CITY OF SHELDON
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
JUNE 30, 2005

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CITY OF SHELDON
OFFICIALS

NAME	TITLE	TERM EXPIRES
Duane Wahlstrom	Mayor	January 2006
Mark Postma	Council Member	January 2006
Kevin Welch	Council Member	January 2008
Dave Popkes	Council Member	January 2006
Kurt Tatsumi	Council Member	January 2008
Ron Rensink	Council Member	January 2008
Scott Wynja	City Manager	
Arlene Budden	Clerk/Treasurer	January
Jack DeHoogh	Attorney	January
Skip Tanner	Airport Commissioner	July 2009
Warren Wolf	Airport Commissioner	Resigned July 2005
Steve Drenkow	Airport Commissioner	July 2009
Rob Dixon	Airport Commissioner	July 2005
Scot Meinecke	Airport Commissioner	July 2007
Hal Tuttle	Park Commissioner	July 2009
Thel Boone	Park Commissioner	July 2009
Jlynn Postma	Park Commissioner	July 2007
Lori Meinecke	Park Commissioner	July 2005
Terry Ashland	Park Commissioner	July 2005
Kathy VanderVliet	Library Trustee	July 2009
Rosalind Geels	Library Trustee	July 2009
Jane Cain	Library Trustee	July 2010
Mark Brown	Library Trustee	July 2006
Lisa Meendering	Library Trustee	July 2007
Lynda Huisman	Library Trustee	July 2005
Judy Honkomp	Library Trustee	July 2007
Raeanne Tatsumi	Museum Trustee	July 2008
Marlene Pape	Museum Trustee	July 2007
Joe Wildeman	Museum Trustee	July 2007
Cindy Runger	Museum Trustee	July 2006
Mark Klemme	Museum Trustee	July 2007
Merlynn Callenius	Museum Trustee	July 2005
Gleora DeBruin	Museum Trustee	Resigned August 2004

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Spencer, Iowa 51301-0175
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INDEPENDENT AUDITORS' REPORT

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Sheldon at June 30, 2005 and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2005 on our consideration of the City of Sheldon's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Member Private Companies Practice Section,
American Institute of Certified Public Accountants

Management's discussion and analysis and budgetary comparison information on pages 4 through 12 and 49 through 53 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sheldon's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (which are not presented herein) and expressed an unqualified opinion on the June 30, 2004 financial statements and a qualified opinion on the June 30, 2002 and 2003 financial statements due to the omission of the general fixed asset account group. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Winther, Steve H & Kth

December 9, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2005 Financial Highlights

- Revenues of the City's governmental activities decreased 4.45%, or approximately $193,400 from fiscal 2004 to fiscal 2005. Property tax decreased approximately $107,300.

- Program expenses increased by 15.68% or approximately $721,600 in fiscal 2005 from fiscal 2004. Public safety and culture and recreation expenditures decreased by approximately $74,700 and $73,300, respectively. Public works, community and economic development, general government, debt service, and capital projects expenditures increased by approximately $27,800, $69,000, $101,500, $240,300, and $431,400, respectively.

- The City's net assets increased 5.86%, or approximately $764,000, from June 30, 2004 to June 30, 2005. Of this amount, the net assets of the governmental funds increased by approximately $823,900 and the net assets of the business type activities decreased by approximately $59,900.

Using This Annual Report

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

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

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

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

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

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

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

Basis of Accounting

The City financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The City prepares its budget and maintains its financial records on the cash basis.

Reporting The City's Financial Activities

Government-wide Financial Statements

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

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

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

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

- Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.

- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has three kinds of funds:

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

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

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

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

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

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

Government-Wide Financial Analysis

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

Net Assets as of June 30, 2005

	Governmental Activities	Business Type Activities	Total
Current and other assets	$ 6,066,309	$1,186,472	$ 7,252,781
Capital assets	8,750,825	5,539,123	14,289,948
Total assets	14,817,134	6,725,595	21,542,729
Long-term liabilities	4,456,559	719,921	5,176,480
Other liabilities	2,528,798	37,407	2,566,205
Total liabilities	6,985,357	757,328	7,742,685
Net assets:			
Invested in capital assets - net of related debt	5,587,672	4,881,123	10,468,795
Restricted	1,011,382	160,500	1,171,882
Unrestricted	1,232,723	926,644	2,159,367
Total net assets	$ 7,831,777	$5,968,267	$13,800,044

Net Assets as of June 30, 2004

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

Changes in Net Assets for the Year Ended June 30, 2005

	Governmental Activities	Business Type Activities	Total
Revenues:			
Program revenues:			
Charges for services	$ 599,377	$1,257,029	$1,856,406
Operating grants, contributions, and restricted interest	493,126	1,671	494,797
Capital grants, contributions, and restricted interest	210,551		210,551
General revenues:			
Property and other city taxes	1,502,401		1,502,401
Tax increment financing	1,015,459		1,015,459
Local option sales tax	356,680		356,680
Unrestricted investment earnings	43,914	22,025	65,939
Unrestricted miscellaneous	20,705		20,705
Operating transfers	19,618	(19,618)	
Total revenues	4,261,831	1,261,107	5,522,938
Program expenses:			
Public safety	695,683		695,683
Public works	1,043,419		1,043,419
Culture and recreation	491,658		491,658
Community and economic development	415,974		415,974
General government	591,200		591,200
Debt service	200,030		200,030
Water		726,421	726,421
Sewer		594,561	594,561
Total expenses	3,437,964	1,320,982	4,758,946
Change in net assets	823,867	(59,875)	763,992
Net assets - beginning of year	7,007,910	6,028,142	13,036,052
Net assets - end of year	$7,831,777	$5,968,267	$13,800,044

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

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

Net assets of governmental activities increased from FY04 by approximately $823,900 or 11.76%. Net assets of business type activities decreased from FY04 by approximately $59,900 or .99%. The largest portion of the City's net assets is the invested in capital assets (e.g. land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Other restricted net assets is land held by the City to be sold or granted to businesses for economic development purposes.

Individual Major Governmental Fund Analysis

Changes in Fund Balances - Governmental Funds

For the year ended June 30,	2005 All Funds	2004 All Funds
Revenues	$4,152,471	$4,345,831
Expenses	5,323,543	4,601,984
Net	(1,171,072)	(256,153)
Other financing sources (uses)	1,587,560	(23,613)
Increase (decrease) in fund balances	416,488	(279,766)
Fund balance - beginning of year	1,669,742	1,949,508
Fund balance - end of year	$2,086,230	$1,669,742

Governmental funds reported a combined fund balance of $2,086,230 at June 30, 2005 which was $416,488 more than the fund balance at June 30, 2004.

The general fund, tax increment financing, and debt service fund showed modest changes of $64,701, $(4,518), and $(17,984), respectively.

The capital projects fund showed an increase of $334,995 due primarily to a new bond issue in excess of expenditures.

Individual Major Business Type Fund Analysis

Changes in Net Assets - Proprietary Funds

For the year ended June 30,	2005	2004	2005	2004
	Enterprise Funds		Internal Service Funds	
Revenues	$1,279,054	$1,245,335	$ 341,799	$ 377,418
Expenses	1,317,351	1,228,440	346,957	319,536
Net	(38,297)	16,895	(5,158)	57,882
Net transfers	(19,618)	297,377		
Increase (decrease) in net assets	(57,915)	314,272	(5,158)	57,882
Net assets - beginning of year	5,960,718	5,646,446	198,307	140,425
Net assets - end of year	$5,902,803	$5,960,718	$ 193,149	$ 198,307

Enterprise funds reported combined net assets of $5,902,803 at June 30, 2005 which was a decrease of $57,915 under the net assets at June 30, 2004.

The water fund reported a net loss before transfers to governmental funds of $37,067. The loss is due to depreciation of $110,959 and Lewis and Clark payments of $145,677.

The sewer fund reported a modest net loss before transfers of $1,230 which included depreciation expense of $161,481.

Budgetary Highlights

Over the course of the year, the City amended the budget once. The amendment was approved on December 1, 2004. The amendment was for additional disbursements in various departments.

Capital Assets and Debt Administration

Capital Assets Administration

A summary of the City's capital assets is as follows:

	Capital Assets as of June 30, 2005		
	Governmental Activities	Business Type Activities	Total
Land	$ 406,000	$ 84,390	$ 490,390
Construction in progress	39,085		39,085
Building and improvements	5,323,372	4,841,681	10,165,053
Equipment and vehicles	1,913,832	602,458	2,516,290
Infrastructure	7,038,923	3,996,263	11,035,186
Total capital assets	14,721,212	9,524,792	24,246,004
Less accumulated depreciation	5,970,387	3,985,669	9,956,056
Net capital assets	$8,750,825	$5,539,123	$14,289,948
Depreciation expense	$ 580,702	$ 272,440	$ 853,142

	Capital Assets as of June 30, 2004		
	Governmental Activities	Business Type Activities	Total
Land	$ 406,000	$ 84,390	$ 490,390
Building and improvements	5,323,372	4,841,681	10,165,053
Equipment and vehicles	1,884,100	479,209	2,363,309
Infrastructure	6,864,082	3,996,263	10,860,345
Total capital assets	14,477,554	9,401,543	23,879,097
Less accumulated depreciation	5,426,519	3,713,229	9,139,748
Net capital assets	$9,051,035	$5,688,314	$14,739,349
Depreciation expense	$ 654,381	$ 262,386	$ 916,767

Major additions for the year ended June 30, 2005 include a system upgrade at the sewer plant and the Highway 60 casing project.

Debt Administration

At June 30, 2005, the City had $5,059,339 in bonds and other long-term debt, compared to $4,602,703 last year as shown below. The City issued $1,535,000 of taxable capital loan notes during the year. The majority of this issue was granted to the Sheldon Chamber and Development Corporation.

Outstanding Debt at Year-End

	June 30, 2005	June 30, 2004
Tax increment financing	$1,120,035	$1,470,166
Sewer utility	658,000	690,000
Lease purchase agreement	29,329	57,596
Sales and service tax bonds	1,220,000	1,325,000
Super 8 Motel		89,000
Skateboard park loan	29,276	43,505
General obligation bonds	1,645,000	555,000
Airport improvement loan	357,699	372,436
Total	$5,059,339	$4,602,703

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is well within its constitutional debt limit of $9,501,098.

Economic Factors and Next Year's Budgets and Rates

The City of Sheldon's elected and appointed officials and department heads considered many factors when setting the fiscal year 2005-2006 budget, tax rates, and fees that will be charged for various City activities.

Each year the various departments propose recommendations that are to be considered as part of the budget process. With the closing of the Communication Center, 10% cuts to the various departments, boards and commissions, the general fund portion of the budget greatly improved. From operating the general fund with a continued negative balance, we have been able to operate on a balanced budget for FY 2005-2006. To assist with some capital project items, various reserve accounts were used as funding sources. Once again, the City has not added any major programs to the budget. With the continuation of roll-back and limited revenue sources and increased expenses, a majority of the budgets were held at status quo.

Comparisons 2004-2005 to 2005-2006 Management Analysis

As the City of Sheldon proceeds into the 2005-2006 budget, a majority of the budget items were funded very comparable to the previous year. With the Cuts that were made to the Communication Center and other general fund departments, we were able to operate and set the budget for a balanced operating year. With the continued reduction in revenues and increased expenses, this continues to be a difficult process each year. We continue to look at increasing revenues for a variety of services where it seems possible, yet not trying to reduce the services being provided.

Some of the major projects that are being funded in the general fund include replacement of a police vehicle, payment for the new skate park, airport hanger and terminal building improvements, and some minor park improvements. A majority of these capital items are being purchased from various reserve accounts.

The one area that we continue to see increases in revenue is in the area of tax increment financing (TIF). With a number of developments taking place in some of our residential areas and new commercial areas in anticipation of the Highway 60 Expressway, it has created an increase in this area. With that increase, the City along side the Sheldon Chamber and Development Corporation have been able to continue the development of some of these areas. With the extension of streets, water, and sewer in some of the residential and commercial areas, the City is poised for future growth. Some of these areas are: Schemper Addition, Runger Addition, and Sheldon Crossing (New Commercial/Residential Development). We see this revenue continue to grow as development occurs in these areas. We will continue to pay down TIF debt as the council sees appropriate to release some of these districts to offset the increased expenses in the general fund areas.

As part of the improvements to the water and sewer departments, the City proposed 4% rate increases to the utility bills as part of the 2005-2006 budget year. With the increased operating expenses of these departments and various improvements that have been made, it is necessary to continue evaluating possible rate increases. The wastewater and water plants continue to make improvements to their facilities and distribution lines to better serve the public needs. We also continue to be a member of the Lewis and Clark Rural Water project that will provide an additional 1.3 million gallons of water per day to the system. We are also considering various upgrades to the water distribution system and additional storage capacity. At the appropriate time, we may need to consider various funding sources to make for such improvements feasible.

Contacting the City's Financial Management

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

EXHIBIT A

CITY OF SHELDON
STATEMENT OF NET ASSETS
JUNE 30, 2005

ASSETS	Governmental Activities	Business Type Activities	Total
Cash and pooled investments	$ 1,926,402	$ 817,560	$ 2,743,962
Receivables - net, where applicable, of allowances for uncollectibles:			
Property tax:			
Delinquent	10,569		10,569
Succeeding year	1,199,637		1,199,637
Tax increment financing:			
Delinquent	7,300		7,300
Succeeding year	1,077,909		1,077,909
Accounts and unbilled usage	87,155	145,073	232,228
Special assessments	57,649		57,649
Accrued interest	9,347	1,137	10,484
Due from other governments	121,499		121,499
Inventories		35,804	35,804
Prepaid expenses	123,272		123,272
Land held for resale	193,892		193,892
Restricted assets:			
Cash and pooled investments		180,383	180,383
Accrued interest receivable		317	317
Due from Sheldon Chamber & Development Corporation (SCDC)	1,217,208		1,217,208
Accrued interest on due from SCDC	34,470		34,470
Loan fees - net of accumulated amortization		6,198	6,198
Capital assets - net of accumulated depreciation	8,750,825	5,539,123	14,289,948
TOTAL ASSETS	14,817,134	6,725,595	21,542,729

See Notes to Financial Statements

EXHIBIT A

CITY OF SHELDON
STATEMENT OF NET ASSETS - Continued
JUNE 30, 2005

	Governmental Activities	Business Type Activities	Total
LIABILITIES			
Accounts payable	$ 93,576	$ 17,164	$ 110,740
Medical claims payable	24,334	12,476	36,810
Salaries payable	8,951	5,618	14,569
Accrued interest payable	68,124	2,149	70,273
Deferred revenues:			
Succeeding year property tax	1,199,637		1,199,637
Succeeding year tax increment financing	1,077,909		1,077,909
Other	56,267		56,267
Long-term liabilities:			
Portion due within one year:			
Customer deposits		20,200	20,200
Compensated absences	76,198	41,721	117,919
General obligation bonds	360,000		360,000
Sales tax bonds	110,000		110,000
Revenue notes		33,000	33,000
Other long-term debt	85,178		85,178
Portion due after one year:			
General obligation bonds - net of unamortized discount	2,239,022		2,239,022
Sales tax bonds	1,110,000		1,110,000
Revenues notes		625,000	625,000
Other long-term debt	476,161		476,161
TOTAL LIABILITIES	6,985,357	757,328	7,742,685
NET ASSETS			
Invested in capital assets - net of related debt	5,587,672	4,881,123	10,468,795
Restricted for:			
Debt service	(10,595)		(10,595)
Land held for resale	193,892		193,892
Special revenue purposes	828,085		828,085
Revenue note retirement		2,656	2,656
Sewer improvement		90,000	90,000
Sewer replacement		67,844	67,844
Unrestricted	1,232,723	926,644	2,159,367
TOTAL NET ASSETS	$ 7,831,777	$5,968,267	$13,800,044

See Notes to Financial Statements

CITY OF SHELDON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

		Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
FUNCTIONS/PROGRAMS:				
GOVERNMENTAL ACTIVITIES:				
Public safety	$ 695,683	$156,119	$ 17,306	
Public works	1,043,419	290,427	409,335	
Culture and recreation	491,658	98,914	46,351	
Community and economic development	415,974	410	19,914	$ 60,551
General government	591,200	16,290	220	150,000
Interest and fees on long-term debt	200,030	37,217		
TOTAL GOVERNMENTAL ACTIVITIES	3,437,964	599,377	493,126	210,551
BUSINESS TYPE ACTIVITIES:				
Water	726,421	672,898	879	
Sewer	594,561	584,131	792	
TOTAL BUSINESS TYPE ACTIVITIES	1,320,982	1,257,029	1,671	
TOTAL	$4,758,946	$1,856,406	$494,797	$210,551

GENERAL REVENUES:
Property and other city taxes levied for:
General purposes
Debt service
Tax increment financing
Local option sales tax
Unrestricted investment earnings
Unrestricted miscellaneous
Operating transfers
TOTAL GENERAL REVENUES

CHANGE IN NET ASSETS

NET ASSETS - BEGINNING OF YEAR

NET ASSETS - END OF YEAR

See Notes to Financial Statements

Exhibit B

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
$ (522,258)		$ (522,258)
(343,657)		(343,657)
(346,393)		(346,393)
(335,099)		(335,099)
(424,690)		(424,690)
(162,813)		(162,813)
(2,134,910)		(2,134,910)
	$ (52,644)	(52,644)
	(9,638)	(9,638)
	(62,282)	(62,282)
(2,134,910)	(62,282)	(2,197,192)
1,128,991		1,128,991
373,410		373,410
1,015,459		1,015,459
356,680		356,680
43,914	22,025	65,939
20,705		20,705
19,618	(19,618)	
2,958,777	2,407	2,961,184
823,867	(59,875)	763,992
7,007,910	6,028,142	13,036,052
$7,831,777	$5,968,267	$13,800,044

See Notes to Financial Statements

CITY OF SHELDON
BALANCE SHEET - GOVERMENTAL FUNDS
JUNE 30, 2005

ASSETS

	General	Tax Increment Financing	Debt Service	Capital Projects
ASSETS:				
Cash and pooled investments	$ 601,893	$ 206,020	$ 18,639	$ 398,126
Receivables - net, where applicable, of allowance for uncollectibles:				
Property tax:				
Delinquent	5,337		2,737	
Succeeding year	751,307		82,580	
Tax increment financing:				
Delinquent		7,300		
Succeeding year		1,077,909		
Accounts	86,923			
Special assessments	57,649			
Accrued interest	1,884	2,393	1,683	741
Due from other funds	265			
Due from other governments	2,216	16,236		16,130
Land held for resale				193,892
Due from Sheldon Chamber & Development Corporation (SCDC)				1,217,208
Accrued interest on due from SCDC				34,470
TOTAL ASSETS	$1,507,474	$1,309,858	$105,639	$1,860,567

LIABILITIES AND FUND EQUITY

LIABILITIES:				
Accounts payable	$ 79,399			$ 1,803
Due to other funds				
Salaries payable	5,797			
Deferred revenue:				
Succeeding year property tax	751,307		$ 82,580	
Succeeding year tax increment financing		$1,077,909		
Due from SCDC and related accrued interest				1,251,678
Other	73,037			
TOTAL LIABILITIES	909,540	1,077,909	82,580	1,253,481
FUND BALANCES:				
Reserved for debt service			23,059	
Reserved for land held for resale				193,892
Unreserved:				
Designated for future equipment purchases	155,051			
Undesignated:				
Reported in:				
General fund	442,883			
Special revenue funds		231,949		
Capital projects funds				413,194
TOTAL FUND BALANCES	597,934	231,949	23,059	607,086
TOTAL LIABILITIES AND FUND BALANCES	$1,507,474	$1,309,858	$105,639	$1,860,567

See Notes to Financial Statements

EXHIBIT C

Total Nonmajor Governmental Funds	Total
$ 550,388	$1,775,066
2,495	10,569
365,750	1,199,637
	7,300
	1,077,909
	86,923
	57,649
2,195	8,896
	265
86,917	121,499
	193,892
	1,217,208
	34,470
$1,007,745	$5,791,283
$ 12,374	$ 93,576
265	265
3,154	8,951
365,750	1,199,637
	1,077,909
	1,251,678
	73,037
381,543	3,705,053
	23,059
	193,892
63,125	218,176
	442,883
563,077	795,026
	413,194
626,202	2,086,230
$1,007,745	$5,791,283

See Notes to Financial Statements

EXHIBIT D

CITY OF SHELDON
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005

TOTAL GOVERNMENTAL FUND BALANCES PER EXHIBIT C	$2,086,230
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of the assets is $14,721,212 and the accumulated depreciation is $5,970,387.	8,750,825
Prepaid expenses are not available to pay current period expenses and, therefore, are not recorded in the funds.	123,272
The receivable and related accrued interest due from Sheldon Chamber & Development Corporation are not available to pay current period expenses and, therefore, are deferred in the funds.	1,251,678
Certain other receivables are not available to pay current period expenses and, therefore, are deferred in the funds.	16,770
The internal service fund is used by the City to charge the cost of partial self funding the City's health insurance benefit plan to the individual funds. A portion of the assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Assets.	127,685
Long-term liabilities, including bonds and other long-term debt, compensated absences, and accrued interest payable, are not due and payable within the current period and, therefore, are not reported as liabilities in the funds.	(4,524,683)
NET ASSETS OF GOVERNMENTAL ACTIVITIES PER EXHIBIT A	$7,831,777

See Notes to Financial Statements

CITY OF SHELDON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	General	Tax Increment Financing	Debt Service	Capital Projects
REVENUES:				
Property tax	$ 694,526		$363,223	
Tax increment financing		$1,015,459		
Other city taxes	56,141		10,187	
Licenses and permits	10,550			
Use of money and property	77,401	5,601	9,669	$ 6,685
Intergovernmental	199,579			
Charges for services	472,642			
Special assessments	3,920			
Miscellaneous	52,865	452		7,331
TOTAL REVENUES	1,567,624	1,021,512	383,079	14,016
EXPENDITURES:				
Public safety	514,146			
Public works	283,103			
Culture and recreation	348,145			
Community and economic development	7,364	111,052		
General government	356,542			
Debt service	15,337	350,940	618,088	1,500
Capital projects		337,262		1,274,414
TOTAL EXPENDITURES	1,524,637	799,254	618,088	1,275,914
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	42,987	222,258	(235,009)	(1,261,898)
OTHER FINANCING SOURCES (USES):				
Operating transfers in	54,142		244,976	28,951
Operating transfers out	(32,428)	(226,776)	(27,951)	
Gain on sale of lots				55,967
Bond proceeds				1,535,000
Bond discount				(23,025)
TOTAL OTHER FINANCING SOURCES (USES)	21,714	(226,776)	217,025	1,596,893
NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	64,701	(4,518)	(17,984)	334,995
FUND BALANCES - BEGINNING OF YEAR	533,233	236,467	41,043	272,091
FUND BALANCES - END OF YEAR	$ 597,934	$ 231,949	$ 23,059	$ 607,086

See Notes to Financial Statements

EXHIBIT E

Total Nonmajor Governmental Funds	Total
$ 326,371	$1,384,120
	1,015,459
408,633	474,961
	10,550
10,157	109,513
408,412	607,991
	472,642
	3,920
12,667	73,315
1,166,240	4,152,471
158,999	673,145
507,473	790,576
41,543	389,688
43,339	161,755
153,707	510,249
180,589	1,166,454
20,000	1,631,676
1,105,650	5,323,543
60,590	(1,171,072)
14,228	342,297
(35,524)	(322,679)
	55,967
	1,535,000
	(23,025)
(21,296)	1,587,560
39,294	416,488
586,908	1,669,742
$ 626,202	$2,086,230

See Notes to Financial Statements

EXHIBIT F

CITY OF SHELDON
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS PER EXHIBIT E		$ 416,488
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES IS DIFFERENT BECAUSE:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital expenditures exceeded depreciation expense for the year, as follows:		
Expenditures for capital assets	$ 280,492	
Depreciation expense	(580,702)	(300,210)
Prepaid expenses are not available to pay current period expenses and, therefore, are not recorded in the funds. The change in prepaid expenses results in differences between the statements, as follows:		
Prepaid expenses - end of year	123,272	
Prepaid expenses - beginning of year	(122,678)	594
The receivable and related accrued interest due from Sheldon Chamber & Development Corporation (SCDC) is not available to pay current period expenses and, therefore, are deferred in the funds. The change in these deferred amounts results in differences between the statements as follows:		
Due from SCDC deferred - end of year	1,217,208	
Accrued interest SCDC deferred - end of year	34,470	1,251,678
Certain other receivables are not available to pay current period expenses and, therefore, are deferred in the funds. The change in these deferred amounts results in differences between the statements, as follows:		
Ambulance and other receivables deferred - end of year	15,388	
Special assessments deferred - end of year	1,382	
Ambulance and other receivables deferred - beginning of year	(19,729)	
Special assessments deferred - beginning of year	(463)	(3,422)

See Notes to Financial Statements

EXHIBIT F

CITY OF SHELDON
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - Continued
FOR THE YEAR ENDED JUNE 30, 2005

Proceeds from issuing long-term liabilities provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year new issues exceeded repayments, as follows:		
New issues	($1,535,000)	
Bond discount on new issues	23,025	
Amortization of bond discount	(2,047)	
Repayments	1,006,364	$ (507,658)
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 governmental funds. The change in these accrued expenses results in differences between the statements, as follows:		
Compensated absences - end of year	(76,198)	
Accrued interest payable - end of year	(68,124)	
Compensated absences - beginning of year	83,686	
Accrued interest payable - beginning of year	30,231	(30,405)
The internal service fund is used by the City to charge the cost of partial self funding the City's health insurance benefit plan to the individual funds. A portion of the change in net assets of the internal service fund is reported with governmental activities.		(3,198)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES PER EXHIBIT B		$ 823,867

EXHIBIT G

CITY OF SHELDON
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2005

ASSETS

	Enterprise Funds			Internal Service
	Water	Sewer	Total	Self-Insurance
ASSETS				
Cash and pooled investments	$ 550,803	$ 189,166	$ 739,969	$228,927
Receivables - net of allowance for uncollectibles:				
Accounts and unbilled usage	79,780	65,175	144,955	350
Accrued interest	229	677	906	682
Inventories	28,138	7,666	35,804	
Due from other funds	71,377		71,377	
Restricted assets:				
Revenue note and interest sinking account:				
Cash and pooled investments		2,656	2,656	
Revenue note improvement account:				
Cash and pooled investments		90,000	90,000	
Revenue note debt service account:				
Cash and pooled investments		67,527	67,527	
Accrued interest		317	317	
Customer deposits - cash	20,200		20,200	
Loan fees - net of accumulated amortization		6,198	6,198	
Capital assets - net of accumulated depreciation	2,258,564	3,280,559	5,539,123	
TOTAL ASSETS	3,009,091	3,709,941	6,719,032	229,959
LIABILITIES:				
Accounts payable	11,318	5,846	17,164	
Medical claims payable				36,810
Salaries payable	3,012	2,606	5,618	
Due to other funds		71,377	71,377	
Payable from restricted assets:				
Accrued interest payable		2,149	2,149	
Customer deposits	20,200		20,200	
Revenue bonds payable		658,000	658,000	
Compensated absences	19,599	22,122	41,721	
TOTAL LIABILITIES	54,129	762,100	816,229	36,810
NET ASSETS:				
Invested in capital assets - net of related debt	2,258,564	2,622,559	4,881,123	
Restricted for:				
Revenue note retirement		2,656	2,656	
Sewer improvement		90,000	90,000	
Sewer replacement		67,844	67,844	
Unrestricted	696,398	164,782	861,180	193,149
TOTAL NET ASSETS	$2,954,962	$2,947,841	$5,902,803	$193,149

See Notes to Financial Statements

EXHIBIT H

CITY OF SHELDON
RECONCILIATION OF STATEMENT OF NET ASSETS - PROPRIETARY FUNDS TO
THE STATEMENT OF NET ASSETS
JUNE 30, 2005

TOTAL NET ASSETS - ENTERPRISE FUNDS PER EXHIBIT G	$5,902,803
AMOUNTS REPORTED FOR BUSINESS TYPE ACTIVITIES IN THE STATEMENT OF NET ASSETS IS DIFFERENT BECAUSE:	
The internal service fund is used by the City to charge the cost of partial self funding the City's health insurance benefit plan to the individual funds. A portion of the assets and liabilities of the internal service fund are included in business type activities in the Statement of Net Assets.	65,464
TOTAL NET ASSETS - BUSINESS TYPE ACTIVITIES PER EXHIBIT A	$5,968,267

See Notes to Financial Statements

EXHIBIT I

CITY OF SHELDON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Enterprise Funds			Internal Service
	Water	Sewer	Total	Self-Insurance
OPERATING REVENUES:				
Charges for services	$ 669,877	$ 583,160	$1,253,037	
Reimbursements from operating funds				$291,063
Reimbursements from employees				5,655
Insurance reimbursements				40,682
Miscellaneous:				
Miscellaneous	3,021	971	3,992	
TOTAL OPERATING REVENUES	672,898	584,131	1,257,029	337,400
OPERATING EXPENSES:				
Business type activities:				
Cost of sales and services	613,551	402,059	1,015,610	
Depreciation	110,959	161,481	272,440	
Amortization		438	438	
Insurance charges and claims				346,957
TOTAL OPERATING EXPENSES	724,510	563,978	1,288,488	346,957
OPERATING INCOME (LOSS)	(51,612)	20,153	(31,459)	(9,557)
NON-OPERATING REVENUES (EXPENSES):				
Interest income	14,545	7,480	22,025	4,399
Interest expense:				
Revenue note		(26,943)	(26,943)	
General obligation debt		(1,920)	(1,920)	
TOTAL NON-OPERATING REVENUES (EXPENSES)	14,545	(21,383)	(6,838)	4,399
NET LOSS BEFORE TRANSFERS TO GOVERNMENTAL FUNDS	(37,067)	(1,230)	(38,297)	(5,158)
Operating transfers out	(9,809)	(9,809)	(19,618)	
CHANGE IN NET ASSETS	(46,876)	(11,039)	(57,915)	(5,158)
NET ASSETS - BEGINNING OF YEAR	3,001,838	2,958,880	5,960,718	198,307
NET ASSETS - END OF YEAR	$2,954,962	$2,947,841	$5,902,803	$193,149

See Notes to Financial Statements

EXHIBIT J

CITY OF SHELDON
RECONCILIATION OF STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

TOTAL CHANGE IN NET ASSETS - ENTERPRISE FUNDS PER EXHIBIT I	$ (57,915)
AMOUNTS REPORTED FOR BUSINESS TYPE ACTIVITIES IN THE STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:	
The internal service fund is used by the City to charge the cost of partial self funding the City's health insurance benefit plan to the individual funds. A portion of the change in net assets of the internal service fund is reported with business type activities.	(1,960)
CHANGE IN NET ASSETS OF BUSINESS TYPE ACTIVITIES PER EXHIBIT B	$ (59,875)

See Notes to Financial Statements

EXHIBIT K

CITY OF SHELDON
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Enterprise Funds			Internal Service
	Water	Sewer	Total	Self-Insurance
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	$689,242	$582,970	$1,272,212	
Cash received from employees and insurance				$ 53,091
Other operating receipts	3,021	971	3,992	
Cash payments from operating funds				291,063
Cash payments to employees for services	(190,600)	(178,327)	(368,927)	
Cash payments for goods and services	(431,533)	(206,603)	(638,136)	(344,367)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	70,130	199,011	269,141	(213)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Interfund loans	(71,377)	71,377		
Operating transfers out	(9,809)	(9,809)	(19,618)	
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	(81,186)	61,568	(19,618)	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of fixed assets	(14,172)	(109,077)	(123,249)	
Principal paid on revenue note		(32,000)	(32,000)	
Principal paid on general obligation debt		(40,000)	(40,000)	
Interest paid on revenue note		(27,048)	(27,048)	
Interest paid on general obligation debt		(1,920)	(1,920)	
NET CASH (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(14,172)	(210,045)	(224,217)	
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest on investments	15,352	6,715	22,067	3,762
NET CASH PROVIDED BY INVESTING ACTIVITIES	15,352	6,715	22,067	3,762
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,876)	57,249	47,373	3,549
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	580,879	292,100	872,979	225,378
CASH AND CASH EQUIVALENTS - END OF YEAR	$571,003	$349,349	$ 920,352	$228,927

See Notes to Financial Statements

EXHIBIT K

CITY OF SHELDON
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - Continued
FOR THE YEAR ENDED JUNE 30, 2005

	Enterprise Funds			Internal Service
	Water	Sewer	Total	Self-Insurance
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
OPERATING INCOME (LOSS)	$ (51,612)	$ 20,153	$ (31,459)	$ (9,557)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Depreciation	110,959	161,481	272,440	
Amortization		438	438	
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable and unbilled usage	665	(190)	475	6,754
Decrease in inventories	5,610	5,568	11,178	
Increase in accounts payable	35	163	198	
Increase in medical claims payable				2,590
Increase in salaries payable	255	230	485	
(Decrease) in customer deposits	(675)		(675)	
Increase in compensated absences	4,893	11,168	16,061	
TOTAL ADJUSTMENTS	121,742	178,858	300,600	9,344
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ 70,130	$199,011	$269,141	$ (213)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON THE STATEMENT OF NET ASSETS				
Cash and pooled investments	$550,803	$189,166	$739,969	$228,927
Restricted assets - cash and pooled investments:				
Revenue note and interest sinking account		2,656	2,656	
Revenue note improvement account		90,000	90,000	
Revenue note debt service account		67,527	67,527	
Customer deposits	20,200		20,200	
CASH AND CASH EQUIVALENTS - END OF YEAR	$571,003	$349,349	$920,352	$228,927

See Notes to Financial Statements

EXHIBIT L

CITY OF SHELDON
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2005

	Agency Cafeteria Plan
ASSETS:	
Cash and pooled investments	$ 33,484
Accounts receivable	279
Accrued interest receivable	59
TOTAL ASSETS	33,822
LIABILITIES:	
Cafeteria plan benefits payable	33,822
NET ASSETS	$

See Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Additionally, the City has reported an investment in land held for resale as restricted.

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function and (2) grants, 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 funds, and fiduciary funds even though the later are excluded from the government-wide statements. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

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

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

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

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

The City reports the following major proprietary funds:

Enterprise:

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

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

Additionally, the City reports the following funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds are charged to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales

and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

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

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

Property Tax Receivable, Including Tax Increment Financing - Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represents taxes collected by the County but not remitted to the City at June 30, 2005 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable have been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March 2004.

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

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

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

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

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

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

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

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

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of delinquent property tax receivable, special assessments receivable, amounts due from the Sheldon Chamber and Development Corporation, and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied, and special assessments that are ag deferred.

Compensated Absences - City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2005. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Road Use Funds.

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

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

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

2. CASH AND INVESTMENTS

The City's demand deposits, savings accounts, and certificates of deposit at June 30, 2005 were entirely covered by Federal depository insurance or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the members of the pool to insure there will be no loss of public funds.

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

The City's cash and investments consisted of the following at June 30, 2005:

Cash on hand	$ 160
Demand deposits	39,794
Certificates of deposit/savings accounts	2,592,249
Repurchase agreements	325,626
	$2,957,829

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

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

3. ALLOWANCES FOR COLLECTION LOSSES

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

	Gross Receivables	Allowance for Collection Losses	Net Receivables
Accounts and unbilled usage:			
General Fund	$ 93,543	$ 6,620	$ 86,923
Enterprise Fund:			
Water	83,104	3,324	79,780
Sewer	67,891	2,716	65,175
Internal Service Fund:			
Self insurance	350		350
	$244,888	$ 12,660	$232,228

4. DUE FROM SHELDON CHAMBER AND DEVELOPMENT CORPORATION

During the year, the City issued $1,535,000 of taxable capital loan notes. A portion of the bond issue was granted to the Sheldon Chamber and Development Corporation (SCDC). The SCDC used the grant to purchase land for development and resale. The SCDC has agreed to pay $18,042 per acre to the City as the land is sold. The price is anticipated to repay the grant, professional fees incurred by the City, and the SCDC's share of interest expense on the bond issue. The due from SCDC is deferred in the governmental fund financial statements since it is not an available financial resource.

5. CAPITAL ASSETS

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
GOVERNMENTAL ACTIVITIES:				
COST OF CAPITAL ASSETS:				
Capital assets not being depreciated:				
Construction in progress		$ 39,085		$ 39,085
Land	$ 406,000			406,000
Total capital assets not being depreciated	406,000	39,085		445,085
Capital assets being depreciated:				
Buildings and improvements	5,323,372			5,323,372
Equipment and vehicles	1,884,100	66,566	$ 36,834	1,913,832
Infrastructure	6,864,082	174,841		7,038,923
Total capital assets being depreciated	14,071,554	241,407	36,834	14,276,127
TOTAL COST OF CAPITAL ASSETS	14,477,554	280,492	36,834	14,721,212
ACCUMULATED DEPRECIATION:				
Buildings and improvements	1,818,280	140,457		1,958,737
Equipment and vehicles	1,000,225	177,974	36,834	1,141,365
Infrastructure	2,608,014	262,271		2,870,285
TOTAL ACCUMULATED DEPRECIATION	5,426,519	580,702	36,834	5,970,387
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS - NET	$ 9,051,035	$(300,210)	$	$ 8,750,825

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
BUSINESS TYPE ACTIVITIES:				
COST OF CAPITAL ASSETS:				
Land	$ 84,390			$ 84,390
Water and sewer plants	4,841,681			4,841,681
Equipment and vehicles	479,209	$123,249		602,458
Infrastructure	3,996,263			3,996,263
TOTAL COST	9,401,543	123,249		9,524,792
ACCUMULATED DEPRECIATION:				
Water and sewer plants	2,547,133	130,388		2,677,521
Equipment and vehicles	290,929	39,849		330,778
Infrastructure	875,167	102,203		977,370
TOTAL ACCUMULATED DEPRECIATION	3,713,229	272,440		3,985,669
BUSINESS TYPE CAPITAL ASSETS - NET	$5,688,314	$(149,191)	$	$5,539,123
COST OF LOAN FEES	$ 8,750			$ 8,750
Less accumulated amortization	2,114	$ 438		2,552
LOAN FEES - NET	$ 6,636	$ (438)	$	$ 6,198

Depreciation was charged to functions of the government as follows:

Governmental Activities:	
Public safety	$ 67,012
Public works	303,276
Culture and recreation	130,525
General government	79,889
Total Governmental Activities	$580,702
Business Type Activities:	
Water	$110,959
Sewer	161,481
Total Business Type Activities	$272,440

6. LONG-TERM LIABILITIES

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

	Date of Issue	Interest Rates	Amount Originally Issued	Final Due Date
GOVERNMENTAL ACTIVITIES:				
GENERAL OBLIGATION BONDS/NOTES:				
Essential corporate purpose	9-01-99	4.95 - 5.40%	$1,500,000	6-1-2012
Refunding capital loan notes	5-01-03	2.25 - 2.60%	990,000	6-1-2007
Less business type activities portion				
Taxable capital loan notes	11-15-04	3.30 - 5.05%	1,535,000	6-1-2012
TOTAL				
Less unamortized bond discount ..				
NET GENERAL OBLIGATION BONDS/NOTES				
SALES AND SERVICE TAX BONDS:				
Refunding bonds	5-01-03	2.35 - 4.30%	1,415,000	6-1-2015
OTHER LONG-TERM DEBT:				
Rungers interim TIF loan	4-20-00	6.35%	250,000	5-25-2010
Tax increment revenue capital loan note	12-24-96	5.75%	175,000	
Orab interim TIF loan	5-19-99	5.90%	365,000	
USDA airport loan	6-06-01	4.75%	400,000	6-5-2021
Capital lease	4-18-03	3.75%	87,895	7-1-2005
Skateboard park loan	8-26-03	3.00%	43,505	7-1-2006
TOTAL				
COMPENSATED ABSENSES				
TOTAL GOVERNMENTAL ACTIVITIES				
BUSINESS TYPE ACTIVITIES:				
GENERAL OBLIGATION BONDS/NOTES				
REVENUE NOTES:				
Sewer revenue capital loan notes	9-15-99	3.92%	814,000	6-1-2020
CUSTOMER DEPOSITS				
COMPENSATED ABSENSES				
TOTAL BUSINESS TYPE ACTIVITIES				

Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
$1,090,000		$ 115,000	$ 975,000	$120,000
555,000		445,000	110,000	80,000
(40,000)		(40,000)		
	$1,535,000		1,535,000	160,000
1,605,000	1,535,000	520,000	2,620,000	360,000
	(23,025)	(2,047)	(20,978)	
1,605,000	1,511,975	517,953	2,599,022	360,000
1,325,000		105,000	1,220,000	110,000
169,147		24,112	145,035	25,953
89,000		89,000		
211,019		211,019		
372,436		14,737	357,699	15,437
57,596		28,267	29,329	29,329
43,505		14,229	29,276	14,459
942,703		381,364	561,339	85,178
83,686		7,488	76,198	76,198
$3,956,389	$1,511,975	$1,011,805	$4,456,559	$631,376
$ 40,000		$ 40,000		
690,000		32,000	$ 658,000	$ 33,000
20,875		675	20,200	20,200
25,660	$ 16,061		41,721	41,721
$ 776,535	$ 16,061	$ 72,675	$ 719,921	$ 94,921

General Obligation Bonds/Notes
The City's total general obligation bonds/notes at June 30, 2005 were $2,620,000. The bonds issued in September 1999 are anticipated to be repaid with tax increment financing revenues, and a portion of the bonds issued in November 2004 are anticipated to be repaid from repayments from the Sheldon Chamber and Development Corporation.

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

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

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

(A) The note will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.

(B) Sufficient monthly transfers shall be made into a separate sewer revenue sinking account for the purpose of making the principal and interest payments when due.

(C) Additional monthly transfers shall be made to a separate sewer reserve account until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying principal and interest payments when insufficient money is available in the sinking account.

(D) Additional monthly transfers of $2,500 to a sewer improvement account shall be made until a balance of $90,000 has been accumulated. This account is restricted for the purpose of paying principal and interest payments when insufficient money is available in the sinking and reserve accounts and to pay the cost of extraordinary maintenance expenses or repairs, renewals and replacements not included in the annual budget and for capital improvements to the systems.

(E) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the note falling due in the same year.

During the year ended June 30, 2005, the City was in compliance with all material revenue note provisions.

Other Long-term Debt
As of June 30, 2005, this debt consisted of the following:

(1) Rungers Interim TIF Loan - This loan was used to purchase land for resale. The loan has an unpaid balance of $145,035 as of June 30, 2005. The loan calls for monthly payments of $2,855 including interest at 6.35%. The City will make these payments from TIF revenues. The loan is secured by real property.

(2) Airport Loan - This loan was made through the United States Department of Agriculture for improvements at the City's airport. The loan has an unpaid balance of $357,699 as of June 30, 2005, which will be paid from the general fund. The notes call for annual payments of $32,428 including interest at 4.75%.

(3) Capital Lease - This lease is for the purchase of a wheel loader. The lease has an unpaid balance of $29,329 which will be paid with road use funds. The lease calls for annual payments of $30,383 including interest at 3.75%. The loan is secured by the equipment.

(4) Skateboard Park Loan - This loan was issued to finance a new skateboard park. The loan has an unpaid balance of $29,276 as of June 30, 2005. The loan calls for annual payments of $15,337 including interest at 3%.

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

	Governmental Activities					
Year Ending	General Obligation Bonds/Notes		Sales and Service Tax Bonds		Rungers Interim TIF Loan	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2006	$ 360,000	$154,687	$ 110,000	$ 43,115	$ 25,953	$ 8,309
2007	360,000	105,775	110,000	40,530	27,491	6,771
2008	345,000	91,262	110,000	37,560	29,288	4,973
2009	360,000	76,098	115,000	34,260	31,203	3,059
2010	380,000	59,607	120,000	30,522	31,100	1,014
2011	400,000	41,493	125,000	26,322		
2012	415,000	21,518	125,000	21,698		
2013			130,000	16,823		
2014			135,000	11,623		
2015			140,000	6,020		
2016						
2017						
2018						
2019						
2020						
2021						
Total	$2,620,000	$550,440	$1,220,000	$268,473	$145,035	$ 24,126

Governmental Activities - Continued

Year Ending June 30,	Skateboard Park Loan Principal	Skateboard Park Loan Interest	USDA Airport Loan Principal	USDA Airport Loan Interest	Capital Lease Principal	Capital Lease Interest
2006	$ 14,459	$ 878	$ 15,437	$ 16,991	$ 29,329	$ 1,100
2007	14,817	445	16,171	16,257		
2008			16,939	15,489		
2009			17,743	14,685		
2010			18,586	13,842		
2011			19,469	12,959		
2012			20,394	12,034		
2013			21,362	11,066		
2014			22,377	10,051		
2015			23,440	8,988		
2016			24,553	7,875		
2017			25,720	6,708		
2018			26,941	5,487		
2019			28,221	4,207		
2020			29,562	2,866		
2021			30,784	1,462		
Total	$ 29,276	$ 1,323	$ 357,699	$160,967	$ 29,329	$ 1,100

Year Ending June 30,	TOTAL Principal	TOTAL Interest
2006	$ 555,178	$ 225,080
2007	528,479	169,778
2008	501,227	149,284
2009	523,946	128,102
2010	549,686	104,985
2011	544,469	80,774
2012	560,394	55,250
2013	151,362	27,889
2014	157,377	21,674
2015	163,440	15,008
2016	24,553	7,875
2017	25,720	6,708
2018	26,941	5,487
2019	28,221	4,207
2020	29,562	2,866
2021	30,784	1,462
Total	$4,401,339	$1,006,429

Business Type Activities

Year Ending June 30,	Revenue Notes Principal	Revenue Notes Interest
2006	$ 33,000	$ 25,794
2007	34,000	24,500
2008	36,000	23,167
2009	37,000	21,756
2010	39,000	20,306
2011	40,000	18,777
2012	42,000	17,209
2013	43,000	15,562
2014	45,000	13,877
2015	47,000	12,113
2016	49,000	10,270
2017	50,000	8,350
2018	52,000	6,390
2019	54,000	4,351
2020	57,000	2,234
Total	$658,000	$224,656

7. INTERFUND TRANSFERS

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

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Emergency	$ 23,910
	FICA/IPERS	10,614
	Proprietary:	
	Enterprise:	
	Water	9,809
	Sewer	9,809
		54,142
Debt Service	General	32,428
	Special Revenue:	
	Tax increment financing	212,548
		244,976
Special Revenue: LMI	Special Revenue: Tax increment financing	14,228
Capital Projects	Special Revenue:	
	Local option sales tax	1,000
	Debt Service	27,951
		28,951
TOTAL OPERATING TRANSFERS		$342,297

8. DUE FROM AND DUE TO OTHER FUNDS

The detail of the interfund receivable and payable at June 30, 2005 is as follows:

Due to	Due from	Amount
General	Special Revenue: Road Use fund	$ 265

The amount represents interest income on road use funds not credited to the general fund as of June 30, 2005.

Proprietary: Enterprise: Water	Proprietary: Enterprise: Sewer	$ 71,377

The amount represents the amount due for sewer capital assets paid by water.

9. PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.90%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were $69,899, $73,986, and $75,902, respectively, equal to the required contributions for each year.

10. OTHER EMPLOYEE BENEFITS

All full-time City employees accumulate sick leave hours for subsequent use. The accumulation of sick leave hours did not vest as of June 30, 2005 and therefore is not recognized as a liability until used by the employee or upon retirement or death. If paid upon retirement or death, payment is made for up to 50 percent of accrued sick leave, not to exceed 60 days. The City's approximate contingent liability for the unvested sick leave as of June 30, 2005 is as follows:

Governmental activities	$195,947
Business type activities	98,025
TOTAL	$293,972

11. HEALTH CARE FACILITY REVENUE BONDS AND HOUSING REVENUE NOTES

The City has issued a total of $11,880,000 of Health Care Facility Revenue Bonds and Housing Revenue Notes under the provisions of Chapter 419 of the Code of Iowa, of which $9,192,087 is outstanding at June 30, 2005. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

12. RELATED PARTY TRANSACTIONS

The City has business transactions between the City and City officials, totaling $127,452 during the year ended June 30, 2005. See item 05-II-E in the Schedule of Findings.

13. CONTRACT COMMITMENTS

The City has entered into a construction contract for 24th Avenue improvements. The contract is for $187,763. No work has been completed as of June 30, 2005.

The City has committed approximately $1,700,000 to the Lewis and Clark Rural Water System, Inc. The City's contribution will be expensed as construction is completed and the City pays its share.

14. SUBSEQUENT EVENTS

Subsequent to June 30, 2005, the City has entered into two construction contracts for various improvements. The contracts total $425,240.

15. SIGNIFICANT GROUP CONCENTRATION OF CREDIT RISK

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

16. RISK MANAGEMENT

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

Each members' annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of

membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The City's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2005 were $126,973.

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

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

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

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

The claims liability of $36,810 reported in the fund at June 30, 2005 is based on claims reported but unpaid and estimated claims incurred but not reported as of June 30, 2005. Changes in the balances of claims liability during the year are as follows:

Unpaid claims - June 30, 2004	$ 34,220
Incurred claims	247,987
Less claims paid	(245,397)
Unpaid claims - June 30, 2005	$ 36,810

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

17. USE OF ESTIMATES

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

18. COLLECTIVE BARGAINING AGREEMENT

All employees, except for the office personnel and management, are covered by collective bargaining agreements which expire June 30, 2008.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SHELDON
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -
GOVERNMENTAL AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual
RECEIPTS:			
Property taxes	$1,380,145		$1,380,145
Other city taxes	461,224		461,224
Tax increment financing revenues	1,010,582		1,010,582
Licenses and permits	10,473		10,473
Use of money and property	104,547	$ 25,829	130,376
Intergovernmental	620,081		620,081
Charges for services	467,448	1,563,275	2,030,723
Special assessments	3,920		3,920
Miscellaneous	92,228	57,083	149,311
TOTAL RECEIPTS	4,150,648	1,646,187	5,796,835
DISBURSEMENTS:			
Program:			
Public safety	675,878		675,878
Public works	794,134		794,134
Culture and recreation	385,817		385,817
Community and economic development	161,755		161,755
General government	521,762		521,762
Debt service	1,166,454		1,166,454
Capital projects	1,672,003		1,672,003
Business type		1,231,280	1,231,280
Non-program	6,624	344,367	350,991
TOTAL DISBURSEMENTS	5,384,427	1,575,647	6,960,074
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(1,233,779)	70,540	(1,163,239)
OTHER FINANCING SOURCES (USES):			
Operating transfer in	342,297		342,297
Operating transfer out	(322,679)	(19,618)	(342,297)
Proceeds - sale of assets	81,214		81,214
Loan proceeds	1,511,975		1,511,975
TOTAL OTHER FINANCING SOURCES (USES)	1,612,807	(19,618)	1,593,189
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES (USES) OVER (UNDER) DISBURSEMENTS	379,028	50,922	429,950
BALANCE - BEGINNING OF YEAR	1,429,522	1,098,357	2,527,879
BALANCE - END OF YEAR	$1,808,550	$1,149,279	$2,957,829

See Accompanying Independent Auditors' Report

Less Funds Not Required to be Budgeted	Net Actual	Original Budget	Final Budget	Final to Actual Variance
	$1,380,145	$1,375,692	$1,375,692	$ 4,453
	461,224	422,955	422,955	38,269
	1,010,582	988,123	992,123	18,459
	10,473	35,175	35,175	(24,702)
$ 4,243	126,133	95,500	95,500	30,633
	620,081	447,199	478,199	141,882
291,063	1,739,660	1,723,850	1,723,850	15,810
	3,920	1,033	1,033	2,887
71,834	77,477	105,580	105,580	(28,103)
367,140	5,429,695	5,195,107	5,230,107	199,588
	675,878	618,900	675,900	22
	794,134	811,292	811,292	17,158
	385,817	385,874	385,874	57
	161,755	107,003	182,003	20,248
	521,762	412,200	568,200	46,438
	1,166,454	1,230,542	1,230,542	64,088
	1,672,003	333,525	1,942,589	270,586
	1,231,280	1,147,215	1,247,215	15,935
350,991				
350,991	6,609,083	5,046,551	7,043,615	434,532
16,149	(1,179,388)	148,556	(1,813,508)	634,120
	342,297	600,083	600,083	(257,786)
	(342,297)	(600,083)	(600,083)	257,786
	81,214	75,000	75,000	6,214
	1,511,975		1,694,397	(182,422)
	1,593,189	75,000	1,769,397	(176,208)
16,149	413,801	223,556	(44,111)	457,912
246,262	2,281,617	2,074,579	2,074,579	207,038
$262,411	$2,695,418	$2,298,135	$2,030,468	$664,950

See Accompanying Independent Auditors' Report

CITY OF SHELDON
BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
REVENUES	$4,150,648	$ 1,823	$4,152,471
EXPENDITURES/EXPENSES	5,384,427	(60,884)	5,323,543
NET	(1,233,779)	62,707	(1,171,072)
OTHER FINANCING SOURCES (USES) - NET	1,612,807	(25,247)	1,587,560
BEGINNING FUND BALANCES/NET ASSETS	1,429,522	240,220	1,669,742
ENDING FUND BALANCES/NET ASSETS	$1,808,550	$277,680	$2,086,230

See Accompanying Independent Auditors' Report

Proprietary Funds		
Cash Basis	Accrual Adjustments	Accrual Basis
$1,646,187	$ (25,334)	$1,620,853
1,575,647	88,661	1,664,308
70,540	(113,995)	(43,455)
(19,618)		(19,618)
1,098,357	5,060,668	6,159,025
$1,149,279	$4,946,673	$6,095,952

CITY OF SHELDON
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
FOR THE YEAR ENDED JUNE 30, 2005

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business-type activities. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds, and enterprise funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by $1,997,064. This budget amendment is reflected in the final budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

CITY OF SHELDON
COMBINING BALANCE SHEET
ALL NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005

	Special Revenue Funds			
	Road Use Tax	FICA/IPERS	LMI	Emergency
ASSETS:				
Cash and pooled investments	$104,037	$ 66,329	$33,315	
Receivables:				
Property tax:				
Delinquent		2,319		$ 176
Succeeding year		342,021		23,729
Accrued interest		258	73	
Due from other governments	32,395			
TOTAL ASSETS	$136,432	$410,927	$33,388	$23,905
LIABLITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	$ 9,669			
Due to other funds	265			
Salaries payable	2,211	$ 943		
Deferred revenue:				
Succeeding year property tax		342,021		$23,729
TOTAL LIABILITIES	12,145	342,964		23,729
FUND BALANCES:				
Unreserved:				
Designated for future equipment purchases	63,125			
Undesignated:				
Reported in special revenue funds	61,162	67,963	$33,388	176
TOTAL FUND BALANCES	124,287	67,963	33,388	176
TOTAL LIABILITIES AND FUND BALANCES	$136,432	$410,927	$33,388	$23,905

See Accompanying Independent Auditors' Report

Schedule 1

Special Revenue Funds			
Local Option Sales Tax	Hotel/Motel Tax	Trails Maintenance	Total
$247,839		$98,868	$ 550,388
			2,495
			365,750
1,864			2,195
54,522			86,917
$304,225	$	$98,868	$1,007,745
		$ 2,705	$ 12,374
			265
			3,154
			365,750
		2,705	381,543
			63,125
$304,225		96,163	563,077
304,225		96,163	626,202
$304,225	$	$98,868	$1,007,745

See Accompanying Independent Auditors' Report

CITY OF SHELDON
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
ALL NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Special Revenue Funds			
	Road Use Tax	FICA/IPERS	LMI	Emergency
REVENUES:				
Property tax		$303,301		$23,070
Other city taxes		11,917		906
Use of money and property		1,218	$ 275	
Intergovernmental	$408,412			
Miscellaneous		680		
TOTAL REVENUES	408,412	317,116	275	23,976
EXPENDITURES:				
Public safety		158,999		
Public works	408,452	99,021		
Culture and recreation		34,083		
Community and economic development				
General government		26,334		
Debt service	30,427			
Capital projects				
TOTAL EXPENDITURES	438,879	318,437		
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(30,467)	(1,321)	275	23,976
OTHER FINANCING SOURCES (USES):				
Operating transfers in			14,228	
Operating transfers out		(10,614)		(23,910)
TOTAL OTHER FINANCING SOURCES (USES)		(10,614)	14,228	(23,910)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(30,467)	(11,935)	14,503	66
FUND BALANCES - BEGINNING OF YEAR	154,754	79,898	18,885	110
FUND BALANCES - END OF YEAR	$124,287	$ 67,963	$33,388	$ 176

See Accompanying Independent Auditors' Report

Schedule 2

Special Revenue Funds			
Local Option Sales Tax	Hotel/Motel Tax	Trails Maintenance	Total
			$ 326,371
$356,680	$39,130		408,633
7,743		$ 921	10,157
			408,412
470		11,517	12,667
364,893	39,130	12,438	1,166,240
			158,999
			507,473
		7,460	41,543
4,209	39,130		43,339
127,373			153,707
150,162			180,589
20,000			20,000
301,744	39,130	7,460	1,105,650
63,149		4,978	60,590
			14,228
(1,000)			(35,524)
(1,000)			(21,296)
62,149		4,978	39,294
242,076		91,185	586,908
$304,225	$	$96,163	$ 626,202

Schedule 3

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

	Modified Accrual Basis			
	2005	2004	2003	2002
REVENUES:				
Property tax	$1,384,120	$1,491,423	$1,399,790	$1,364,235
Tax increment financing	1,015,459	796,738	639,346	472,603
Other City taxes	474,961	429,393	448,712	393,788
Licenses and permits	10,550	9,745	9,456	11,552
Use of money and property	109,513	85,833	51,943	101,791
Intergovernmental	607,991	880,275	544,934	732,092
Charges for services	472,642	489,557	415,049	197,997
Special assessments	3,920	13,317	2,196	13,407
Miscellaneous	73,315	149,550	148,154	364,079
TOTAL REVENUES	$4,152,471	$4,345,831	$3,659,580	$3,651,544
EXPENDITURES:				
Public safety	$ 673,145	$ 747,850	$ 854,399	$ 704,324
Public works	790,576	762,801	837,203	607,861
Health and social services		500		1,125
Culture and recreation	389,688	462,945	497,679	456,037
Community and economic development	161,755	92,725	147,238	60,041
General government	510,249	408,718	428,921	466,179
Debt service	1,166,454	926,169	937,058	937,643
Capital projects	1,631,676	1,200,276	190,945	823,020
TOTAL EXPENDITURES	$5,323,543	$4,601,984	$3,893,443	$4,056,230

See Accompanying Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sheldon, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated December 9, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

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

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Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. 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 matters in the internal control that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Sheldon, and other parties to whom the City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

Winther, Stone & Co LLP

December 9, 2005

CITY OF SHELDON
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

Part I: Findings Related to the General Purpose Financial Statements

No findings were noted.

Part II: Other Findings Related to Required Statutory Reporting

05-II-A Official Depositories - A resolution naming official depositories has been adopted by the Council. The maximum deposit amounts stated in the resolution were not exceeded during the year.

05-II-B Certified Budget - Disbursements during the year ended June 30, 2005 did not exceed the amounts budgeted.

05-II-C Questionable Expenditures - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

05-II-D Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

05-II-E Business Transactions - Business transactions between the City and city officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Ron Rensink, Council Member, Owner of Perspective Insurance	Insurance	$127,439
Mark Postma, Council Member, Owner Bubbles/Bee Kleen	Dry Cleaning	$ 13

The transaction with Mr. Postma does not appear to be a conflict of interest since the total paid was less than $1,500. In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Mr. Rensink may represent a conflict of interest since the amount exceeds $1,500 and there is no documentation that the insurance was competitively bid.

Recommendation - The City should comply with the Code of Iowa regarding business transactions between the City and the City officials and employees. The City should consult with legal counsel regarding disposition of this matter.

Response - The transactions primarily represent amounts paid to Perspective Insurance as an agent for the Iowa Communities Assurance Pool. We will consult with the City attorney regarding this matter.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting - Continued

05-II-F Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

05-II-G Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

05-II-H Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

05-II-I Revenue Notes - No material noncompliance with revenue note provisions were noted.

05-II-J Economic Development - We noted that the City paid the Sheldon Chamber and Development Corporation $65,000 from tax increment financing revenues, $39,130 from hotel/motel tax, $1,217,208 from a bond issue, and $20,000 from local option sales tax.

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

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