

SCHLESWIG COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

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Schleswig Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2004 Election)		
Rhonda Nemitz	President	2005
Kelli Rupert	Board Member	2006
Michele Kinnersley	Board Member	2006
Todd Schultz	Board Member	2004
Patti Miller	Board Member	2005

Board of Education
(After September 2004 Election)

Todd Schultz	President	2007
Rhonda Nemitz	Board Member	2005
Kelli Rupert	Board Member	2006
Michele Kinnersley	Board Member	2006
Patti Miller	Board Member	2005

School Officials

Jack Johnson	Superintendent	2005
Sherri Jones	District Secretary	2005
Vanessa Zimmer	District Treasurer	2005
Mundt, Franck & Schumacher	Attorney	2005

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Certified Public Accountants
(a professional corporation)
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Schleswig Community School District:

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

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

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

In accordance with Government Auditing Standards, we have also issued our report dated August 8, 2005 on our consideration of Schleswig Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 34 through 37 are not required parts of the basic financial statements, but are supplementary

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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 Schleswig Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, 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.


NOLTE, CORNMAN & JOHNSON, P.C.

August 8, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Schleswig Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$2,195,986 in fiscal 2004 to \$2,183,395 in fiscal 2005, while General Fund expenditures increased from \$2,184,522 in fiscal 2004 to \$2,381,430 in fiscal 2005. This resulted in a decrease in the District's General Fund balance from \$752,193 in fiscal 2004 to a balance of \$554,158 in fiscal 2005, a 26% decrease from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in local sources in fiscal 2005. The increase in expenditures was due primarily to an increase in the instruction functional area.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Schleswig Community School District as a whole and present an overall view of the District'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 Schleswig Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Schleswig Community School District acts solely as an agent or custodial for the benefit of those outside of District government.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

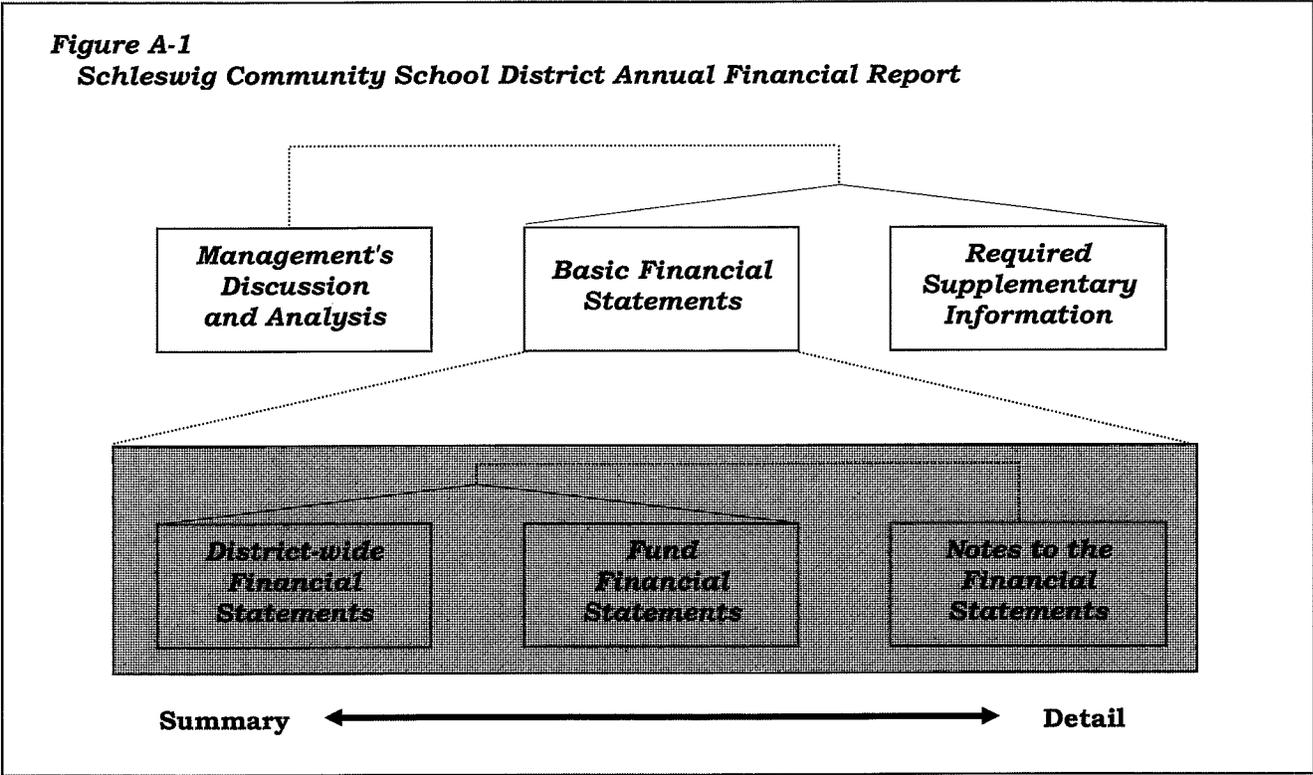


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

- 3) *Fiduciary funds*: The District is a trustee, or fiduciary, for assets that belong to others. These funds include the Agency Fund.

Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Current and other assets	\$ 1,855,376	2,023,760	4,157	47,613	1,859,533	2,071,373	-10.23%
Capital assets	417,490	361,905	18,198	4,027	435,688	365,932	19.06%
Total assets	2,272,866	2,385,665	22,355	51,640	2,295,221	2,437,305	-5.83%
Other liabilities	907,759	948,823	458	37,948	908,217	986,771	-7.96%
Total liabilities	907,759	948,823	458	37,948	908,217	986,771	-7.96%
Net assets:							
Invested in capital assets, net of related debt	417,490	361,905	18,198	4,027	435,688	365,932	19.06%
Restricted	331,241	288,715	0	0	331,241	288,715	14.73%
Unrestricted	616,376	786,222	3,699	9,665	620,075	795,887	-22.09%
Total net assets	\$ 1,365,107	1,436,842	21,897	13,692	1,387,004	1,450,534	-4.38%

The District's combined net assets decreased by 4.38%, or \$63,530, under the prior year. The largest portion of the District's net assets is the restricted net assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$42,526, or 14.73% over the prior year. The increase was primarily a result of the District receiving Local Option Sales and Services Tax monies.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other

legal requirements – decreased \$175,812, or 22.09%. This decrease in unrestricted net assets was a result of the District’s decrease in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2005 compared to June 30, 2004.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 251,660	195,792	43,140	45,451	294,800	241,243
Operating grants and contributions and restricted interest	279,815	252,005	42,226	38,689	322,041	290,694
Capital grants and contributions and restricted interest	0	17,042	0	0	0	17,042
General revenues:						
Property tax	855,534	1,073,320	0	0	855,534	1,073,320
Local option sales and services tax	107,233	37,607	0	0	107,233	37,607
Unrestricted state grants	951,170	843,046	0	0	951,170	843,046
Other	19,895	18,773	775	230	20,670	19,003
Total revenues	2,465,307	2,437,585	86,141	84,370	2,551,448	2,521,955
Program expenses:						
Governmental activities:						
Instructional	1,739,150	1,527,267	0	0	1,739,150	1,527,267
Support services	644,736	673,839	0	0	644,736	673,839
Non-instructional programs	0	0	90,636	82,134	90,636	82,134
Other expenses	153,156	187,387	0	0	153,156	187,387
Total expenses	2,537,042	2,388,493	90,636	82,134	2,627,678	2,470,627
Changes in net assets before capital contributions	(71,735)	49,092	(4,495)	2,236	(76,230)	51,328
Capital contributions	0	0	12,700	0	12,700	0
Changes in net assets	(71,735)	49,092	8,205	2,236	(63,530)	51,328
Beginning net assets	1,436,842	1,387,750	13,692	11,456	1,450,534	1,399,206
Ending net assets	\$ 1,365,107	1,436,842	21,897	13,692	1,387,004	1,450,534

Property tax and unrestricted state grants account for 71% of the total revenue. The District’s expenses primarily relate to instruction and support services which account for 91% of the total expenses.

Changes in revenues will be as a result of changes in student participation, whether in the regular, special or extracurricular programs. The most significant change in revenues was due to the increase in property tax monies. Fluctuations in basic enrollment will significantly impact the state revenues, as well as property tax revenues, keeping in mind that neither source of funding will be ever fully realized with current law and funding structure as set by the legislature, and the mid-year reduction of funding on the part of the state.

The most significant fluctuation in expenditure levels will be caused by increased salary and benefit obligations, in large part resulting from collective bargaining agreements. With a

declining enrollment comes lesser ability to fund various programs required by the state and constant evaluation of staffing needs becomes a priority. Even with certain staff reductions there may still be an increase in expenditures due to the salary and benefit requirements.

The District makes a continual effort to be a good steward of public funds and maintains a philosophy of providing the best education possible, exploring every avenue available to fund the programs, while making certain to keep watch for services that could be merged with other programs. The District saw an overall greater increase in revenues than the increase in expenditures, demonstrating an increase in the financial position for the year.

Governmental Activities

Revenues for governmental activities were \$2,465,307 and expenses were \$2,537,042. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 1,739,150	1,298,635
Support services	644,736	638,763
Other expenses	153,156	68,169
Totals	<u>\$ 2,537,042</u>	<u>2,005,567</u>

- The cost financed by users of the District’s programs was \$251,660.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$279,815.
- The net cost of governmental activities was financed with \$855,534 in property tax, \$107,233 in local option sales and services tax, \$951,170 in state foundation aid and \$19,895 in interest income.

Business-Type Activities

Revenues of the District’s business-type activities were \$86,141 and expenses were \$90,636. The District’s business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$858,940, below last year’s ending fund balances of \$1,019,383. However, the primary reason for the decrease in combined fund balances in fiscal 2005 is due to the decrease in the General Fund balance.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the product of many factors:
 - The decrease in revenues along with the increase in expenditures over the prior fiscal year cause the General Fund balance to decrease.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$114,024 in fiscal 2004 to \$114,999 in fiscal 2005. This increase was partially due to the decrease in expenditures.

Proprietary Fund Highlights

The Proprietary Funds net assets increased from \$13,692 at June 30, 2004 to \$21,897 at June 30, 2005, representing an increase of 60%. The reason for the increase in net assets was due to the School Nutrition Fund receiving \$12,700 in contributed capital from the Physical Plant and Equipment Levy Fund(PPEL).

BUDGETARY HIGHLIGHTS

The District's revenues were \$87,631 less than budgeted revenues, a variance of 3.42%. The most significant variance resulted from the District receiving less in local sources than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional functional area.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$435,688, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 19% from last year. More detailed information about capital assets is available in Note 3 to the financial statements. Depreciation expense for the year was \$61,380.

The original cost of the District's capital assets was \$1,392,449. Governmental funds account for \$1,349,494 with the remainder of \$42,955 in the Proprietary funds.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$135,646 at June 30, 2005, compared to \$99,648 reported at June 30, 2004. This increase resulted from the addition of new vehicles during fiscal year 2005.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2005	2004	2005	2004	2005	2004	2004-05
Land	\$ 117,443	117,443	0	0	117,443	117,443	0.00%
Buildings	164,401	144,814	0	0	164,401	144,814	11.91%
Machinery and equipment	135,646	99,648	18,198	4,027	153,844	103,675	32.61%
Total	\$ 417,490	361,905	18,198	4,027	435,688	365,932	16.01%

Long-Term Debt

At June 30, 2005, the District did not have any long-term debt.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Continued budget concerns at the state level will affect future projections. Due to declining enrollment, the District has received very little new money for the past several years.
- Potential substantial increases in gasoline/diesel fuel would also impact the District's efforts to control expenditures.
- The Denison Community School District and the Schleswig Community School District (9-12 high school students agreement) have a 3-year agreement which will expire in 2006. We currently pay 80% of the regular program district cost. The District's have a new agreement that will expire June 30, 2011, in which Schleswig Community School District will pay 81% of the regular program district cost, plus 100% of the SILO dollars for the students that will be attending Denison under the sharing agreement.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sherri Jones, Business Manager, Schleswig Community School District, 714 Date Street, Schleswig, Iowa, 51461.

BASIC FINANCIAL STATEMENTS

SCHLESWIG COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
Other	866,834	39	866,873
Receivables:			
Property tax:			
Delinquent	11,952	0	11,952
Succeeding year	746,581	0	746,581
Income surtax	88,677	0	88,677
Due from other governments	141,332	0	141,332
Inventories	0	4,118	4,118
Capital assets, net of accumulated depreciation (Note 3)	417,490	18,198	435,688
TOTAL ASSETS	2,272,866	22,355	2,295,221
LIABILITIES			
Accounts payable	17,398	0	17,398
Salaries and benefits payable	143,780	0	143,780
Deferred revenue:			
Succeeding year property tax	746,581	0	746,581
Other	0	458	458
TOTAL LIABILITIES	907,759	458	908,217
NET ASSETS			
Investment in capital assets, net of related debt	417,490	18,198	435,688
Restricted for:			
Talented and gifted	25,285	0	25,285
Salary improvement program	1,174	0	1,174
Capital projects	91,571	0	91,571
Management levy	74,829	0	74,829
Physical plant and equipment levy	114,999	0	114,999
Other special revenue purposes	23,383	0	23,383
Unrestricted	616,376	3,699	620,075
TOTAL NET ASSETS	\$ 1,365,107	21,897	1,387,004

SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 1,277,391	161,287	174,163
Special instruction	341,871	90,373	14,692
Other instruction	119,888	0	0
	<u>1,739,150</u>	<u>251,660</u>	<u>188,855</u>
Support services:			
Student services	55,241	0	0
Instructional staff services	60,903	0	0
Administration services	295,838	0	0
Operation and maintenance of plant services	165,110	0	0
Transportation services	67,644	0	5,973
	<u>644,736</u>	<u>0</u>	<u>5,973</u>
Other expenditures:			
Facilities and acquisitions	53,269	0	0
AEA flowthrough	84,987	0	84,987
Depreciation(unallocated) *	14,900	0	0
	<u>153,156</u>	<u>0</u>	<u>84,987</u>
Total governmental activities	2,537,042	251,660	279,815
Business-Type activities:			
Non-instructional programs:			
Nutrition services	90,636	43,140	42,226
Total business-type activities	<u>90,636</u>	<u>43,140</u>	<u>42,226</u>
Total	<u>\$ 2,627,678</u>	<u>294,800</u>	<u>322,041</u>

General Revenues:

Local tax for:
 General purposes
 Capital outlay
 Local option sales and services tax
Unrestricted state grants
Unrestricted investment earnings

Total general revenues

Changes in net assets before capital contributions

Capital contributions

Changes in net assets

Net assets beginning of year

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(941,941)	0	(941,941)
(236,806)	0	(236,806)
(119,888)	0	(119,888)
<u>(1,298,635)</u>	<u>0</u>	<u>(1,298,635)</u>
(55,241)	0	(55,241)
(60,903)	0	(60,903)
(295,838)	0	(295,838)
(165,110)	0	(165,110)
(61,671)	0	(61,671)
<u>(638,763)</u>	<u>0</u>	<u>(638,763)</u>
(53,269)	0	(53,269)
0	0	0
(14,900)	0	(14,900)
<u>(68,169)</u>	<u>0</u>	<u>(68,169)</u>
(2,005,567)	0	(2,005,567)
0	(5,270)	(5,270)
0	(5,270)	(5,270)
<u>(2,005,567)</u>	<u>(5,270)</u>	<u>(2,010,837)</u>
\$ 786,728	0	786,728
68,806	0	68,806
107,233	0	107,233
951,170	0	951,170
19,895	775	20,670
<u>1,933,832</u>	<u>775</u>	<u>1,934,607</u>
(71,735)	(4,495)	(76,230)
0	12,700	12,700
(71,735)	8,205	(63,530)
<u>1,436,842</u>	<u>13,692</u>	<u>1,450,534</u>
<u>\$ 1,365,107</u>	<u>21,897</u>	<u>1,387,004</u>

SCHLESWIG COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	Physical Plant and Equipment Levy	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments				
Other	\$ 574,281	113,937	178,616	866,834
Receivables:				
Property tax:				
Delinquent	10,262	1,062	628	11,952
Succeeding year	683,679	22,902	40,000	746,581
Income surtax	88,677	0	0	88,677
Due from other governments	130,793	0	10,539	141,332
TOTAL ASSETS	\$ 1,487,692	137,901	229,783	1,855,376
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 17,398	0	0	17,398
Salaries and benefits payable	143,780	0	0	143,780
Deferred revenue:				
Succeeding year property tax	683,679	22,902	40,000	746,581
Income surtax	88,677	0	0	88,677
Total liabilities	933,534	22,902	40,000	996,436
Fund balances:				
Reserved for:				
Talented and gifted	25,285	0	0	25,285
Salary improvement program	1,174	0	0	1,174
Unreserved:				
General	527,699	0	0	527,699
Management	0	0	74,829	74,829
Capital Projects	0	0	91,571	91,571
Physical plant and equipment levy	0	114,999	0	114,999
Other special revenue purposes	0	0	23,383	23,383
Total fund balances	554,158	114,999	189,783	858,940
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,487,692	137,901	229,783	1,855,376

SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005

Total fund balances of governmental funds (page 17)	\$ 858,940
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	417,490
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	<u>88,677</u>
Net assets of governmental activites (page 14)	<u><u>\$ 1,365,107</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	General	Physical Plant and Equipment Levy	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 713,631	68,806	147,207	929,644
Tuition	198,439	0	0	198,439
Other	40,340	2,362	30,414	73,116
State sources	1,131,112	0	0	1,131,112
Federal sources	99,873	0	0	99,873
Total revenues	<u>2,183,395</u>	<u>71,168</u>	<u>177,621</u>	<u>2,432,184</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	1,245,248	0	29,292	1,274,540
Special instruction	347,318	0	0	347,318
Other instruction	84,668	0	35,220	119,888
	<u>1,677,234</u>	<u>0</u>	<u>64,512</u>	<u>1,741,746</u>
Support services:				
Student services	55,241	0	0	55,241
Instructional staff services	52,206	8,697	0	60,903
Administration services	300,450	0	0	300,450
Operation and maintenance of plant services	122,952	27,009	16,393	166,354
Transportation services	88,360	0	6,830	95,190
	<u>619,209</u>	<u>35,706</u>	<u>23,223</u>	<u>678,138</u>
Other expenditures:				
Facilities acquisitions	0	34,487	53,269	87,756
AEA flowthrough	84,987	0	0	84,987
	<u>84,987</u>	<u>34,487</u>	<u>53,269</u>	<u>172,743</u>
Total expenditures	<u>2,381,430</u>	<u>70,193</u>	<u>141,004</u>	<u>2,592,627</u>
Net change in fund balances	(198,035)	975	36,617	(160,443)
Fund balance beginning of year	752,193	114,024	153,166	1,019,383
Fund balance end of year	<u>\$ 554,158</u>	<u>114,999</u>	<u>189,783</u>	<u>858,940</u>

SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2005

Net change in fund balances - total governmental funds (page 19) \$ (160,443)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 115,074	
Depreciation expense	<u>(59,489)</u>	55,585

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 33,123

Changes in net assets of governmental activities (page 16) \$ (71,735)

SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 JUNE 30, 2005

	School Nutrition
ASSETS	
Cash and pooled investments	\$ 39
Inventories	4,118
Capital assets, net of accumulated depreciation (Note 3)	18,198
TOTAL ASSETS	22,355
 LIABILITIES	
Deferred revenue:	
Other	458
TOTAL LIABILITIES	458
 NET ASSETS	
Investment in capital assets, net of related debt	18,198
Unrestricted	3,699
TOTAL NET ASSETS	\$ 21,897

SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2005

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 43,140
TOTAL OPERATING REVENUES	43,140
OPERATING EXPENSES:	
Non-instructional programs:	
Salaries	37,653
Benefits	1,933
Services	325
Supplies	48,834
Depreciation	1,891
TOTAL OPERATING EXPENSES	90,636
OPERATING LOSS	(47,496)
NON-OPERATING REVENUES:	
State sources	1,297
Federal sources	40,929
Interest on investments	775
TOTAL NON-OPERATING REVENUES	43,001
Net loss before capital contributions	(4,495)
Capital Contributions	12,700
Change in net assets	8,205
Net assets beginning of year	13,692
Net assets end of year	\$ 21,897

SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2005

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 32,915
Cash received from miscellaneous	10,424
Cash payments to employees for services	(39,586)
Cash payments to suppliers for goods or services	(44,531)
Net cash used in operating activities	(40,778)
Cash flows from non-capital financing activities:	
State grants received	1,297
Federal grants received	36,151
Net cash provided by non-capital financing activities	37,448
Cash flows from capital and related financing activities:	
Payment of interfund loans	(37,689)
Purchase of capital assets	(3,362)
Net cash used in capital and related financing activities	(41,051)
Cash flows from investing activities:	
Interest on investments	775
Net cash provided by investing activities	775
Net decrease in cash and cash equivalents	(43,606)
Cash and cash equivalents at beginning of year	43,645
Cash and cash equivalents at end of year	\$ 39
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (47,496)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	4,778
Depreciation	1,891
Increase in inventories	(150)
Increase in deferred revenue	199
Net cash provided by (used in) operating activities	\$ (40,778)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 39

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2005, the District received Federal commodities valued at \$4,778.

During the year ended June 30, 2005, the District received Capital Contributions from the Physical Plant and Equipment Levy (PPEL) of \$12,700.

SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 FIDUCIARY FUND
 JUNE 30, 2005

	<u>Agency</u>
Assets	
Cash and pooled investments	\$ 2,770
Total assets	<u>\$ 2,770</u>
Liabilities	
Due to other funds	\$ 2,770
Total liabilities	<u>\$ 2,770</u>

SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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

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

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

A. Reporting Entity

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

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Crawford and Ida Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues,

are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The Physical Plant & Equipment Levy(PPEL) Fund is used to account for machinery and equipment expenditures as well as the improvements to capital facilities.

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

The District also reports a fiduciary fund which focus on net assets and changes in net assets. The District's fiduciary fund includes the following:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

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

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

Asset Class	Amount
Land	\$ 1,400
Buildings	1,400
Land improvements	1,400
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,400

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

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

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

days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements in the non-instructional programs functional area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

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

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

At June 30, 2005, the District had investments in certificates of deposit as follows:

	<u>Amortized Cost</u>
Certificates of deposit	<u>\$ 363,566</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

(3) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 117,443	0	0	117,443
Total capital assets not being depreciated	<u>117,443</u>	<u>0</u>	<u>0</u>	<u>117,443</u>
Capital assets being depreciated:				
Buildings	658,785	34,487	0	693,272
Machinery and equipment	458,192	80,587	0	538,779
Total capital assets being depreciated	<u>1,116,977</u>	<u>115,074</u>	<u>0</u>	<u>1,232,051</u>
Less accumulated depreciation for:				
Buildings	513,971	14,900	0	528,871
Machinery and equipment	358,544	44,589	0	403,133
Total accumulated depreciation	<u>872,515</u>	<u>59,489</u>	<u>0</u>	<u>932,004</u>
Total capital assets being depreciated, net	<u>244,462</u>	<u>55,585</u>	<u>0</u>	<u>300,047</u>
Governmental activities capital assets, net	<u>\$ 361,905</u>	<u>55,585</u>	<u>0</u>	<u>417,490</u>
Business-type activities:				
Machinery and equipment	\$ 26,893	16,062	0	42,955
Less accumulated depreciation	22,866	1,891	0	24,757
Business-type activities capital assets, net	<u>\$ 4,027</u>	<u>1,116</u>	<u>0</u>	<u>18,198</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 2,851
Special		14,551
Support services:		
Administration		1,153
Operation and maintenance of plant		311
Transportation		25,723
		<u>44,589</u>
Unallocated depreciation		<u>14,900</u>
Total governmental activities depreciation expense		<u>\$ 59,489</u>
Business-type activities:		
Food service operations		\$ 1,891
Total business-type activities depreciation expense		<u>\$ 1,891</u>

(4) Early Retirement

The District offers a voluntary early retirement plan to its full-time teaching staff. To be eligible for the plan, an employee must have completed ten years of continuous service to the District, and must be between the ages of fifty-five and sixty-two. The employee must complete an application that is submitted to the Board of Education for consideration. The maximum early retirement benefit per employee is \$10,000. The early retiree

can also receive benefits based upon their unused sick leave. The maximum number of sick days allowable is 120 days with a payment of \$50 per unused sick day. The early retirement benefit paid during the year ended June 30, 2005 was \$16,740.

Details of the District's early retirement benefits for the year ended June 30, 2005 are as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Early Retirement	\$ 0	16,740	16,740	0

(5) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$69,029, \$58,056, and \$52,422 respectively, equal to the required contributions for each year.

(6) Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-funded to fully-insured coverage. ISEBA is recovering shortfall through a combination of assessments, deficit recovery charges and administration cost reduction measures. Members continuing membership in the Association had their deficit recovery assessment included in their annual premium for the 2004-2005 and 2005-2006 plan years. The deficit recovery is equal to 2% of the annual premium. The total amount of the deficit recoveries of current members is estimated to be \$2.2 million. The District's share of this assessment was \$2,278 paid with the 2004-2005 premiums and 2% of the 2005-2006 premium, an

amount that is unknown at this time. Since the program is now fully insured, there will be no additional assessments due to claims exceeding premiums charged to members.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2005 were \$113,876.

Members agree to continue membership in the pool for a period of not less than one full year. After such a period, a member who has given 30 days prior written notice may withdraw.

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

(7) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$84,987 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(8) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2005, disbursements in the non-instructional functional program area exceeded the amount budgeted.

REQUIRED SUPPLEMENTAL INFORMATION

SCHLESWIG COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF RECEIPTS, DISBURSEMENTS AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 1,156,329	44,114
State sources	1,131,242	1,297
Federal sources	99,510	40,929
Total revenues	<u>2,387,081</u>	<u>86,340</u>
Disbursements:		
Instruction	1,736,228	0
Support services	729,787	0
Non-instructional programs	0	129,946
Other expenditures	119,474	0
Total expenditures	<u>2,585,489</u>	<u>129,946</u>
Deficiency of receipts under disbursements	(198,408)	(43,606)
Other financing sources, net	<u>0</u>	<u>0</u>
Deficiency of receipts under disbursements	(198,408)	(43,606)
Balance beginning of year	<u>1,065,242</u>	<u>43,645</u>
Balance end of year	<u>\$ 866,834</u>	<u>39</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
1,200,443	1,264,837	1,264,837	(64,394)
1,132,539	1,141,215	1,141,215	(8,676)
140,439	155,000	155,000	(14,561)
<u>2,473,421</u>	<u>2,561,052</u>	<u>2,561,052</u>	<u>(87,631)</u>
1,736,228	2,482,000	2,482,000	745,772
729,787	880,176	880,176	150,389
129,946	80,000	80,000	(49,946)
119,474	209,143	209,143	89,669
<u>2,715,435</u>	<u>3,651,319</u>	<u>3,651,319</u>	<u>935,884</u>
(242,014)	(1,090,267)	(1,090,267)	(848,253)
0	0	0	0
(242,014)	(1,090,267)	(1,090,267)	(848,253)
1,108,887	1,062,955	1,062,955	45,932
<u>866,873</u>	<u>(27,312)</u>	<u>(27,312)</u>	<u>894,185</u>

SCHLESWIG COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2005

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 2,387,081	45,103	2,432,184
Expenditures	2,585,489	7,138	2,592,627
Net	(198,408)	37,965	(160,443)
Other financing sources, net	0	0	0
Beginning fund balances	1,065,242	(45,859)	1,019,383
Ending fund balances	\$ 866,834	(7,894)	858,940

	Proprietary Fund Enterprise		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 86,340	(199)	86,141
Expenses	129,946	(39,310)	90,636
Net	(43,606)	39,111	(4,495)
Capital contributions	0	12,700	12,700
Beginning fund balances	43,645	(29,953)	13,692
Ending fund balances	\$ 39	21,858	21,897

SCHLESWIG COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2005

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

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

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

During the year ended June 30, 2005, disbursements in the non-instructional programs functional area exceeded the amount budgeted.

OTHER SUPPLEMENTAL INFORMATION

SCHLESWIG COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2005

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Total Special Revenue	Capital Projects	
ASSETS					
Cash and pooled investments	\$ 74,201	23,383	97,584	81,032	178,616
Receivables:					
Property tax:					
Current year delinquent	628	0	628	0	628
Succeeding year	40,000	0	40,000	0	40,000
Due from other governments	0	0	0	10,539	10,539
TOTAL ASSETS	\$ 114,829	23,383	138,212	91,571	229,783
LIABILITIES AND FUND EQUITY					
Liabilities:					
Deferred revenue:					
Succeeding year property tax	\$ 40,000	0	40,000	0	40,000
	40,000	0	40,000	0	40,000
Fund equity:					
Fund balances:					
Unreserved:					
Undesignated	74,829	23,383	98,212	91,571	189,783
Total fund balances	74,829	23,383	98,212	91,571	189,783
TOTAL LIABILITIES AND FUND EQUITY	\$ 114,829	23,383	138,212	91,571	229,783

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2005

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Total Special Revenue	Capital Projects	
REVENUES:					
Local sources:					
Local tax	\$ 39,974	0	39,974	107,233	147,207
Other	0	30,414	30,414	0	30,414
TOTAL REVENUES	<u>39,974</u>	<u>30,414</u>	<u>70,388</u>	<u>107,233</u>	<u>177,621</u>
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	29,292	0	29,292	0	29,292
Other instruction	0	35,220	35,220	0	35,220
Support services:					
Operation and maintenance of plant services	16,393	0	16,393	0	16,393
Student transportation	5,548	1,282	6,830	0	6,830
Other expenditures:					
Facilities and acquisitions	0	0	0	53,269	53,269
TOTAL EXPENDITURES	<u>51,233</u>	<u>36,502</u>	<u>87,735</u>	<u>53,269</u>	<u>141,004</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(11,259)	(6,088)	(17,347)	53,964	36,617
FUND BALANCE BEGINNING OF YEAR	86,088	29,471	115,559	37,607	153,166
FUND BALANCE END OF YEAR	<u>\$ 74,829</u>	<u>23,383</u>	<u>98,212</u>	<u>91,571</u>	<u>189,783</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2005

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Vocal Music	\$ (4,101)	2,600	5,582	(7,083)
Instrumental Music	(1,123)	1,910	147	640
Golf	430	0	0	430
Boys Basketball	(2,242)	0	1,205	(3,447)
Football	(5,396)	0	600	(5,996)
Boys Track	0	0	463	(463)
Girls Basketball	(1,958)	0	684	(2,642)
Girls Volleyball	(232)	0	21	(253)
Girls Track	0	0	463	(463)
Middle School Student Council	767	338	504	601
School Annual	1,902	430	179	2,153
Music Boosters	2,513	0	0	2,513
Athletic Boosters	17,992	3,055	1,245	19,802
Special Student Projects	14,639	20,401	23,202	11,838
Activity Fund	0	948	2,207	(1,259)
Art Class Project	362	0	0	362
Environmental Club	73	0	0	73
School Carnival	1,695	0	0	1,695
Band Trip Fund	2,032	0	0	2,032
Wrestling	296	0	0	296
Pep Bus	588	0	0	588
Activity Fund Savings	1,234	732	0	1,966
Total	\$ 29,471	30,414	36,502	23,383

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 929,644	1,055,373	970,659	963,431
Tuition	198,439	139,342	117,645	166,588
Other	73,116	73,970	66,762	66,420
State sources	1,131,112	1,014,565	1,069,787	992,729
Federal sources	99,873	97,528	97,119	81,479
Total	\$ 2,432,184	2,380,778	2,321,972	2,270,647
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 1,274,540	1,178,714	1,085,534	1,117,894
Special instruction	347,318	280,686	337,815	312,381
Other instruction	119,888	52,749	52,620	56,344
Support services:				
Student services	55,241	48,217	43,271	43,858
Instructional staff services	60,903	52,280	61,187	50,525
Administration services	300,450	322,592	221,308	215,814
Operation and maintenance of plant services	166,354	171,970	176,467	151,387
Transportation services	95,190	92,954	142,527	75,181
Central services	0	20,757	20,507	52,835
Other expenditures:				
Facilities acquisitions	87,756	88,997	0	67,713
AEA flow-through	84,987	85,214	91,422	91,497
Total	\$ 2,592,627	2,395,130	2,232,658	2,235,429

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

To the Board of Education of the
Schleswig Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Schleswig Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 8, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-05 is a material weakness.

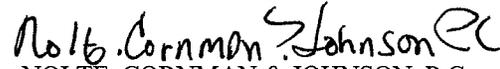
Compliance and Other Matters

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

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

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Schleswig Community School District and other parties to whom Schleswig Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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


NOLTE, CORNMAN & JOHNSON, P.C.

August 8, 2005

SCHLESWIG COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part I: Findings Related to the Basic Financial Statements:

REPORTABLE CONDITIONS:

I-A-05 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

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

Conclusion - Response accepted.

I-B-05 Student Activity Fund - We noted during our audit that the Student Activity fund included an account titled savings and an account titled Activity Fund balance.

Recommendation - Interest in the savings account should be allocated out to various accounts. The Activity Fund account should be closed out to another student activity account.

Response - We will continue to review our procedures and implement additional controls where deemed possible.

Conclusion - Response accepted.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part II: Other Findings Related to Statutory Reporting

II-A-05 Official Depositories - A resolution naming official depositories has been approved by the Board. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2005.

Recommendation - The district should increase their depository limits.

Response - We will increase our depository limits before June 30, 2006 to comply with these rules.

Conclusion - Response accepted.

II-B-05 Certified Budget - District disbursements for the year ended June 30, 2005, exceeded the amended certified budget amounts in the non-instructional programs functional area.

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

Response - We will continue to review our budget and amend the budget if necessary in the future.

Conclusion - Response accepted.

II-C-05 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979. However, we did note that the District appeared to have overpaid for its open enrolled out students to Charter Oak.

Recommendation - The District should review its policies in place for payment of bills to ensure that all bills are correctly calculated before payment is made.

Response - We will review each quarter billing for open enrollment to eliminate errors in the future.

Conclusion - Response accepted.

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

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

Name, Title and Business Connection	Transaction Description	Amount
Todd Schultz, Board Member Vice President of United Bank of Iowa	Bank Officer	-

Recommendation - The District should consult legal counsel to determine the disposition of these matters.

Response - We will continue to monitor business transactions and consult with the school attorney if issues arise in the future.

Conclusion - Response accepted.

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

II-G-05 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - We will provide the minutes within the time period required, however, we are unable to control the publishing dates.

Conclusion - Response accepted.

II-H-05 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-I-05 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-J-05 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.