

Sibley-Ocheyedan Community School District

Independent Auditor's Report  
Basic Financial Statements  
And Supplementary Information  
Schedule of Findings and Questioned Costs

June 30, 2004

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Sibley-Ocheyedan Community School District

Officials

Name	Title	Term Expires
Board of Education (Before September 2003 Election)		
Kevin Hertz	President	2004
Michael Fleming	Vice President	2004
Julie Eddy	Board Member	2005
Dan Minten	Board Member	2003
Cindy Onken	Board Member	2005
Board of Education (After September 2003 Election)		
Kevin Hertz	President	2004
Michael Fleming	Vice President	2004
Julie Eddy	Board Member	2005
Dan Minten	Board Member	2006
Cindy Onken	Board Member	2005
Jeff Zwagerman	Superintendent	2004
LaDonn Hartzell	District Secretary/Treasurer	2004
DeKoter, Thole & Dawson	Attorney	Indefinite

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**ROCK RAPIDS, IOWA 51246**

Independent Auditors' Report

To the Board of Education of the  
Sibley-Ocheyedan Community School District

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Sibley-Ocheyedan Community School District, Sibley, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 12 to the financial statements, during the year ended June 30, 2004, Sibley-Ocheyedan Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Omnibus; and 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 Governmental Auditing Standards, we have also issued our reports dated September 17, 2004 on our consideration of the Sibley-Ocheyedan Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Those reports are an integral part of an audit performed in accordance with Governmental 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 7 through 16 and 46 through 49 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sibley-Ocheyedan Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, 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.

Wells Heard Halse & Co.

September 17, 2004

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

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Sibley Ocheyedan Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

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

### **2004 FINANCIAL HIGHLIGHTS**

General Fund revenues decreased from \$ 6,286,875 in fiscal 2003 to \$ 6,229,553 in fiscal 2004, while General Fund expenditures increased from \$ 5,810,770 in fiscal 2003 to \$6,186,868 in fiscal 2004. This resulted in a decrease in the District's General Fund balance from \$ 643,020 in fiscal 2003 to \$ 460,450 in fiscal 2004, a 28 percent decrease.

The decrease in General Fund revenues was attributable to a decrease in funding from state and local sources. The increase in expenditures was due primarily to increases in instruction and support services.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required and other supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

The first two statements are District-wide financial statements that provide both short-term and long-term information about the District's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.

The statements for governmental funds explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.

The statements for proprietary funds offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.

The statements for fiduciary funds provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

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

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

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

Figure A-1 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this section of the management’s discussion and analysis highlights the structure and contents of each of the statements.

Figure A-1 Major features of the district-wide and fund financial statements				
	District-wide Statements	Governmental Fund	<u>Fund Statements</u> Proprietary Fund	Fiduciary Fund
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	Statement of net assets  Statement of activities	Balance sheet  Statement of revenues, expenditures, and changes in fund balances	Statement of revenues, expenses, and changes in net assets  Statement of cash flows	Statement of fiduciary net assets  Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset / liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow / outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *District-wide Statements*

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

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

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

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

### *Fund Financial Statements*

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

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

The District has three kinds of funds:

1. *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not

encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements.

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

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

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

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

3. *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund – These are funds for which the District administers and accounts for certain federal and / or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

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

The required financial statements for fiduciary funds includes the statement of fiduciary net assets and the statement of changes in fiduciary net assets.

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

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Figure A-2 below provides a summary of the District's net assets for the year ended June 30, 2004.

Figure A-2  
Condensed Statement of Net Assets

	Governmental Activities	Business type Activities	Total School District
	June 30, 2004	June 30, 2004	June 30, 2004
Current and other assets	\$ 4,835,783	\$ 26,994	\$ 4,862,777
Capital assets	7,105,000	11,238	7,116,238
Total assets	<u>11,940,783</u>	<u>38,232</u>	<u>11,979,015</u>
Long-term liabilities	3,201,730	-	3,201,730
Other liabilities	3,856,252	-	3,856,252
Total liabilities	<u>7,057,982</u>	<u>-</u>	<u>7,057,982</u>
Net assets:			
Invested in capital assets, Net of related debt	3,843,001	11,238	3,854,239
Restricted	189,643	-	189,643
Unrestricted	<u>850,158</u>	<u>26,995</u>	<u>877,153</u>
Total net assets	<u>\$ 4,882,802</u>	<u>\$ 38,232</u>	<u>\$ 4,921,034</u>

The largest portion of the District's net assets is 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.

Unrestricted net assets are the part of net assets that can be used to finance day to day operations without constraints established by debt covenants, enabling legislation, or the legal requirements.

Figure A-3 shows the changes in net assets for the year ended June 30, 2004.

Figure A-3  
Changes in Net Assets

	Governmental Activities	Business-type Activities	Total School District
Revenues:			
Program revenues:			
Charges for services	\$ 575,316	\$ 163,652	\$ 736,968
Operating grants, contributions, and restricted interest	754,295	132,329	886,624
Capital grants, contributions, and restricted interest	13,683		13,683
General revenues:			
Property tax	2,909,796	-	2,909,796
Local option sales and service tax	114,494	-	114,494
Unrestricted state grants	2,936,165	-	2,936,165
Total revenues	<u>7,303,749</u>	<u>295,981</u>	<u>7,599,730</u>
Program expenses:			
Governmental activities:			
Instruction	4,453,892		4,453,892
Support services	1,899,199		1,899,199
Non-instructional programs	-	323,062	323,062
Other expenses	757,843		757,843
Total expenses	<u>7,110,934</u>	<u>323,062</u>	<u>7,433,996</u>
Change in net assets	<u>\$ 192,814</u>	<u>\$ (27,081)</u>	<u>\$ 165,733</u>

Property tax and unrestricted state grants account for 80 percent of the total revenue. The District's expenses primarily relate to instruction and support services which account for 93 percent of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$ 7,303,749 and expenses were \$ 7,110,934. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-4  
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 4,453,892	\$ (3,228,925)
Support Services	1,899,199	(1,864,858)
Non-instructional programs	-	83,986
Other expenses	757,843	(757,843)
Totals	<u>\$ 7,110,934</u>	<u>\$ (5,767,640)</u>

The cost financed by users of the District's programs was \$ 6,535,618.

Federal and state governments subsidized certain programs with grants and contributions totaling \$ 754,295.

The net cost of governmental activities was financed with \$ 3,024,290 in property and other taxes and \$ 2,936,165 in unrestricted state grants.

### **Business Type Activities**

Revenues for business type activities were \$ 262,659 and expenses were \$ 289,740. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements, and investment income.

### **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$ 929,648, as compared to last year's ending fund balance of \$ 1,041,747. The primary reason for the decrease in the combined fund balance in fiscal 2004 is due to a decrease in state funding and an increase in instruction and administration expenses.

### **Governmental Fund Highlights**

The District's deteriorating General Fund financial position is the product of declining enrollment and a decrease in state funding combined with the increasing cost to find and retain the services of qualified staff. As a result of these challenges, the General Fund balance decreased from \$ 643,020 to \$ 460,450.

### **Proprietary Fund Highlights**

The School Nutrition Fund net assets decreased from \$ 65,313 to \$ 38,232 at June 30, 2004, representing a decrease of approximately 41percent.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the Sibley Ocheyedan Community School District did not amend its annual budget to reflect additional revenue and expenditures.

The District's total actual receipts were \$ 155,261 less than the total budgeted receipts, a variance of 2%. The most significant change resulted in the District receiving less in various components of state aid than originally anticipated.

Total expenditures were less than budgeted due primarily to a decrease in available funding.

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

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2004, the District had invested \$ 7,105,000, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment, and transportation equipment. (See figure A-5) This amount represents a net increase of 3 percent from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$276,512.

The original cost of the District's capital assets was \$ 11,592,989. Governmental funds account for \$ 11,551,874 with the remainder of \$ 41,115 in the Proprietary, School Nutrition Fund.

Figure A-5  
Capital Assets, net of Depreciation  
( In thousands )

	Governmental Activities June 30,		Business type Activities June 30,		Total School District June 30,		Total Change 2003-04
	2004	2003	2004	2003	2004	2003	
Buildings	\$ 10,156	\$ 9,948	\$ -	\$ -	\$ 10,156	\$ 9,948	\$ 208
Equipment	1,396	1,344	41	40	1,437	1,384	53
Totals	\$ 11,552	\$ 11,292	\$ 41	\$ 40	\$ 11,593	\$ 11,332	\$ 261

### Long-term Debt

At June 30, 2004, the District had \$ 3,201,730 in general obligation, revenue, and other long-term debt outstanding. This represents a decrease of approximately 10 percent from last year. (See Figure A-6) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

Figure A-6  
Outstanding Long-Term Obligations

	Total District June 30,		Change June 30, 2003-04
	2004	2003	
Bonds	\$ 2,955,000	\$ 3,155,000	\$ (200,000)
Early Retirement	246,730	379,905	(133,175)
Total	\$ 3,201,730	\$ 3,534,905	\$ (333,175)

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

The Sibley-Ocheyedan school district will see a huge reduction in school population over the next four to five years. The following is a history of past enrollment figures:

1996-97	1023.3
1997-98	1020.2
1998-99	993.8
1999-2000	961.2
2000-2001	938.6
2001-2002	922.2
2002-2003	927.2
2003-2004	907.2

As you can see, there has been a serious loss of student population and it will continue through five years or until the student population becomes stable. It appears that class size will average between 50 to 65 students per class. This has been the trend for the last five years and as we graduate classes of 80-90 students and enter 50-65 students in Kindergarten, that trend appears to continue.

This loss of student population will be of serious consequence to the district, as the money per student will decrease dramatically. It will be compounded by the expectation of the district patrons to maintain quality educational programs regardless of amount of money brought into the district.

A second problem is that of negotiations with the professional staff. Ability to pay has never been an issue with granting third parties and so the district has been resigned to increasing salary and benefits for the staff by at least 4 per cent each year.

The district has been able to offset the increased costs and decreased monetary payments by encouraging early retirements and using the hiring of younger less experience staff to decrease costs. As the staff becomes younger and less people are able to retire, this option becomes less viable.

Since it is highly unlikely that there will be a population boost and the fact that the board has no control over that factor anyway, the only other option will be to decrease costs.

There are basically three options the board will have to decrease cost within the district:

1. Increase Tax Asking
2. Reduce Program and Staff
3. Close the Ocheyedan Center

If these options cannot solve the problem, then the board will need to look at combining with another district.

The Sibley-Ocheyedan School District has a good financial solvency at this time and by watching the budget closely, this solvency should last for some time to come. However, the loss of enrollment is something that will have to be dealt with in the near future.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact LaDonn Hartzell, District Secretary/Treasurer and Business Manager, Sibley Ocheyedan Community School District, 120 NE 11<sup>th</sup> Ave, Sibley, IA, 51249.

## **Basic Financial Statements**

Sibley-Ocheyedan Community School District  
Statement of Net Assets  
June 30, 2004

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents:	\$ 1,330,483	\$ 15,980	\$ 1,346,463
Receivables:			
Property tax:			
Delinquent	47,880	-	47,880
Succeeding year	2,510,619	-	2,510,619
Accounts	111,348	-	111,348
Accrued interest:			
ISCAP	1,468	-	1,468
Due from other governments	36,314	-	36,314
Inventories	-	11,014	11,014
Capital assets, net of accumulated depreciation	7,105,000	11,238	7,116,238
Restricted ISCAP Investments	797,671	-	797,671
<b>Total assets</b>	<u>11,940,783</u>	<u>38,232</u>	<u>11,979,015</u>
<b>Liabilities</b>			
Accounts payable	33,898	-	33,898
Salaries and benefits payable	497,106	-	497,106
Unamortized bond premium	8,574	-	8,574
Deferred revenue:			
Succeeding year property tax	2,510,619	-	2,510,619
ISCAP warrants payable	793,000	-	793,000
ISCAP accrued interest payable	2,226	-	2,226
Bond interest payable	10,829	-	10,829
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	210,000	-	210,000
Early Retirement	60,712	-	60,712
Portion due after one year:			
General obligation bonds payable	2,745,000	-	2,745,000
Early Retirement	186,018	-	186,018
<b>Total liabilities</b>	<u>7,057,982</u>	<u>-</u>	<u>7,057,982</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	3,843,001	11,238	3,854,239
Restricted:	189,643	-	189,643
Unrestricted	850,158	26,995	877,153
<b>Total net assets</b>	<u>\$ 4,882,802</u>	<u>\$ 38,232</u>	<u>\$ 4,921,034</u>

See notes to financial statements.

Sibley -Ocheyedan Community School District  
Statement of Activities  
Year ended June 30, 2004

	Expenses	Program Revenues		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions / Programs</b>				
Governmental activities:				
Instruction:				
Regular instruction	\$ 2,976,865	\$ 190,609	\$ 227,974	\$ 2,000
Special instruction	799,427	1,420	407,090	-
Other instruction	677,600	301,832	94,042	-
	<u>4,453,892</u>	<u>493,861</u>	<u>729,106</u>	<u>2,000</u>
Support services;				
Student services	198,888	-	-	-
Instructional staff services	174,239	-	-	-
Administration services	317,774	3,653	-	11,683
Operation and maintenance of plant services	923,934	-	-	-
Transportation services	284,364	-	19,005	-
	<u>1,899,199</u>	<u>3,653</u>	<u>19,005</u>	<u>11,683</u>
Non-instructional programs	-	77,802	6,184	-
Other expenditures:				
Facilities acquisition	72,398	-	-	-
Long-term debt interest	137,335	-	-	-
AEA flowthrough	271,598	-	-	-
Depreciation (unallocated)*	276,512	-	-	-
	<u>757,843</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	7,110,934	575,316	754,295	13,683
Business type activities:				
Non-instructional programs:				
Food service operations	323,061	163,652	132,329	-
Total	<u>\$ 7,433,995</u>	<u>\$ 738,968</u>	<u>\$ 886,624</u>	<u>\$ 13,683</u>
<b>General Revenues:</b>				
Property tax levied for:				
General purposes				
Debt service				
Capital outlay				
Local option sales and services tax				
Unrestricted state grants				
Other				
Total general revenues				
Change in net assets				
Net assets beginning of year, as restated				
Net assets end of year				

\* This amount excludes the depreciation that is included in the direct expenses of the various programs

Exhibit B

Net ( Expense ) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
\$ (2,556,282)		\$ (2,556,282)
(390,917)		(390,917)
(281,726)		(281,726)
<u>(3,228,925)</u>		<u>(3,228,925)</u>
(198,888)		(198,888)
(174,239)		(174,239)
(302,438)		(302,438)
(923,934)		(923,934)
(265,359)		(265,359)
<u>(1,864,858)</u>		<u>(1,864,858)</u>
83,986		83,986
(72,398)		(72,398)
(137,335)		(137,335)
(271,598)		(271,598)
(276,512)		(276,512)
<u>(757,843)</u>		<u>(757,843)</u>
(5,767,640)		(5,767,640)
-	(27,081)	(31,323)
<u>(5,767,640)</u>	<u>(27,081)</u>	<u>(5,798,963)</u>
2,504,710		2,504,710
337,017		337,017
68,069		68,069
114,494		114,494
2,936,165		2,936,165
-		-
<u>5,960,455</u>		<u>5,960,455</u>
192,814	(27,081)	165,733
<u>4,689,988</u>	<u>65,313</u>	<u>4,755,301</u>
<u>\$ 4,882,802</u>	<u>\$ 38,232</u>	<u>\$ 4,921,034</u>

See notes to financial statements.

Sibley -Ocheyedan Community School District  
Balance Sheet - Governmental Funds  
June 30, 2004

Exhibit C

	<b>General</b>	<b>Nonmajor</b>	<b>Total</b>
<b>Assets and Other Debits</b>			
Cash in bank	\$ 842,049	\$ 488,436	\$ 1,330,486
Receivables			
Property Tax			
Delinquent	37,300	10,579	47,879
Succeeding year	2,510,619	44,073	2,554,692
Other Receivables	67,275	-	67,275
Due from Other Governments	36,314	-	36,314
Restricted ISCAP Assets			
Investments	797,671	-	797,671
Accrued interest receivable	1,468	-	1,468
	.		
<b>Total Assets and Other Debits</b>	<b>4,292,696</b>	<b>543,088</b>	<b>4,835,784</b>
 <b>Liabilities, Fund Equity &amp; Other Credits</b>			
<b>Liabilities</b>			
Accounts Payable	20,721	13,178	33,899
Salaries & benefits payable	497,106	-	497,106
ISCAP warrents payable	793,000	-	793,000
ISCAP accrued interest payable	2,226	-	2,226
Unamortized bond premium	8,574	-	8,574
Deferred revenue			
Succeeding year property tax	2,510,619	-	2,510,619
Early Retirement Payable	-	60,713	60,713
	3,832,245	73,890	3,906,136
<b>Total Liabilities</b>			
 <b>Fund Equity &amp; Other Credits</b>			
<b>Fund Balances:</b>			
<b>Reserved for:</b>			
Phase III carryover	44,280		44,280
School Improvement	18,639		18,639
Early Intervention	10,659		10,659
Gifted & Talented	36,715		36,715
<b>Unreserved:</b>			
Undesignated	350,157	469,198	819,355
	460,450	469,198	929,648
<b>Total Fund Equity &amp; Other Credits</b>			
<b>Total Liabilities, Fund Equity and Other Credits</b>	<b>\$ 4,292,696</b>	<b>\$ 543,088</b>	<b>\$ 4,835,784</b>

See notes to financial statements.

Sibley -Ocheyedan Community School District  
Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets  
June 30, 2004

Exhibit D

Total fund balance of governmental funds ( page 20 )	\$ 929,648
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	7,105,000
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(10,829)
Long-term liabilities, including bonds and notes payable and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(3,141,018)</u>
Net assets of governmental activities ( page 19 )	<u>\$ 4,882,802</u>

See notes to financial statements.

Sibley -Ocheyedan Community School District  
Statement of Revenues, Expenditures and Changes in  
Fund Balances - Governmental Funds  
Year ended June 30, 2004

Exhibit E

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Revenues:			
Local sources			
Local Tax	\$ 2,295,816	\$ 613,981	\$ 2,909,796
Tuition	168,361	-	168,361
Other	74,916	460,217	535,133
State sources	3,445,911	-	3,445,911
Federal sources	244,550	-	244,550
Total Revenues	<u>6,229,553</u>	<u>1,074,197</u>	<u>7,303,750</u>
Expenditures:			
Instruction			
Regular instruction	2,908,143	180,593	3,088,736
Special instruction	799,427	-	799,427
Other instruction	371,614	305,986	677,601
	<u>4,079,184</u>	<u>486,579</u>	<u>4,565,763</u>
Support services			
Student services	197,888	1,000	198,888
Instructional staff services	174,239	-	174,239
Administration services	266,234	51,541	317,775
Operation and maintenance of plant services	925,046	8,000	933,046
Transportation services	272,679	11,685	284,364
	<u>1,836,086</u>	<u>72,226</u>	<u>1,908,312</u>
Non-instructional programs	-	-	-
Other expenditures			
Facilities acquisition	-	332,131	332,131
Long-term debt:			
Principal	-	200,000	200,000
Interest and fiscal charges	-	138,044	138,044
AEA flowthrough	271,598	-	271,598
	<u>271,598</u>	<u>670,175</u>	<u>941,773</u>
Total Expenditures	<u>6,186,868</u>	<u>1,228,979</u>	<u>7,415,848</u>
Excess (deficiency) of revenues over (under) expenditures	42,684	(154,782)	(112,098)
Other financing sources (uses):			
Transfers in (out)	(225,253)	225,253	-
Total other financing sources (used)	<u>(225,253)</u>	<u>225,253</u>	<u>-</u>
Net change in fund balances	(182,569)	70,471	(112,098)
Fund balances beginning of year, as restated ( note 13 )	<u>643,020</u>	<u>398,727</u>	<u>1,041,747</u>
Fund balance end of year	<u>\$ 460,450</u>	<u>\$ 469,198</u>	<u>\$ 929,648</u>

See notes to financial statements.

Sibley -Ocheyedan Community School District  
 Reconciliation of the Statement of Revenues, Expenditures and Changes  
 in Fund Balances - Governmental Funds to the Statement of Activities  
 Year ended June 30, 2004

Exhibit F

**Net change in fund balances - total governmental funds ( Exhibit E )** \$ (112,098)

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

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

Expenditures for capital assets	259,733	
Depreciation expense	<u>(276,512)</u>	(16,779)

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 are as follows:

Repaid	200,000
--------	---------

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

709

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

Early retirement	111,871
Leases Payable	<u>9,111</u>

**Change in net assets of governmental activities (page 19 )** \$ 192,814

See notes to financial statements.

Sibley -Ocheyedan Community School District  
Statement of Net Assets - Proprietary Fund  
June 30, 2004

Exhibit G

	<u>School Nutrition</u>
<b>Assets</b>	
Cash	\$ 15,980
Inventory	11,014
Capital assets, net of accumulated depreciation	<u>11,238</u>
<b>Total assets</b>	<u>38,232</u>
<b>Liabilities</b>	
<b>Total liabilities</b>	<u>-</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	11,238
Unrestricted	<u>26,995</u>
<b>Total net assets</b>	<u><u>\$ 38,232</u></u>

See notes to financial statements.

Sibley -Ocheyedan Community School District  
Statement of Revenues, Expenses and Changes  
in Fund Net Assets - Proprietary Fund  
June 30, 2004

Exhibit H

	School Nutrition
Operating revenue:	
Local sources	
Charges for service	\$ 163,652
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	124,588
Benefits	42,263
Services	2,529
Supplies	118,595
Depreciation	1,766
Total operating expenses	289,740
Operating income (loss)	(126,089)
Non-operating revenues (expenses):	
Local sources	37
State sources	4,929
Federal sources	127,363
Federal commodities used	(33,321)
	99,008
Net income (loss)	(27,080)
Transfer in	-
Retained earnings at beginning of year	65,313
Retained Earnings at End of Year	\$ 38,233

See notes to financial statements.

Sibley -Ocheyedan Community School District  
Statement of Cash Flows - Proprietary Funds  
June 30, 2004

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 161,713
Cash received from miscellaneous operating activities	1,939
Cash payments to employees for services	(166,850)
Cash payments to suppliers for goods and services	(120,334)
Net cash used in operating activities	(123,532)
 Cash flows from non-capital financing activities:	
State grants received	4,929
Federal grants received	98,767
Net cash provided by non-capital financing activities	103,695
 Cash flows from capital and related financing activities:	
Acquisition of capital assets	(1,235)
 Cash flows from investing activities:	
Interest on investments	37
	37
 Net increase (decrease) in cash and cash equivalents	(21,036)
 Cash and cash equivalents at beginning of year	37,015
 Cash and cash equivalents at end of year	\$ 15,979

Sibley -Ocheyedan Community School District  
Statement of Cash Flows - Proprietary Funds  
June 30, 2004

Exhibit I

	<u>School Nutrition</u>
<b>Reconciliation of operating loss to net cash</b>	
used in operating activities:	
Operating loss	\$ (126,089)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:	
Depreciation	1,766
(Increase) decrease in inventories	<u>791</u>
Net cash provided by (used in) operations	<u><u>\$ (123,532)</u></u>

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

During the year ended June 30, 2004, the District received \$ 28,597 of federal commodities.

See notes to financial statements.

Sibley -Ocheyedan Community School District  
Statement of Fiduciary Net Assets - Fiduciary Funds  
June 30, 2004

Exhibit J

**Assets**

Cash in bank \$ 14,751

**Total assets** 14,751

**Liabilities**

**Total liabilities** -

**Net assets**

Reserved for scholarships \$ 14,751

See notes to financial statements.

Sibley -Ocheyedan Community School District  
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds  
June 30, 2004

Exhibit K

Additions:	
Local sources:	
Interest on investments	\$ 336
Deductions:	
Instruction:	
Regular instruction:	
Other	<u>650</u>
Change in net assets	(314)
Net assets beginning of year	<u>15,065</u>
Net assets end of year	<u><u>\$ 14,751</u></u>

See notes to financial statements.

Sibley-Ocheyedan Community School District  
Notes to Financial Statements  
June 30, 2004

**(1) Summary of Significant Accounting Policies**

The Sibley-Ocheyedan Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Sibley, Iowa and the City of Ocheyedan, Iowa, and the predominately agricultural territory in Osceola County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

**A. Reporting Entity**

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

**B. Basis of Presentation**

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

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

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

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

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

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

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The District reports the following major proprietary fund:

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

The District also reports fiduciary funds, which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

### C. Measurement Focus and Basis of Accounting

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

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

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

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

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

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30,

1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

#### D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 1/2% 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 April, 2003.

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

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

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

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	5,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives ( In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

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

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax 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 receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use. A liability is recorded when incurred in the government-wide financial statement. 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 Fund.

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

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

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

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements in the instruction, support services, and non-instructional programs functional areas exceeded the amounts budgeted and the District exceeded its General Fund unspent authorized budget.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$0 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement Number 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year-end. The District's investments in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

(3) **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>
PPEL	General	\$ 225,253

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

(4) **Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to

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

Series	Warrant Date	Final	Investments	Accrued	Warrants Payable	Accrued
		Warrant Maturity		Interest Receivable		Interest Payable
2003-04A	6/20/03	6/18/04	\$ 0	\$ 0	\$ 0	\$ 0
2003-04B	1/30/04	1/28/05	269,825	1,468	268,000	2,226
2004-05A	6/30/04	6/30/05	527,846	0	525,000	0
			<u>\$ 797,671</u>	<u>\$ 1,468</u>	<u>\$ 793,000</u>	<u>\$ 2,226</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2003 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2003-04A	\$ 0	\$ 0	\$ 0	\$ 0
2003-04B	0	0	0	0
2004-05A	0	0	0	0
<u>\$ 0      \$ 0      \$ 0      \$ 0</u>				

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2003-04A	2.000%	1.050 %
2003-04B	2.000 %	1.310 %
2004-05A	3.000 %	2.463 %

(5) **Capital Assets**

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

	Balance Beginning of Year, as restated (note 12)	Increases	Decreases	Balance End of Year
<b>Governmental activities</b>				
Construction in progress	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Land, buildings & equipment	11,292,141	259,733	-0-	11,551,874
Less accumulated depreciation:				
Land, buildings & equipment	4,170,362	276,512		4,446,874
Gov't activities capital assets, net	7,121,779	(16,779)	-0-	7,105,000
<b>Business type activities</b>				
Equipment	39,880	1,235	-0-	41,115
Less accumulated depreciation:	29,774	103	-0-	29,877
Business type activities capital assets, net	\$ 10,106	\$ 1,132	\$ -0-	\$ 11,238

Depreciation expense was charged to the following functions:

Governmental activities:

    Unallocated

\$ 276,512

    Total depreciation expense – governmental activities

\$ 276,512

Business type activities:

    Food service operations

\$ 1,132

(6) **Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2004 are summarized as follows:

	Balance Beginning Of Year	Additions	Reductions	Balance End Of Year	Due Within One Year
General Obligation Bonds	\$ 3,155,000	\$ -0-	\$ 200,000	\$ 2,955,000	\$ 210,000
Copier Equipment Lease	9,111	-0-	9,111	-0-	-0-
Early Retirement	297,889	-0-	51,158	246,731	60,712
Totals	\$ 3,462,000	\$ -0-	\$ 297,889	\$ 3,001,731	\$ 270,712

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed the equivalent of fifteen years of full-time service in the district the last ten years having been of continuous employment with the last year must have been a complete school year. Employees must complete an application, which is required

to be approved by the board of Education. The early retirement incentive for eligible employees is equal to their last contract amount plus applicable sick leave benefits less the current year base salary amount. Eligible employees shall be allowed to continue participation in the district's health insurance programs until the month in which the retired employee reaches the age of 65. The District will pay the cost of single PPO coverage not to exceed \$750 per month. Early retirement benefits paid during the year ended June 30, 2004 totaled \$ 232,134. The cost of early retirement payments expected to be liquidated currently are recorded as a liability of the Special Revenue, Management Levy Fund. A liability has been recorded in the General Long-Term Debt Account Group representing the District's commitment to fund non-current early retirement.

**(7) Bonds Payable**

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

Year Ending June 30	Interest Rates	Principal	Interest	Total
2005	4.25 %	210,000	129,953	339,953
2006	4.25 %	225,000	121,028	346,028
2007	4.50 %	235,000	111,465	346,465
2008	4.50 %	245,000	100,890	345,890
2009	4.20 %	255,000	89,865	344,865
2010	4.25 %	265,000	79,155	344,155
2011	4.30 %	280,000	67,893	347,893
2012	4.35 %	290,000	55,852	345,852
2013	4.50 %	305,000	43,237	348,237
2014	4.55 %	315,000	29,512	344,512
2015	4.60 %	330,000	15,180	345,180
Total		\$2,955,000	\$ 844,030	\$3,799,030

**(8) Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by

state statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$ 360,778, \$ 215,073, \$ 226,332, respectively, equal to the required contributions for each year.

**(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$ 271,598 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(10) Risk Management**

Sibley-Ocheyedan Community School District is a member in the Iowa Star Conference School Association, an Iowa Code Chapter 28E organization. The Iowa Star Conference School Association is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. Iowa Star Conference School Association provides coverage and protection in the following categories: medical and prescription drugs.

Each member's contributions to Iowa Star Conference School Association funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to Iowa Star Conference School Association for the year ended June 30, 2003 were \$481,593.

Payments from participating members are the sole source for paying claims and establishing reserves for the Iowa Star Conference School Association self-funded programs. Stop loss insurance is purchased by Iowa Star Conference School Association to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2003, no liability has been recorded in the District's financial statements. As of June 30, 2003, settled claims have not exceeded the risk pool or reinsurance company coverage.

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 30 days prior written notice may withdraw. Iowa Star Conference School Association will pay claims incurred

before the termination date.

Sibley-Ocheyedan Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(11) Construction Commitment**

The District has entered into contracts totaling \$ 144,000 for the construction of new roofs for the high school and junior high school gymnasiums. As of June 30, 2004, no costs have been incurred against the contract. The balance remaining on the contract will be paid as work on the project progresses.

**(12) 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 and early retirement liabilities are recorded under the modified accrual basis of accounting.

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

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

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

	Fund		
	General	Nonmajor Special Revenue	Total
Net assets June 30, 2003, as previously reported	\$ 643,020	\$ 398,727	\$ 1,041,747
GASB Interpretation 6 adjustments	-0-	-0-	-0-
Net assets July 1, 2003, as restated for Governmental funds	<u>\$ 643,020</u>	<u>\$ 398,727</u>	1,041,747
GASB 34 adjustments:			
Capital assets, net of accumulated depreciation			7,121,779
Long-term liabilities:			
Bonds and notes		3,155,000	
Early retirement – long-term		297,889	
Other		<u>9,111</u>	(3,462,000)
Accrued interest payable			<u>(11,538)</u>
Net assets July 1, 2003, as restated			<u>\$ 4,689,988</u>

## **Required Supplementary Information**

Sibley-Ocheyedan Community School District  
 Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances -  
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund  
 Required Supplementary Information  
 Year ended June 30, 2004

	Governmental Fund Actual	Proprietary Fund Actual
Receipts:		
Local sources	\$ 3,575,911	\$ 163,689
Intermediate sources	-	-
State sources	3,391,880	4,929
Federal sources	244,550	98,766
Total receipts	7,212,340	267,384
Disbursements:		
Instruction	4,610,988	-
Support services	1,908,312	-
Non-instructional programs	-	287,184
Other expenditures	961,436	1,235
Total disbursements	7,480,737	288,419
Excess (deficiency) of receipts over (under) disbursements	(268,397)	(21,035)
Other financing sources (uses), net	-	-
Excess (deficiency) of receipts & other financing sources over (under) disbursements	(268,397)	(21,035)
Balance beginning of year	1,598,883	37,015
Balance end of year	<u>\$ 1,330,486</u>	<u>\$ 15,980</u>

	Net	Budget	Variance (Unfavorable)
\$	3,739,600	\$ 3,691,270	\$ 48,330
	-	-	-
	3,396,808	3,664,714	(267,906)
	343,316	279,000	64,316
	7,479,724	7,634,984	(155,260)
	4,610,988	4,152,500	(458,488)
	1,908,312	2,474,500	566,188
	287,184	260,000	(27,184)
	962,671	629,865	(332,806)
	7,769,156	7,516,865	(252,291)
	(289,432)	118,119	97,030
	-	-	-
	(289,432)	118,119	97,030
	1,635,898	1,276,357	1,276,357
\$	1,346,466	\$ 1,394,476	\$ 1,373,387

See accompanying independent auditor's report.

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

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 7,212,340	\$ 91,410	\$ 7,303,750
Expenditures	7,480,737	(64,889)	7,415,848
Net	(268,397)	156,299	(112,098)
Other financing sources, net	-	-	-
Beginning fund balances	1,598,883	1,041,747	1,041,747
Ending fund balances	<u>\$ 1,330,486</u>	<u>\$ 1,198,046</u>	<u>\$ 929,649</u>

	Proprietary Fund		
	Enterprise		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 267,384	\$ 28,597	\$ 295,981
Expenditures	288,419	34,642	323,061
Net	(21,035)	(6,045)	(27,080)
Other financing sources, net	-	-	-
Beginning fund balances	37,015	65,313	65,313
Ending fund balances	<u>\$ 15,980</u>	<u>\$ 59,268</u>	<u>\$ 38,233</u>

See accompanying independent auditor's report.

Sibley-Ocheyedan Community School District  
Notes to Required Supplementary Information – Budgetary Reporting  
June 30, 2004

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs, and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District did not amend its original budget.

During the year ended June 30, 2004, disbursements in the instruction, support services, and non-instructional programs functions exceeded the amounts budgeted.

**Sibley-Ocheyedan Community School District**

## **Other Supplementary Information**

Sibley-Ocheyedan Community School District  
Combining Balance Sheet - Nonmajor Funds  
June 30, 2004

	<u>Management</u>	<u>Student Activity</u>	<u>Physical Plant and Equipment</u>
<b>Assets</b>			
Cash in Bank	\$ (32,859)	\$ 90,475	\$ 357,366
Receivables:			
Property Taxes	3,641	-	1,166
Other Receivables	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total assets</b>	<u><u>(29,218)</u></u>	<u><u>90,475</u></u>	<u><u>358,532</u></u>
 <b>Liabilities and Fund Equity</b>			
Liabilities:			
Accounts Payable	-	-	2,348
Early retirement payable	60,713	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total liabilities</b>	60,713	-	2,348
Fund equity:			
Fund balances:			
Unreserved, undesignated	(89,930)	90,475	356,183
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total liabilities and fund equity</b>	<u><u>\$ (29,218)</u></u>	<u><u>\$ 90,475</u></u>	<u><u>\$ 358,532</u></u>

Schedule 1

<b>Local Option Sales Tax</b>	<b>Debt Service</b>	<b>Total</b>
\$ 70,421	\$ 3,033	\$ 488,436
-	5,773	10,579
<u>44,073</u>	<u>          </u>	<u>44,073</u>
<u>114,494</u>	<u>8,805</u>	<u>543,088</u>
-	10,829	13,178
<u>-</u>	<u>          </u>	<u>60,713</u>
-	10,829	73,890
<u>114,494</u>	<u>(2,024)</u>	<u>469,198</u>
<u>\$ 114,494</u>	<u>\$ 8,805</u>	<u>\$ 543,088</u>

See accompanying independent auditor's report.

Sibley-Ocheyedan Community School District  
Combining Schedule of Revenues, Expenditures, and  
Changes in Fund Balances - Nonmajor Funds  
June 30, 2004

	Management	Student Activity
REVENUES:		
Local Sources:		
Local Tax:	\$ 208,895	\$ -
Other Local Sources:	-	301,832
	208,895	301,832
 TOTAL REVENUES	 208,895	 301,832
EXPENDITURES:		
Instruction:		
Regular Instruction:	180,593	
Other Instruction:	-	305,986
Student Support Services:	1,000	0
General Administration:	51,541	-
Plant Operation and Maintenance:	8,000	-
Student Transportation:	11,685	-
Other Expenditures:		
Facilities Acquisition	-	-
Principal	-	-
Interest	-	-
	252,819	305,986
 TOTAL EXPENDITURES	 252,819	 305,986
 Excess (Deficiency) of Revenues Over (Under) Expenditures	 (43,924)	 (4,154)
 Other Financing Sources:		
Transfers In / Out	-	-
	-	-
 Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures	 (43,924)	 (4,154)
 Balance, Beginning of Year	 (46,007)	 94,629
	(46,007)	94,629
 Balance, end of Year	 \$ (89,931)	 \$ 90,475
	(89,931)	90,475

## Schedule 2

Physical Plant & Equipment	Local Option Sales Tax	Debt Service	Total
\$ 68,069	\$ -	\$ 337,017	\$ 613,981
43,551	114,494	339	460,217
111,620	114,494	337,356	1,074,197
111,620	114,494	337,356	1,074,197
-	-	-	180,593
-	-	-	305,986
-	-	-	1,000
-	-	-	51,541
-	-	-	8,000
-	-	-	11,685
332,131	-	-	332,131
-	-	200,000	200,000
-	-	138,044	138,044
332,131	-	338,044	890,936
(220,511)	114,494	(688)	(154,782)
225,253	-	-	225,253
4,742	114,494	(688)	70,471
351,441	-	(1,336)	398,727
\$ 356,183	\$ 114,494	\$ (2,024)	\$ 469,198

See accompanying independent auditor's report.

Sibley-Ocheyedan Community School District  
Schedule of Changes in Special Revenue Fund, Student Activity Accounts  
June 30, 2004

	Balance Beginning Of Year	Revenues	Expenditures	Balance End Of Year
Basketball:				
Boys	\$ 929	\$ 20,311	\$ 19,918	\$ 1,322
Girls	1,467	6,951	7,537	881
Boys Special BB	138	1,480	1,553	65
Girls Special BB	1,076	4,470	3,660	1,886
Baseball	515	490	334	671
Baseball Special	32	4,668	3,313	1,387
Cross Country Special	579	625	744	459
Golf:				
Boys	31	459	490	0
Girls	4	300	300	4
Boys Special Golf	39	1,849	1,777	112
Girls Special Golf	81	121	81	121
Football	48	11,304	10,441	911
Football Special	518	6,494	6,641	371
Softball	827	348	(48)	1,223
Softball Special	759	209	947	21
Track:				
Boys	30	1,411	1,193	248
Girls	54	1,723	1,760	17
Boys Special	531	483	164	850
Girls Special	5	1,341	1,312	34
Volleyball	44	4,494	4,440	98
Volleyball Special	270	1,779	1,212	836
Weightlifting	29	-	(385)	414
Wrestling	515	4,476	3,996	995
Wrestling Special	454	998	768	684
Class of:				
2003	92	-	-	92
2004	312	1,312	1,603	21
2005	741	20,804	19,107	2,438
2006	2,959	547	23	3,483
2007	3,446	-	-	3,446
2008	-	7,354	4,984	2,370
Student Assistance	1,001	100		1,101
Music - Chorus	4,486	2,153	6,582	57
Music - Band	260	4,174	4,092	342
HS Band - Resale	248	4,719	4,588	379
MS Band Resale	98	3,783	3,656	226
HS Activity Account	3,211	21,918	18,821	6,308
MS Activity	1,004	7,919	8,890	32
Elem Activity	13,070	4,489	8,392	9,167
HS Art Club	1,848	1,285	1,408	1,724

	Balance Beginning Of Year	Revenues	Expenditures	Balance End Of Year
Shop Club	4,443	6,172	6,667	3,947
Dance Team	1,606	5,250	2,836	4,020
Future Farmers of America	8,411	70,676	69,914	9,173
Cheerleading	1,425	3,166	2,942	1,649
International Club	2,778	2,931	2,208	3,501
National Honor Society	892	789	204	1,477
Pep Club	634	1,465	1,232	868
S-O Club	459	-	200	259
HS Student Council	4,949	9,651	8,910	5,690
MS Student Council	4,976	8,062	7,147	5,891
Science Club	-	560	125	435
Speech	38	4,826	4,822	42
Annual	3,988	10,742	12,109	2,621
Home Ec	60	1,655	1,238	477
Quill	259	-	39	220
MS Art	314	435	-	749
Drama Club	1,993	1,355	1,148	2,200
Academic Decathlon	442	359	(45)	846
Concessions	1,074	13,555	13,403	1,226
Academic Supply	12,720	(273)	12,448	(1)
Towels	1,417	3,118	4,149	386
	<u>1,417</u>	<u>3,118</u>	<u>4,149</u>	<u>386</u>
TOTAL	<u>\$ 94,629</u>	<u>\$ 301,829</u>	<u>\$ 305,982</u>	<u>\$ 90,476</u>

See accompanying independent auditor's report.

Sibley-Ocheyedan Community School District  
 Schedule of Changes in Fiduciary Assets and Liabilities - Trust Fund  
 Year ended June 30, 2004

Schedule 4

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
<b>Assets</b>				
Cash in bank	\$ 15,065	\$ 336	\$ 650	\$ 14,751
Total assets	15,065	336	650	14,751
<b>Net Assets</b>				
Unrestricted	15,065	336	650	14,751
Total fund equity	\$ 15,065	\$ 336	\$ 650	\$ 14,751

See accompanying independent auditor's report.

Sibley-Ocheyedan Community School District  
 Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds  
 For the Last Four Years

Schedule 5

	Modified Accrual Basis			
	Years Ended June 30			
	2004	2003	2002	2001
<b>Revenues:</b>				
Local sources:				
Local tax	\$ 2,909,796	\$ 2,850,678	\$ 2,679,608	\$ 2,604,920
Tuition	168,361	161,240	164,056	160,238
Other	535,133	653,650	526,693	613,406
State sources:	3,445,911	3,515,254	3,481,790	3,654,040
Federal sources:	244,550	190,068	219,149	142,560
Total	<u>7,303,750</u>	<u>7,370,890</u>	<u>7,071,296</u>	<u>7,175,164</u>
<b>Expenditures:</b>				
Instruction				
Regular instruction	3,088,736	2,982,152	3,047,740	2,757,131
Special instruction	799,427	825,293	858,602	978,286
Other instruction	677,601	351,603	349,858	671,179
Support services				
Student services	198,888	556,438	391,673	191,184
Instructional staff services	174,239	164,493	156,283	158,132
Administration services	317,775	561,073	591,669	582,771
Operation and maintenance of plant	933,046	627,578	563,717	557,292
Transportation services	284,364	271,242	326,720	256,090
Non-instructional programs	-	-	-	
Other expenditures				
Facilities acquisition	332,131	300,425	204,007	245,940
Long-term debt:				
Principal	200,000	190,000	180,000	175,000
Interest and fiscal charges	138,044	147,462	156,503	165,198
AEA flowthrough	271,598	299,086	284,804	298,110
Total	<u>\$ 7,415,848</u>	<u>\$ 7,276,845</u>	<u>\$ 7,111,576</u>	<u>\$ 7,036,313</u>

See accompanying independent auditor's report.

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

To the Board of Education of the  
Sibley-Ocheyedan Community School District:

We have audited the financial statements of the Sibley-Ocheyedan Community School District in Sibley, Iowa as of and for the year ended June 30, 2004, and have issued our report thereon dated September 17, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the general-purpose financial statements of the District. Since our audit is 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Sibley-Ocheyedan Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain

matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 04-I-A is a material weakness. Prior year reportable conditions have been resolved except for item 04-I-A, 04-I-B, and 04-I-C.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of Sibley-Ocheyedan Community School District and other parties to whom the District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

Wells Heard Halse & Co.

September 17, 2004

Sibley-Ocheyedan Community School District  
Schedule of Findings  
Year Ended June 30, 2004

**Part I: REPORTABLE CONDITIONS:**

04-I-A Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties, which are incompatible. The cash receipts, disbursements, bookkeeping and deposit functions were all handled or controlled by the same person.

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

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

04-I-B Disbursement Approval – The Board approved the disbursements for School Lunch and Student Activities after the actual disbursements were made.

Recommendation – The procedures described in the above comments weaken the control that the Board has over disbursements since supporting documentation is not examined by the Board prior to payment.

Chapter 279.29 of the Code of Iowa provides that “the Board shall audit all just claims against the corporation and no order shall be drawn upon the treasury until the claim therefore has been audited and allowed.” In accordance with an Attorney General’s opinion dated July 12, 1979, “no claim can be paid until the Board has taken final action on the claim. Logically, no final action can be taken on the claim until all of the specifics of the claim have been examined and verified.”

Chapter 279.30 of the Code of Iowa allows payment of specific items, such as utilities, postage and printing, without prior Board approval. The Board may approve a resolution designating certain other disbursements that may be paid prior to a Board meeting with the approval of the Board President. The Board’s written policy should comply with Chapter 279.30 of the Code of Iowa. Then, except as expressly permitted, no checks should be prepared for claims that have not been properly audited and allowed.

Response – We will review and implement these recommendation. The Board will have the first reading of a new policy in compliance with Chapter 279.30 of Code of Iowa at the next Board meeting.

Conclusion - Response accepted.

Sibley-Ocheyedan Community School District  
Schedule of Findings  
Year Ended June 30, 2004

04-I-C Contracts for Public Improvements – Contracts for improvements to the District’s facilities were issued without complying with the Notice of Hearing and Bid requirements.

Recommendation – Chapter 73 of the Code of Iowa details the steps required before an entity enters into a contract for any public improvement.

Chapter 73A.2 provides that “for any public improvement to cost twenty-five thousand dollars or more, the governing body proposing to make the contract shall adopt proposed plans and specifications and proposed form of contract, fix a time and a place for hearing at the municipality affected or other nearby convenient place, and give notice by publication in at least one newspaper of general circulation in the municipality at least ten days before the hearing”.

Chapter 73A.18 provides that “when the estimated total cost of construction, erection, demolition, alteration, or repair of a public improvement exceeds twenty-five thousand dollars, the municipality shall advertise for bids on the proposed improvement by two publications in a newspaper published in the county in which the work is to be done. The municipality shall let the work to the lowest responsible bidder submitting a sealed proposal. However, if in the judgement of the municipality bids received are not acceptable, all bids may be rejected and new bids requested.”

Response – We will implement these procedures on future projects.

Conclusion – Response accepted.

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

04-II-A Official Depository - Official depositories has been approved by the District. The maximum deposit amounts approved for one of the depositories was exceeded during the year ended June 30, 2004.

Recommendation - The maximum depository amount should be increased to prevent exceeding the maximum depository amount again.

Response - We will increase our maximum depository amounts.

Conclusion - Response accepted.

Sibley-Ocheyedan Community School District  
Schedule of Findings  
Year Ended June 30, 2004

**Part II: Other Findings Related to Required Statutory Reporting (Cont.):**

04-II-B Certified Budget - Disbursements for the year ended June 30, 2004, exceeded the amount budgeted in the other expenditures functional area.

Recommendation – The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will amend our budget before disbursements exceed the budget.

Conclusion – Response accepted.

04-II-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1989.

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

04-II-E Certified Enrollment – The number of basic resident students reported to the Iowa Department of Education on line 7 of the Certified Enrollment Certification Form for September 2003 was overstated. The District's certified enrollment count included one student on line 1 who was also included in line 2 as open enrolled out resident public students. This resulted in overstating the total actual enrollment at line 7 by one student.

Recommendation – The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response – We will contact the Iowa Department of Education and the Department of Management.

Conclusion – Response accepted.

04-II-F Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Districts' investment policy.

04-II-G Board Minutes - We noted the Board prior to payment did not approve the expenditures for School Nutrition and Student Activities.

Recommendation – The district should insure that all expenditures are approved before payments are made.

Response – We will take action to resolve this.

Conclusion – Response accepted.

Sibley-Ocheyedan Community School District  
 Schedule of Findings  
 Year Ended June 30, 2004

**Part II: Other Findings Related to Required Statutory Reporting (Cont.):**

04-II-H Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. Coverage amounts should be reviewed annually to insure adequacy for current operations.

04-II-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

04-II-J Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Schnepf Lumber, husband of a teacher, Connie Schnepf	Materials and supplies	\$ 991
Hartzell & Rosenberg Construction, husband of the business manager, LaDonn Hartzell	Snow removal	2,750
	Construction	505
DeKoter, Thole, & Dawson, husband of a teacher, Beth Thole	Legal services	1,118
Osceola County Coop, brother of Secretary to the Superintendent	Fuel and tires	\$ 34,321

In accordance with an Attorney General's opinion date November 9, 1986, these transactions may represent a conflict of interest.

Recommendation - The District should consult their legal representative to determine whether there is a conflict of interest.

Response - We will do this.

Conclusion - Response accepted.

04-II-K Financial Condition - The Management and Debt Service Funds had a deficit balance as of June 30, 2003.

Recommendation - The District should continue to monitor these accounts and investigate alternatives to eliminate these deficit balances.

Response - The District is working on this and making progress to eliminate these deficit balances.

Conclusion - Response accepted.