities held by the City or its agent in the City's name.

### 3. ALLOWANCES FOR COLLECTION LOSSES

Allowances have been made for estimated collection losses on the following receivable amounts:

	Gross Receivables	Allowance for Collection Losses	Net Receivables
Accounts and unbilled usage:			
General Fund .....	\$ 93,514	\$ 8,480	\$ 85,034
Enterprise Fund:			
Water .....	83,797	3,352	80,445
Sewer .....	67,693	2,708	64,985
Internal Service Fund:			
Self insurance .....	<u>7,104</u>	<u>          </u>	<u>7,104</u>
	<u>\$252,108</u>	<u>\$ 14,540</u>	<u>\$237,568</u>

### 4. CAPITAL ASSETS

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

	Balance Beginning of Year As rested (Note 17)	Additions	Deletions	Transfers In (Out)	Balance End of Year
<b>GOVERNMENTAL ACTIVITIES:</b>					
<b>COST OF CAPITAL ASSETS:</b>					
Land .....	\$ 406,000				\$ 406,000
Buildings and Improvements	5,323,372				5,323,372
Equipment and vehicles ..	1,734,332	\$ 149,768			1,884,100
Infrastructure .....	<u>6,321,023</u>	<u>867,745</u>		<u>\$(324,686)</u>	<u>6,864,082</u>
<b>TOTAL COST</b>	<u>13,784,727</u>	<u>1,017,513</u>		<u>(324,686)</u>	<u>14,477,554</u>
<b>ACCUMULATED DEPRECIATION:</b>					
Buildings and Improvements	1,589,430	228,850			1,818,280
Equipment and vehicles ..	833,242	166,983			1,000,225
Infrastructure .....	<u>2,349,466</u>	<u>258,548</u>			<u>2,608,014</u>
<b>TOTAL ACCUMULATED     DEPRECIATION</b>	<u>4,772,138</u>	<u>654,381</u>			<u>5,426,519</u>
<b>GOVERNMENTAL ACTIVITIES CAPITAL ASSETS - NET</b>	<u>\$ 9,012,589</u>	<u>\$ 363,132</u>	<u>\$</u>	<u>\$(324,686)</u>	<u>\$ 9,051,035</u>

	Balance Beginning of Year As rested (Note 17)	Additions	Deletions	Transfers In (Out)	Balance End of Year
<b>BUSINESS TYPE ACTIVITIES:</b>					
<b>COST OF CAPITAL ASSETS:</b>					
Land .....	\$ 84,390				\$ 84,390
Water and sewer plants ..	4,703,281	\$ 138,400			4,841,681
Equipment and vehicles ..	455,089	24,120			479,209
Infrastructure .....	<u>3,671,577</u>			<u>\$324,686</u>	<u>3,996,263</u>
<b>TOTAL COST</b>	<u>8,914,337</u>	<u>162,520</u>		<u>324,686</u>	<u>9,401,543</u>
<b>ACCUMULATED DEPRECIATION:</b>					
Water and sewer plants ..	2,425,419	121,714			2,547,133
Equipment and vehicles ..	252,460	38,469			290,929
Infrastructure .....	<u>772,964</u>	<u>102,203</u>			<u>875,167</u>
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<u>3,450,843</u>	<u>262,386</u>			<u>3,713,229</u>
<b>BUSINESS TYPE CAPITAL ASSETS - NET</b>	<u>\$ 5,463,494</u>	<u>\$ (99,866)</u>	<u>\$</u>	<u>\$324,686</u>	<u>\$ 5,688,314</u>
<b>COST OF LOAN FEES ...</b>	<b>\$ 8,750</b>				<b>\$ 8,750</b>
LESS: Accumulated amortization .....	<u>1,677</u>	<u>\$ 437</u>			<u>2,114</u>
<b>LOAN FEES - NET</b>	<u>\$ 7,073</u>	<u>\$ (437)</u>	<u>\$</u>	<u>\$</u>	<u>\$ 6,636</u>

Depreciation was charged to functions of the government as follows:

<b>Governmental Activities:</b>	
Public safety .....	\$ 65,817
Public works .....	299,232
Culture and recreation .....	208,651
General government .....	<u>80,681</u>
<b>Total Governmental Activities</b>	<b><u>\$654,381</u></b>
<b>Business Type Activities:</b>	
Water .....	\$111,222
Sewer .....	<u>151,164</u>
<b>Total Business Type Activities</b>	<b><u>\$262,386</u></b>

**5. LONG-TERM LIABILITIES**

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

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Final Due Date</u>
<b>GOVERNMENTAL ACTIVITIES:</b>				
<b>GENERAL OBLIGATION BONDS/NOTES:</b>				
Essential corporate purpose .....	9-01-99	4.85 - 5.40%	\$1,500,000	6-1-2012
Refunding capital loan notes .....	5-01-03	1.85 - 2.60%	990,000	6-1-2007
Less business type activities .....				
TOTAL				
<b>SALES AND SERVICE TAX BONDS:</b>				
Refunding bonds .....	5-01-03	1.95 - 4.30%	1,415,000	6-1-2015
<b>OTHER LONG-TERM DEBT:</b>				
Rungers interim TIF loan .....	4-20-00	6.35%	250,000	5-25-2010
Tax increment revenue capital loan note .....	12-24-96	5.75%	175,000	12-1-2007
Orab interim TIF loan .....	5-19-99	5.90%	365,000	5-25-2009
Fire truck capital loan notes .....	3-01-99		165,000	
USDA airport loan .....	6-06-01	4.75%	400,000	6-5-2021
Capital lease .....	4-18-03	3.75%	87,895	7-1-2005
Skateboard park loan .....	8-26-03	3.00%	43,505	7-1-2006
TOTAL				
<b>COMPENSATED ABSENCES .....</b>				
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>				
<b>BUSINESS TYPE ACTIVITIES:</b>				
<b>GENERAL OBLIGATION BONDS/NOTES .....</b>				
				6-1-2005
<b>REVENUE NOTES:</b>				
Sewer revenue capital loan notes	9-15-99	3.92%	814,000	6-1-2020
<b>CUSTOMER DEPOSITS .....</b>				
<b>COMPENSATED ABSENCES .....</b>				
<b>TOTAL BUSINESS TYPE ACTIVITIES</b>				

Balance Beginning of Year As restated, (Note 17)	<u>Increases</u>	<u>Decreases</u>	Balance End of Year	Due Within One Year
\$1,200,000		\$110,000	\$1,090,000	\$115,000
990,000		435,000	555,000	445,000
(70,000)		(30,000)	(40,000)	(40,000)
<u>2,120,000</u>		<u>515,000</u>	<u>1,605,000</u>	<u>520,000</u>
<u>1,415,000</u>		<u>90,000</u>	<u>1,325,000</u>	<u>105,000</u>
191,840		22,693	169,147	24,261
108,000		19,000	89,000	20,000
246,765		35,746	211,019	38,016
22,000		22,000		
386,505		14,069	372,436	14,737
87,895		30,299	57,596	28,267
	\$43,505		43,505	14,229
<u>1,043,005</u>	<u>43,505</u>	<u>143,807</u>	<u>942,703</u>	<u>139,510</u>
<u>83,546</u>	<u>140</u>		<u>83,686</u>	<u>83,686</u>
<u>\$4,661,551</u>	<u>\$43,645</u>	<u>\$748,807</u>	<u>\$3,956,389</u>	<u>\$848,196</u>
\$ 70,000		\$ 30,000	\$ 40,000	\$ 40,000
721,000		31,000	690,000	32,000
17,175	\$ 3,700		20,875	20,875
<u>32,413</u>		<u>6,753</u>	<u>25,660</u>	<u>25,660</u>
<u>\$ 840,588</u>	<u>\$ 3,700</u>	<u>\$ 67,753</u>	<u>\$ 776,535</u>	<u>\$118,535</u>

**General Obligation Bonds/Notes**

The City's total general obligation bonds/notes at June 30, 2004 were \$1,645,000. \$40,000 of these bonds is expected to be repaid from proprietary revenues and is reported with business type activities. The balance of \$1,605,000 is reported with governmental activities. The total principal and interest due is paid from debt service, and the enterprise fund then reimburses debt service. In addition, the bonds issued in September 1999 are anticipated to be repaid with tax increment financing revenues.

**Sales and Service Tax Bonds**

On October 3, 1995, the residents of the City approved a local option sales tax at the rate of 1%. The revenues must be applied 37.5% for property tax relief and 62.5% for community betterment. The City has issued sales and service tax bonds to defray the cost of the Community Services Center project in accordance with Chapter 422B. The bonds are payable from 62.5% of the local option sales tax collected. If the 62.5% is insufficient to pay the bonds and interest, the shortfall may be paid from debt service. Therefore, the bonds are a general obligation of the City.

**Revenue Notes**

The City has a sewer revenue capital loan note issued under a loan agreement between the City of Sheldon, the Iowa Finance Authority, the Iowa Department of Natural Resources, and Norwest Bank Iowa, N.A.

The resolution providing for the issuance of the sewer revenue capital loan note include the following provisions:

- (A) The note will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.
- (B) Sufficient monthly transfers shall be made into a separate sewer revenue sinking account for the purpose of making the principal and interest payments when due.
- (C) Additional monthly transfers shall be made to a separate sewer reserve account until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying principal and interest payments when insufficient money is available in the sinking account.
- (D) Additional monthly transfers of \$2,500 to a sewer improvement account shall be made until a balance of \$90,000 has been accumulated. This account is restricted for the purpose of paying principal and interest payments when insufficient money is available in the sinking and reserve accounts and to pay the cost of extraordinary maintenance expenses or repairs, renewals and replacements not included in the annual budget and for capital improvements to the systems.
- (E) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the note falling due in the same year.

During the year ended June 30, 2004, the City was in compliance with the sewer revenue capital loan note.

**Other Long-term Debt**

As of June 30, 2004, this debt consisted of the following:

- (1) Rungers Interim TIF Loan - This loan was used to purchase land for resale. The loan has an unpaid balance of \$169,147 as of June 30, 2004. The loan calls for monthly payments of \$2,855 including interest at 6.35%. The City will make these payments from TIF revenues. The loan is secured by real property.
- (2) Orab Interim TIF Loan - This loan was used to finance infrastructure in a new housing development. The loan has an unpaid balance of \$211,019 as of June 30, 2004. The loan calls for monthly payments of \$4,116 including interest at 5.90%. The City will make these payments from TIF revenues. The loan is unsecured.
- (3) Tax Increment Financing Capital Loan Notes - These notes were issued to defray the cost of carrying out an urban renewal project (motel project). The notes are payable solely from the income and proceeds of the Tax Increment Financing Fund and the taxes to be paid into the fund in accordance with Chapter 403 of the Code of Iowa. The proceeds of the notes shall be expended only for purposes that are consistent with the plans of the City's urban renewal area. The notes are not a general obligation of the City, however the debt is subject to the constitutional debt limitation of the City. The notes bear interest at 5.75%. The unpaid balance at June 30, 2004 was \$89,000.
- (4) Airport Loan - This loan was made through the United States Department of Agriculture for improvements at the City's airport. The loan has an unpaid balance of \$372,436 as of June 30, 2004, which will be paid from the general fund. The notes call for annual payments of \$32,428 including interest at 4.75%.
- (5) Capital Lease - This lease is for the purchase of a wheel loader. The lease has an unpaid balance of \$57,596 which will be paid with road use funds. The lease calls for annual payments of \$30,383 including interest at 3.75%. The loan is secured by the equipment.
- (6) Skateboard Park Loan - This loan was issued to finance a new skateboard park. The loan has an unpaid balance of \$43,505 as of June 30, 2004. the loan calls for annual payments of \$15,337 including interest at 3%.

A summary of the City's long-term debt maturities is as follows:

Governmental Activities						
Year Ending June 30,	General Obligation Bonds/Notes		Sales and Service Tax Bonds		Orab Interim TIF Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 520,000	\$ 64,760	\$ 105,000	\$ 45,162	\$ 38,016	\$ 11,382
2006	200,000	52,870	110,000	43,115	40,268	9,130
2007	155,000	45,130	110,000	40,530	42,709	6,689
2008	130,000	38,100	110,000	37,560	45,298	4,100
2009	140,000	31,535	115,000	34,260	44,728	1,349
2010	145,000	24,395	120,000	30,522		
2011	155,000	16,855	125,000	26,322		
2012	160,000	8,640	125,000	21,698		
2013			130,000	16,823		
2014			135,000	11,623		
2015			140,000	6,020		
2016						
2017						
2018						
2019						
2020						
2021						
<b>Total</b>	<b>\$1,605,000</b>	<b>\$282,285</b>	<b>\$1,325,000</b>	<b>\$313,635</b>	<b>\$211,019</b>	<b>\$ 32,650</b>

  

Year Ending June 30,	Rungers Interim TIF Loan		Skateboard Park Loan		Tax Increment Financing Capital Loan Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 24,261	\$ 10,001	\$ 14,229	\$ 1,108	\$ 20,000	\$ 4,543
2006	25,804	8,458	14,459	878	22,000	3,335
2007	27,491	6,771	14,817	445	23,000	2,041
2008	29,288	4,973			24,000	690
2009	31,203	3,059				
2010	31,100	1,014				
2011						
2012						
2013						
2014						
2015						
2016						
2017						
2018						
2019						
2020						
2021						
	<b>\$ 169,147</b>	<b>\$ 34,276</b>	<b>\$ 43,505</b>	<b>\$ 2,431</b>	<b>\$ 89,000</b>	<b>\$ 10,609</b>

Governmental Activities - Continued

Year Ending June 30,	USDA Airport Loan		Capital Lease		TOTAL	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 14,737	\$ 17,691	\$ 28,267	\$ 2,160	\$ 764,510	\$156,807
2006	15,437	16,991	29,329	1,100	457,297	135,877
2007	16,171	16,257			389,188	117,863
2008	16,939	15,489			355,525	100,912
2009	17,743	14,685			348,674	84,888
2010	18,586	13,842			314,686	69,773
2011	19,469	12,959			299,469	56,136
2012	20,394	12,034			305,394	42,372
2013	21,362	11,066			151,362	27,889
2014	22,377	10,051			157,377	21,674
2015	23,440	8,988			163,440	15,008
2016	24,553	7,875			24,553	7,875
2017	25,720	6,708			25,720	6,708
2018	26,941	5,487			26,941	5,487
2019	28,221	4,207			28,221	4,207
2020	29,562	2,866			29,562	2,866
2021	<u>30,784</u>	<u>1,462</u>			<u>30,784</u>	<u>1,462</u>
Total	<u>\$ 372,436</u>	<u>\$178,658</u>	<u>\$ 57,596</u>	<u>\$ 3,260</u>	<u>\$3,872,703</u>	<u>\$857,804</u>

Business Type Activities

Year Ending June 30,	General Obligation Bonds/Notes		Revenue Notes		TOTAL	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 40,000	\$ 1,920	\$ 32,000	\$ 27,048	\$ 72,000	\$ 28,968
2006			33,000	25,794	33,000	25,794
2007			34,000	24,500	34,000	24,500
2008			36,000	23,167	36,000	23,167
2009			37,000	21,756	37,000	21,756
2010			39,000	20,306	39,000	20,306
2011			40,000	18,777	40,000	18,777
2012			42,000	17,209	42,000	17,209
2013			43,000	15,562	43,000	15,562
2014			45,000	13,877	45,000	13,877
2015			47,000	12,113	47,000	12,113
2016			49,000	10,270	49,000	10,270
2017			50,000	8,350	50,000	8,350
2018			52,000	6,390	52,000	6,390
2019			54,000	4,351	54,000	4,351
2020			57,000	2,234	57,000	2,234
2021						
Total	<u>\$ 40,000</u>	<u>\$ 1,920</u>	<u>\$ 690,000</u>	<u>\$251,704</u>	<u>\$ 730,000</u>	<u>\$253,624</u>
Total						

**6. INTERFUND TRANSFERS**

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Emergency	\$ 25,415
	FICA/IPERS	10,317
	Proprietary: Enterprise: Water	<u>33,711</u>
		<u>69,443</u>
Special Revenue: Tax increment financing	Capital Projects	<u>21,614</u>
Debt Service	General	32,428
	Special Revenue: Tax increment financing	<u>211,953</u>
		<u>244,381</u>
Special Revenue: FICA/IPERS	Special Revenue: Local option sales tax	<u>2,348</u>
Special Revenue: LMI	Special Revenue: Tax increment financing	<u>8,294</u>
Capital Projects	Special Revenue: Local option sales tax	20,000
	Special Revenue: Tax increment financing	<u>316,052</u>
		<u>336,052</u>
Proprietary: Enterprise: Water	General	<u>6,402</u>
<b>TOTAL OPERATING TRANSFERS</b>		<b><u>\$688,534</u></b>

**7. PENSION AND RETIREMENT BENEFITS**

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

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$73,986, \$75,902, and \$74,136, respectively, equal to the required contributions for each year.

**8. OTHER EMPLOYEE BENEFITS**

All full-time City employees accumulate sick leave hours for subsequent use. The accumulation of sick leave hours did not vest as of June 30, 2004 and therefore is not recognized as a liability until used by the employee or upon retirement or death. If paid upon retirement or death, payment is made for up to 50 percent of accrued sick leave, not to exceed 60 days. The City's approximate contingent liability for the unvested sick leave as of June 30, 2004 is as follows:

Governmental activities .....	\$213,765
Business type activities .....	<u>86,748</u>
<b>TOTAL</b>	<b><u>\$300,513</u></b>

**9. INDUSTRIAL DEVELOPMENT REVENUE BONDS**

The City has issued a total of \$6,660,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$4,295,000 is outstanding at June 30, 2004. Subsequent to June 30, 2004, the City issued \$5,500,000 of Housing Facility Revenue Bonds. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

**10. RELATED PARTY TRANSACTIONS**

The City has business transactions between the City and City officials, totaling \$302 during the year ended June 30, 2004. See item 04-II-E in the Schedule of Findings.

#### 11. CONTRACT COMMITMENTS

The City has entered into a construction contract for a highway casings project. The contract is for \$95,147. No work has been completed as of June 30, 2004.

The City has committed approximately \$1,800,000 to the Lewis and Clark Rural Water System, Inc. The City's contribution will be expensed as construction is completed and the City pays their share.

#### 12. SUBSEQUENT EVENTS

Subsequent to June 30, 2004, the City issued \$1,535,000 of taxable capital loan notes to purchase land and pay for improvements. The City granted the land to the Sheldon Community Development Corporation. The City also received a \$150,000 EDSA grant.

#### 13. SIGNIFICANT GROUP CONCENTRATION OF CREDIT RISK

In the course of selling water and sewer services, the City grants credit to customers, all of whom are local residents.

#### 14. RISK MANAGEMENT

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 490 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

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

The City's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2004 were \$132,287.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. All property risks, including automobile physical damage, are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

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

The City has established a self-insurance health insurance fund (an internal service fund) to account for group insurance risks. The City's plan has established an specific stop-loss amount of \$15,000 and an aggregate stop-loss of 125% of expected claims for the year. The City purchases commercial insurance for claims in excess of coverage provided.

The claims liability of \$34,220 reported in the fund at June 30, 2004 is based on claims reported but unpaid and estimated claims incurred but not reported as of June 30, 2004. Changes in the balances of claims liability during the year are as follows:

Unpaid claims - June 30, 2003 .....	\$ 32,536
Incurred claims .....	203,070
Less claims paid .....	<u>(201,386)</u>
 Unpaid claims - June 30, 2004	 <u>\$ 34,220</u>

The City has workmen's compensation coverage through the Iowa Municipalities Workers' Compensation Association. In addition, the City purchases employee blanket bond coverage from other insurers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**15. USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**16. COLLECTIVE BARGAINING AGREEMENT**

All employees of the water and sewer department, except for the superintendents, are covered by a collective bargaining agreement which expires June 30, 2005.

**17. ACCOUNTING CHANGE AND RESTATEMENTS**

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

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

The government-wide financial statements report the City's governmental and business type activities. Beginning net assets for governmental activities has been restated to include capital assets and the changes in assets and liabilities at July 1, 2003 resulting from the conversion to the accrual basis of accounting.

Other changes to beginning net assets for governmental and business type activities were restated to reflect a change in capitalization policy and other restatements.

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

	<u>Total</u>
<b>GOVERNMENTAL ACTIVITIES:</b>	
Net assets June 30, 2003, as previously reported .....	\$1,933,877
GASB Interpretation 6 adjustments .....	<u>15,631</u>
Net assets June 30, 2003, as restated, per Exhibit E	1,949,508
<b>GASB 34 adjustments:</b>	
Capital assets, net of accumulated depreciation .....	9,012,589
Long-term debt .....	(4,578,005)
Prepaid expenses .....	102,000
Deferred long-term assets .....	38,753
Accrued interest payable .....	(29,350)
Compensated absences .....	(83,546)
Beginning assets of internal service fund .....	<u>92,681</u>
Net assets June 30, 2003, as restated, per Exhibit B	<u>\$6,504,630</u>
<b>BUSINESS TYPE ACTIVITIES:</b>	
Net assets June 30, 2003, as previously reported .....	\$5,630,980
Adjustments to beginning capital assets, net of accumulated depreciation ...	<u>15,466</u>
Net assets June 30, 2003, as restated, per Exhibit I	5,646,446
<b>GASB 34 adjustments:</b>	
Beginning assets of internal service fund .....	<u>47,744</u>
Net assets June 30, 2003, as restated, per Exhibit B	<u>\$5,694,190</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SHELDON  
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -  
GOVERNMENTAL AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2004

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Total <u>Actual</u>
<b>RECEIPTS:</b>			
Property taxes .....	\$1,492,749		\$1,492,749
Other city taxes .....	447,784		447,784
Tax increment financing revenues .....	796,509		796,509
Licenses and permits .....	9,355		9,355
Use of money and property .....	86,503	\$ 15,934	102,437
Intergovernmental .....	867,858		867,858
Charges for services .....	446,901	1,551,343	1,998,244
Special assessments .....	13,317		13,317
Miscellaneous .....	<u>176,480</u>	<u>116,895</u>	<u>293,375</u>
<b>TOTAL RECEIPTS</b>	<u><b>4,337,456</b></u>	<u><b>1,684,172</b></u>	<u><b>6,021,628</b></u>
<b>DISBURSEMENTS:</b>			
<b>Program:</b>			
Public safety .....	760,801		760,801
Public works .....	721,317		721,317
Health and social services .....	500		500
Culture and recreation .....	456,528		456,528
Community and economic development .....	95,225		95,225
General government .....	425,407		425,407
Debt service .....	926,169		926,169
Capital projects .....	1,199,816		1,199,816
Business type .....		1,216,177	1,216,177
Non-program .....	<u>56,989</u>	<u>317,852</u>	<u>374,841</u>
<b>TOTAL DISBURSEMENTS</b>	<u><b>4,642,752</b></u>	<u><b>1,534,029</b></u>	<u><b>6,176,781</b></u>
<b>EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	<u><b>(305,296)</b></u>	<u><b>150,143</b></u>	<u><b>(155,153)</b></u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating transfer in .....	682,132	6,402	688,534
Operating transfer out .....	(654,823)	(33,711)	(688,534)
Proceeds - sale of assets .....	110,954		110,954
Loan proceeds .....	<u>43,505</u>		<u>43,505</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u><b>181,768</b></u>	<u><b>(27,309)</b></u>	<u><b>154,459</b></u>
<b>EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES (USES) OVER (UNDER) DISBURSEMENTS</b>	<u><b>(123,528)</b></u>	<u><b>122,834</b></u>	<u><b>(694)</b></u>
<b>BALANCE - BEGINNING OF YEAR</b> .....	<u><b>1,553,050</b></u>	<u><b>975,523</b></u>	<u><b>2,528,573</b></u>
<b>BALANCE - END OF YEAR</b>	<u><b>\$1,429,522</b></u>	<u><b>\$1,098,357</b></u>	<u><b>\$2,527,879</b></u>

See Accompanying Independent Auditors' Report

Less Funds Not Required to be Budgeted	Net Actual	Original Budget	Final Budget	Final to Actual Variance
	\$1,492,749	\$1,485,052	\$1,485,052	\$ 7,697
	447,784	399,465	424,465	23,319
	796,509	741,470	749,023	47,486
	9,355	35,975	35,975	(26,620)
\$ 2,610	99,827	112,900	112,900	(13,073)
	867,858	772,140	926,743	(58,885)
338,171	1,660,073	1,693,150	1,713,150	(53,077)
	13,317	1,412	1,412	11,905
<u>110,889</u>	<u>182,486</u>	<u>108,300</u>	<u>108,300</u>	<u>74,186</u>
<u>451,670</u>	<u>5,569,958</u>	<u>5,349,864</u>	<u>5,557,020</u>	<u>12,938</u>
	760,801	781,710	797,610	36,809
	721,317	721,342	721,342	25
	500	1,500	1,500	1,000
	456,528	456,550	478,050	21,522
	95,225	87,353	97,353	2,128
	425,407	418,246	468,264	42,857
	926,169	957,401	957,401	31,232
	1,199,816	979,833	1,239,391	39,575
	1,216,177	1,100,094	1,250,094	33,917
<u>374,841</u>	<u>5,801,940</u>	<u>5,504,029</u>	<u>6,011,005</u>	<u>209,065</u>
<u>374,841</u>	<u>5,801,940</u>	<u>5,504,029</u>	<u>6,011,005</u>	<u>209,065</u>
<u>76,829</u>	<u>(231,982)</u>	<u>(154,165)</u>	<u>(453,985)</u>	<u>222,003</u>
	688,534	756,090	756,090	(67,556)
	(688,534)	(756,090)	(756,090)	67,556
	110,954	99,000	99,000	11,954
	<u>43,505</u>	<u>99,000</u>	<u>142,505</u>	<u>11,954</u>
	<u>154,459</u>	<u>99,000</u>	<u>142,505</u>	<u>11,954</u>
76,829	(77,523)	(55,165)	(311,480)	233,957
<u>169,433</u>	<u>2,359,140</u>	<u>2,252,586</u>	<u>2,528,039</u>	<u>(168,899)</u>
<u>\$246,262</u>	<u>\$2,281,617</u>	<u>\$2,197,421</u>	<u>\$2,216,559</u>	<u>\$ 65,058</u>

See Accompanying Independent Auditors' Report

CITY OF SHELDON  
BUDGET TO GAAP RECONCILIATION  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
REVENUES .....	\$4,337,456	\$ 8,375	\$4,345,831
EXPENDITURES/EXPENSES .....	<u>4,642,752</u>	<u>(40,768)</u>	<u>4,601,984</u>
NET	(305,296)	49,143	(256,153)
OTHER FINANCING SOURCES (USES) - NET .....	181,768	(205,381)	(23,613)
BEGINNING FUND BALANCES/NET ASSETS - as restated .....	<u>1,553,050</u>	<u>396,458</u>	<u>1,949,508</u>
ENDING FUND BALANCES/NET ASSETS	<u>\$1,429,522</u>	<u>\$240,220</u>	<u>\$1,669,742</u>

<u>Proprietary Funds</u>		
<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
\$1,684,172	\$ (61,419)	\$1,622,753
<u>1,534,029</u>	<u>13,947</u>	<u>1,547,976</u>
150,143	(75,366)	74,777
(27,309)	324,686	297,377
<u>975,523</u>	<u>4,811,348</u>	<u>5,786,871</u>
<u>\$1,098,357</u>	<u>\$5,060,668</u>	<u>\$6,159,025</u>

See Accompanying Independent Auditors' Report

CITY OF SHELDON  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
FOR THE YEAR ENDED JUNE 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business-type activities. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds, and enterprise funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$506,976. This budget amendment is reflected in the final budgeted amounts.

OTHER SUPPLEMENTAL INFORMATION

CITY OF SHELDON  
 COMBINING BALANCE SHEET  
 ALL NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2004

	<u>Special Revenue Funds</u>			
	<u>Road Use Tax</u>	<u>FICA/IPERS</u>	<u>LMI</u>	<u>Emergency</u>
<b>ASSETS:</b>				
Cash and pooled investments .....	\$138,050	\$ 79,181	\$18,885	
Receivables:				
Property tax:				
Delinquent .....		1,554		\$ 110
Succeeding year .....		313,853		23,873
Accrued interest .....		229		
Due from other governments .....	<u>32,563</u>			
<b>TOTAL ASSETS</b>	<u>\$170,613</u>	<u>\$394,817</u>	<u>\$18,885</u>	<u>\$23,983</u>
 <b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable .....	\$ 13,745			
Salaries payable .....	2,114	\$ 1,066		
Deferred revenue:				
Succeeding year property tax .....		<u>313,853</u>		<u>\$23,873</u>
<b>TOTAL LIABILITIES</b>	<u>15,859</u>	<u>314,919</u>		<u>23,873</u>
 <b>FUND BALANCES:</b>				
Unreserved:				
Designated for future equipment purchases	99,916			
Undesignated:				
Reported in special revenue funds .....	<u>54,838</u>	<u>79,898</u>	<u>\$18,885</u>	<u>110</u>
<b>TOTAL FUND BALANCES</b>	<u>154,754</u>	<u>79,898</u>	<u>18,885</u>	<u>110</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$170,613</u>	<u>\$394,817</u>	<u>\$18,885</u>	<u>\$23,983</u>

Schedule 1

<u>Special Revenue Funds</u>			
<u>Local Option Sales Tax</u>	<u>Hotel/Motel Tax</u>	<u>Trails Maintenance</u>	<u>Total</u>
\$200,201		\$ 93,502	\$ 529,819
			1,664
			337,726
682			911
<u>41,193</u>	<u>          </u>	<u>          </u>	<u>73,756</u>
<u>\$242,076</u>	<u>\$          </u>	<u>\$ 93,502</u>	<u>\$ 943,876</u>
		\$ 2,317	\$ 16,062
			3,180
			<u>337,726</u>
		<u>2,317</u>	<u>356,968</u>
			99,916
<u>\$242,076</u>	<u>          </u>	<u>91,185</u>	<u>486,992</u>
<u>242,076</u>	<u>          </u>	<u>91,185</u>	<u>586,908</u>
<u>\$242,076</u>	<u>\$          </u>	<u>\$ 93,502</u>	<u>\$ 943,876</u>

See Accompanying Independent Auditors' Report

CITY OF SHELDON  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCES  
 ALL NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2004

	Special Revenue Funds			
	Road Use Tax	FICA/IPERS	LMI	Emergency
<b>REVENUES:</b>				
Property tax .....		\$349,962		\$24,450
Other city taxes .....		13,403		936
Use of money and property .....		739		
Intergovernmental .....	\$411,750			
Miscellaneous .....		<u>1,620</u>		
<b>TOTAL REVENUES</b>	<u>411,750</u>	<u>365,724</u>	<u>      </u>	<u>25,386</u>
<b>EXPENDITURES:</b>				
Public safety .....		172,042		
Public works .....	345,981	91,740		
Culture and recreation .....		45,266		
Community and economic development ...				
General government .....		25,609		
Debt service .....	30,427			
Capital projects .....	<u>53,685</u>			
<b>TOTAL EXPENDITURES</b>	<u>430,093</u>	<u>334,657</u>	<u>      </u>	<u>      </u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(18,343)</u>	<u>31,067</u>	<u>      </u>	<u>25,386</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in .....		2,348	8,294	
Operating transfers out .....		<u>(10,317)</u>		<u>(25,415)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>		<u>(7,969)</u>	<u>8,294</u>	<u>(25,415)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<u>(18,343)</u>	<u>23,098</u>	<u>8,294</u>	<u>(29)</u>
<b>FUND BALANCES - BEGINNING OF YEAR, as restated .....</b>	<u>173,097</u>	<u>56,800</u>	<u>10,591</u>	<u>139</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$154,754</u>	<u>\$ 79,898</u>	<u>\$18,885</u>	<u>\$ 110</u>

Schedule 2

<u>Special Revenue Funds</u>			
<u>Local Option Sales Tax</u>	<u>Hotel/Motel Tax</u>	<u>Trails Maintenance</u>	<u>Total</u>
			\$ 374,412
\$311,979	\$36,651		362,969
5,035		\$ 662	6,436
			411,750
		<u>22,685</u>	<u>24,305</u>
<u>317,014</u>	<u>36,651</u>	<u>23,347</u>	<u>1,179,872</u>
			172,042
			437,721
		11,275	56,541
	36,651		36,651
132,587			158,196
140,486			170,913
65,905			119,590
<u>338,978</u>	<u>36,651</u>	<u>11,275</u>	<u>1,151,654</u>
<u>(21,964)</u>	<u>          </u>	<u>12,072</u>	<u>28,218</u>
			10,642
<u>(22,348)</u>	<u>          </u>	<u>          </u>	<u>(58,080)</u>
<u>(22,348)</u>	<u>          </u>	<u>          </u>	<u>(47,438)</u>
(44,312)		12,072	(19,220)
<u>286,388</u>	<u>          </u>	<u>79,113</u>	<u>606,128</u>
<u>\$242,076</u>	<u>\$          </u>	<u>\$ 91,185</u>	<u>\$ 586,908</u>

**CITY OF SHELDON**  
**SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION -**  
**ALL GOVERNMENTAL FUNDS**  
**FOR THE LAST FOUR YEARS**

	<u>Modified Accrual Basis</u>			
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b>REVENUES:</b>				
Property tax .....	\$1,491,423	\$1,399,790	\$1,364,235	\$1,280,745
Tax increment financing .....	796,738	639,346	472,603	508,899
Other City taxes .....	429,393	448,712	393,788	385,842
Licenses and permits .....	9,745	9,456	11,552	9,043
Use of money and property .....	85,833	51,943	101,791	114,867
Intergovernmental .....	880,275	544,934	732,092	825,957
Charges for services .....	489,557	415,049	197,997	180,125
Special assessments .....	13,317	2,196	13,407	4,114
Miscellaneous .....	<u>149,550</u>	<u>148,154</u>	<u>364,079</u>	<u>182,798</u>
<b>TOTAL REVENUES</b>	<b><u>\$4,345,831</u></b>	<b><u>\$3,659,580</u></b>	<b><u>\$3,651,544</u></b>	<b><u>\$3,492,390</u></b>
<b>EXPENDITURES:</b>				
Public safety .....	\$ 747,850	\$ 854,399	\$ 704,324	\$ 742,039
Public works .....	762,801	837,203	607,861	534,709
Health and social services .....	500		1,125	2,179
Culture and recreation .....	462,945	497,679	456,037	430,998
Community and economic development .....	92,725	147,238	60,041	60,000
General government .....	408,718	428,921	466,179	394,997
Debt service .....	926,169	937,058	937,643	898,502
Capital projects .....	<u>1,200,276</u>	<u>190,945</u>	<u>823,020</u>	<u>830,743</u>
<b>TOTAL EXPENDITURES</b>	<b><u>\$4,601,984</u></b>	<b><u>\$3,893,443</u></b>	<b><u>\$4,056,230</u></b>	<b><u>\$3,894,167</u></b>

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Honorable Mayor and  
Members of the City Council  
City of Sheldon  
Sheldon, IA 51201

We have audited the financial statements of the City of Sheldon, Iowa as of and for the year ended June 30, 2004, and have issued our report thereon dated January 19, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance 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 noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved.

### **Internal Control Over Financial Reporting**

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. Prior year reportable conditions have been resolved.

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

*Wischer, Steve & Co LLP*

January 19, 2005

CITY OF SHELDON  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2004

**Part I: Findings Related to the General Purpose Financial Statements**

04-I-A Records of Accounts - We noted that transactions in an ambulance department account were not recorded in the City's records. Chapter 384.20 of the Code of Iowa states in part that "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose."

Recommendation - We recommend the City record these transactions on the City's books, or alternatively, the ambulance department apply for 501(c)(3) status, thus becoming a separate legal entity. The ambulance department may still have to report these transactions to the City at year-end to determine the proper recording of this organization.

Response - The ambulance department is in the process of applying for 501(c)(3) status. The City will require an accounting at year-end to determine the proper recording of the organization.

Conclusion - Response accepted.

CITY OF SHELDON  
 SCHEDULE OF FINDINGS - Continued  
 FOR THE YEAR ENDED JUNE 30, 2004

**Part II: Other Findings Related to Required Statutory Reporting**

- 04-II-A Official Depositories - A resolution naming official depositories has been adopted by the Council. The maximum deposit amounts stated in the resolution were not exceeded during the year.
  
- 04-II-B Certified Budget - Disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted.
  
- 04-II-C Questionable Expenditures - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
  
- 04-II-D Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.
  
- 04-II-E Business Transactions - Business transactions between the City and city officials or employees are detailed as follows:
 

Name, Title, and <u>Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Kurt Tatsumi, Council Member, Owner of K.T. Industries, Inc.	supplies and printing	\$ 302

The transaction with the council member does not appear to be a conflict of interest since the total paid was less than \$1,500.
  
- 04-II-F Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
  
- 04-II-G Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
  
- 04-II-H Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
  
- 04-II-I Revenue Notes - No noncompliance with revenue note provisions were noted.

CITY OF SHELDON  
SCHEDULE OF FINDINGS - Continued  
FOR THE YEAR ENDED JUNE 30, 2004

04-II-J Economic Development - We noted that the City paid the Sheldon Community Development Corporation \$38,350 from tax increment financing revenues and \$36,651 from hotel/motel tax.

In addition, we noted that the City paid the O'Brien County Economic Development Corporation \$5,504 from tax increment financing revenues.

It appears the City properly evaluated the public purpose and requires documentation of how the funds were used.

04-II-K Skateboard Park Loan - We noted that the City borrowed money from a bank to finance a skateboard park without holding a public hearing as required by Chapter 384.24A of the Code of Iowa.

Recommendation - We recommend the City hold a public hearing whenever the City enters into a loan agreement.

Response - The City will follow this recommendation.

Conclusion - Response accepted.