

**SIOUX CENTRAL COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDIORS' REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2005**

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SIOUX CENTRAL COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2004 Election)

William Johnson	President	2005
Carol Hermstad	Vice President	2004
Kevin Ehlers	Board Member	2006
Lisa Frye	Board Member	2006
Todd Herrig	Board Member	2004

(After September, 2004 Election)

Kevin Ehlers	President	2006
Todd Herrig	Vice President	2007
William Johnson	Board Member	2005
Kevin Lindquist	Board Member	2007
Lisa Frye	Board Member	2006

SCHOOL OFFICIALS

Dr. Bonnie Meier	Superintendent
Lory Krummen	District Secretary/Treasurer



Certified Public Accountants

Independent Auditors' Report

To the Board of Education of the
Sioux Central Community School District

We have audited the accompanying financial statements of the governmental activities, business-type activity, each major fund and the aggregate remaining fund information of Sioux Central Community School District, Sioux Rapids, 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 and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activity, each major fund, and the aggregate remaining fund information of Sioux Central Community School District as of 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 November 1, 2005, on our consideration of Sioux Central 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 12 and pages 37 through 39 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 Sioux Central Community School District's basic financial statements. We did not previously audit, 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. Other supplementary information included in Schedules 1 through 5, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, 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.

Spencer, Iowa
November 1, 2005

Williams + Company PC.
Certified Public Accountants

SIOUX CENTRAL COMMUNITY SCHOOL DISTRICT MANAGEMENT DISCUSSION AND ANALYSIS

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

2005 FINANCIAL HIGHLIGHTS

General fund revenues increased from \$4,235,499 in fiscal 2004 to \$5,055,499 in fiscal 2005, while General fund expenditures increased from \$4,304,343 in fiscal 2004 to \$5,089,696 in fiscal 2005.

The increase in General fund revenues was attributable mainly to a sizeable increase in tuition due to the whole grade sharing agreement with Albert City-Truesdale and also to small increases in other areas. The increase in expenditures was due primarily to an increase in the cost of instruction for additional students, including salaries and benefits, textbooks, and transportation. The General fund balance decrease is due primarily to the lack of sufficient funding increases to cover usual increases in payroll.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
- The statements for governmental funds explain how basic services, such as regular and special education, were financed in the short term, as well as what remains for future spending.
- The statement for proprietary funds offer short-term and long-term financial information about the activities the District operates like businesses, such as food services

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that 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 non-major Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

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

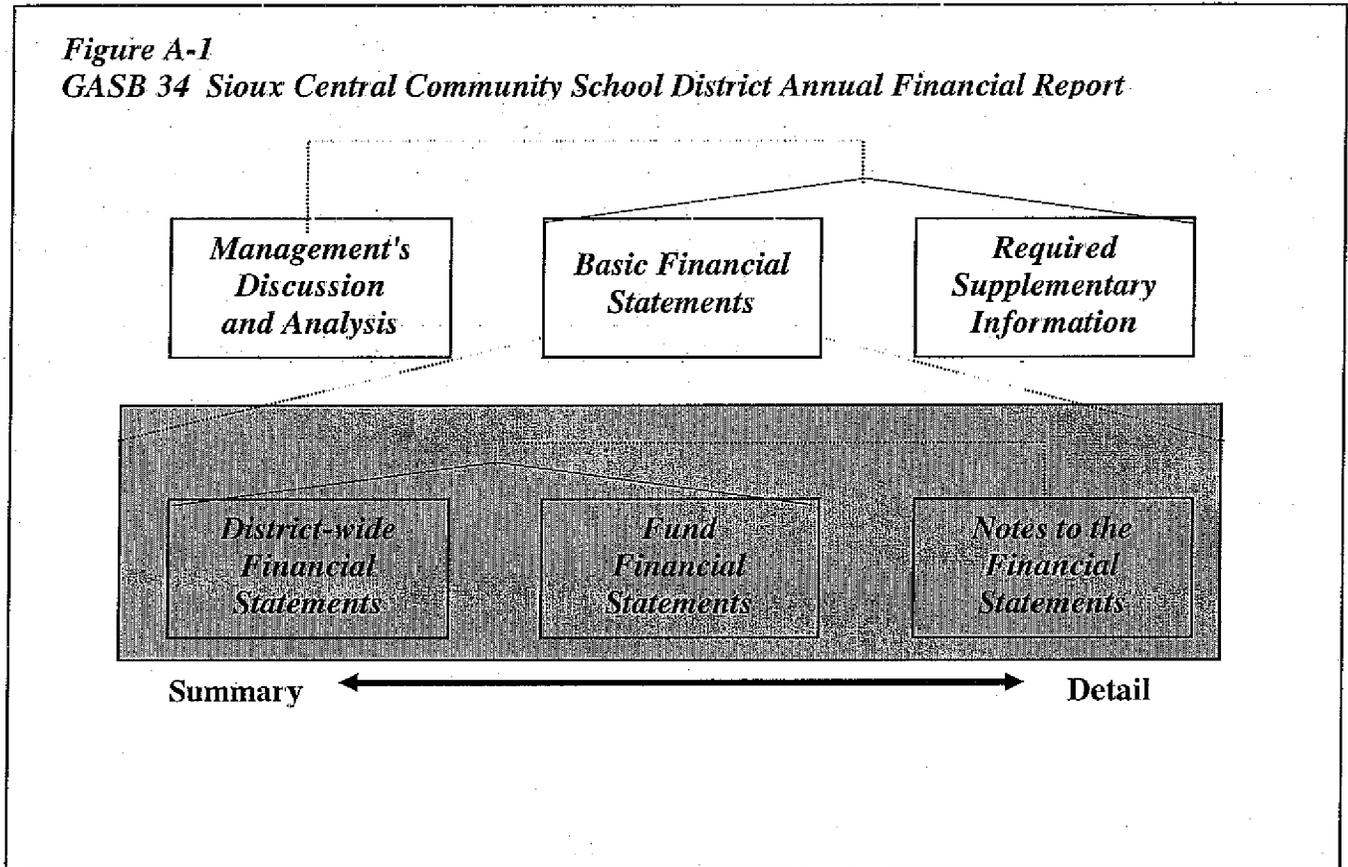


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<i>Figure A-2 Major Features of the Government-wide and Fund Financial Statements</i>			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education
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 net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows
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
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term
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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

Fund Financial Statement

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 two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them. The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Project Fund.
- 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.

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.

Figure A-3 - Condensed Statement of Net Assets

	Governmental		Business-Type		Total District	
	Activities		Activity			
	2004	2005	2004	2005	2004	2005
Current and Other Assets	\$ 3,343,691	\$ 3,334,424	\$ 51,126	\$ 58,509	\$ 3,394,817	\$ 3,392,933
Capital Assets	5,866,553	5,683,705	24,116	28,049	5,890,669	5,711,754
Total Assets	9,210,244	9,018,129	75,242	86,558	9,285,486	9,104,687
Current Liabilities	2,907,054	2,843,518	-	-	2,907,054	2,843,518
Non-Current Liabilities	3,690,693	3,244,239	-	-	3,690,693	3,244,239
Total Liabilities	6,597,747	6,087,757	-	-	6,597,747	6,087,757
Net Assets Invested in Capital Assets, Net of Related Debt	1,970,266	1,993,012	24,116	28,049	1,994,382	2,021,061
Restricted	73,332	253,637	-	-	73,332	253,637
Unrestricted	568,899	683,723	51,126	58,509	620,025	742,232
Total Net Assets	\$ 2,612,497	\$ 2,930,372	\$ 75,242	\$ 86,558	\$ 2,687,739	\$ 3,016,930

The District's combined net assets were larger at June 30, 2005 than June 30, 2004. The increase occurred as a result of using current revenues to purchase fixed assets and reduce long-term debt.

Figure A-4 shows the changes in net assets.

Figure A-4 - Changes in Net Assets from Operations

	Governmental		Business-Type		Total District		Total % Change
	Activities		Activity				
	2004	2005	2004	2005	2004	2005	
Revenue:							
Program Revenue:							
Charges for Services	\$ 476,810	\$ 1,182,234	\$ 113,544	\$ 132,862	\$ 590,354	\$ 1,315,096	122.76%
Operating Grants and Contributions	955,764	1,034,280	83,088	104,280	1,038,852	1,138,560	9.60%
General Revenues:							
Property Tax	2,254,454	2,212,481	-	-	2,254,454	2,212,481	-1.86%
LOSSI Tax	44,115	243,810	-	-	44,115	243,810	452.67%
State Grants	1,315,967	1,330,894	-	-	1,315,967	1,330,894	1.13%
Interest Income	20,223	15,261	-	268	20,223	15,529	-23.21%
Contributions	-	35	-	-	-	35	-
Miscellaneous	5,696	6,553	-	-	5,696	6,553	15.05%
Total Revenues	5,073,029	6,025,548	196,632	237,410	5,269,661	6,262,958	18.85%
Expenses:							
Instruction	2,955,874	3,469,922	-	-	2,955,874	3,469,922	17.39%
Support Services	1,194,690	1,620,903	-	-	1,194,690	1,620,903	35.68%
Non-Instructional	1,479	473	182,569	226,094	184,048	226,567	23.10%
Other Expenses	766,264	670,978	-	-	766,264	670,978	-12.44%
Total Expenses	4,918,307	5,762,276	182,569	226,094	5,100,876	5,988,370	17.40%
Change in Net Assets	\$ 154,722	\$ 263,272	\$ 14,063	\$ 11,316	\$ 168,785	\$ 274,588	62.69%

Property tax and unrestricted state grants account for 57% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 85% of the total expenses.

Governmental Activities

Revenues for governmental activities for the year ended June 30, 2005 were \$6,025,548 and expenses were \$5,762,276.

Figure A-5 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 - Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2004	2005	% Change	2004	2005	% Change
Instruction	\$ 2,955,874	\$ 3,469,922	17.39%	\$ 1,684,337	\$ 1,411,916	-16.17%
Support Services	1,194,690	1,620,903	35.68%	1,185,472	1,609,209	35.74%
Non-Instructional	1,479	473	-68.02%	1,479	473	-68.02%
Other Expenses	766,264	670,978	-12.44%	614,445	524,164	-14.69%
Total	\$ 4,918,307	\$ 5,762,276	17.16%	\$ 3,485,733	\$ 3,545,762	1.72%

- The cost financed by users of the District's programs was \$476,810 in 2004 and \$1,182,234 in 2005.
- Federal and state governments subsidized certain programs and grants and contributions totaling \$955,764 in 2004 and \$1,034,280 in 2005.
- The net cost of governmental activities was financed with \$2,254,454 and \$2,212,481 in property tax, \$1,315,967 and \$1,330,894 in state foundation aid, \$44,115 and \$243,810 in local option sales and services tax, and \$20,223 and \$15,261 in interest income, for 2004 and 2005 respectively.

Business-Type Activities

Revenues of the District's business-type activities (school food and nutrition services) totaled \$237,410 and expenses totaled \$226,094. (Refer to Figure A-4.) Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$962,996, a nine percent increase over last year's ending fund balances of \$887,496.

Governmental Fund Highlights

The District attempted to maintain its General Fund balance by cutting expenses from portions of the budget that were not already obligated, such as supplies and maintenance items.

Proprietary Fund Highlights

The School Nutrition Fund balance increase due primarily to cost savings measures.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following a required public notice and hearing for all funds. 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 budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of the is report.

The District's General fund receipts were \$141,611 less than budgeted receipts. The most significant variance resulted from the Districts receiving less in Federal and State grants than originally anticipated.

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

CAPITAL AND DEBT ADMINISTRATION

At June 30, 2005, the District had invested \$5.7 million, net of accumulated depreciation, in a broad range of assets, including land, buildings, athletic facilities, computers, audio-visual equipment, and transportation equipment. This represents a net decrease of 3% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Total depreciation expense for the year was \$287,573.

The original cost of the District's capital assets was \$10,407,455. Governmental funds account for \$10,332,436, with the remainder of \$75,019 accounted for in the Proprietary, School Nutrition Fund.

Figure A-6 - Capital Assets

	Governmental		Business-Type		Total District		Total % Change
	Activities		Activity				
	2004	2005	2004	2005	2004	2005	
Land	\$ 125,495	\$ 125,495	\$ -	\$ -	\$ 125,495	\$ 125,495	0.00%
Buildings	6,377,059	6,377,059	-	-	6,377,059	6,377,059	0.00%
Improvements Equipment, Furniture & Vehicles	-	58,025	-	-	-	58,025	-
	3,725,157	3,771,857	65,024	75,019	3,790,181	3,846,876	1.50%
Total	\$ 10,227,711	\$ 10,332,436	\$ 65,024	\$ 75,019	\$ 10,292,735	\$ 10,407,455	1.11%

Long-Term Debt

At year-end, the District had \$3,690,693 of general obligation bonds and other long-term debt outstanding. This represents a decrease of approximately 9% from last year. See Figure A-7 below. Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

Figure A-6 - Capital Assets

	Total District		Total % Change
	2004	2005	
	General Obligation Bonds	\$ 3,855,000	
Sewer Assessment	41,287	25,459	-38.34%
Capital Lease Payable	172,293	100,234	-41.82%
Total	\$ 4,068,580	\$ 3,690,693	-9.29%

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District has completed one year of a sharing agreement with Albert City – Truesdale Community School District for academics. Since June 30, a ten year sharing agreement has been signed.
- The District has experienced declining enrollment the past several years.
- Iowa law requires that unsettled salary negotiations for teachers go to mandatory arbitration. Invariably arbitrated settlements are higher than current levels of allowable growth in funding (not including the budget cuts after the contracts have been settled and people have been hired). A solution needs to be found.
- The District has begun a charter school program at the elementary level. This is being funded by a \$400,000 Federal grant.
- Health insurance continues to be a very costly item to the District. Even though concessions have been made by employees in regard to deductibles, and coinsurance, other solutions need to be found. The skyrocketing cost of health care and the insurance to cover the cost will soon be unattainable by many.
- Unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", and "GASB 34", to name a few.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability of the money it receives. If you have questions about this report or need additional information, contact Angie Smith, Business Manager, Sioux Central Community School District, 4440 US Hwy 71, Sioux Rapids, IA 50585.

SIOUX CENTRAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Primary Government Governmental Activities	Business Type Activities	Total
Assets			
Cash and Pooled Investments	\$ 867,343	\$ 52,548	\$ 919,891
Receivables:			
Property Tax	34,135	-	34,135
Property Tax - Succeeding Year	2,239,353	-	2,239,353
Due from Other Governmental Agencies	193,593	-	193,593
Inventories	-	5,961	5,961
Land	125,495	-	125,495
Infrastructure, Property and Equipment, Net of Accumulated Depreciation	5,558,210	28,049	5,586,259
Total Assets	<u>9,018,129</u>	<u>86,558</u>	<u>9,104,687</u>
Liabilities			
Accounts Payable	63,679	-	63,679
Accrued Wages and Payroll Liabilities	16,273	-	16,273
Accrued Interest Payable	25,636	-	25,636
Deferred Revenue - Federal Grants	52,123	-	52,123
Deferred Revenue - Succeeding Year Taxes	2,239,353	-	2,239,353
Noncurrent Liabilities:			
Debt Due Within One Year:			
Bonds Payable	355,000	-	355,000
Lease Payable	74,719	-	74,719
Sewer Assessment Payable	16,735	-	16,735
Debt Due in More Than One Year:			
Bonds Payable	3,210,000	-	3,210,000
Lease Payable	25,515	-	25,515
Sewer Assessment Payable	8,724	-	8,724
Total Liabilities	<u>6,087,757</u>	<u>-</u>	<u>6,087,757</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	1,993,012	28,049	2,021,061
Restricted for:			
Management Levy	47,091	-	47,091
Physical Plant and Equipment Levy	12,351	-	12,351
Debt Service	39,749	-	39,749
Capital Projects	128,107	-	128,107
Other Special Revenue Purposes	26,339	-	26,339
Unrestricted	683,723	58,509	742,232
Total Net Assets	<u>\$ 2,930,372</u>	<u>\$ 86,558</u>	<u>\$ 3,016,930</u>

See Accompanying Notes to Financial Statements

**SIOUX CENTRAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Instruction:				
Regular Instruction	\$ 2,200,834	\$ 546,155	\$ 720,964	\$ -
Special Instruction	719,023	454,569	21,357	-
Other Instruction	550,065	181,510	133,451	-
Support Services:				
Student Services	96,495	-	984	-
Instructional Staff Services	99,138	-	10,710	-
Administration Services	396,521	-	-	-
Operations and Maintenance	495,449	-	-	-
Transportation Services	174,221	-	-	-
Central Support Services	93,214	-	-	-
Other Support Services	265,865	-	-	-
Non-instructional Programs	473	-	-	-
Other Expenditures:				
Facilities Construction and Acquisition	7,575	-	-	-
Long-term Debt Interest and Fiscal Charges	235,687	-	-	-
AEA Flow-Through	146,814	-	146,814	-
Unallocated Depreciation	280,902	-	-	-
Total Governmental Activities	5,762,276	1,182,234	1,034,280	-
Business-Type Activities:				
School Nutrition Fund	226,094	132,862	104,280	-
Total School District	\$ 5,988,370	\$ 1,315,096	\$ 1,138,560	\$ -

General Revenues:

Property Tax Levied For:
 General Purposes
 Debt Service
 Capital Outlay
 Management Levy
 Local Option Sales and Services Tax
 State Aid Not Restricted to Specific Programs
 Interest on Investments
 Contributions
 Miscellaneous
 Total General Revenues
Change in Net Assets
 Net Assets - Beginning
 Prior Period Adjustment
 Net Assets - Beginning, as Restated
 Net Assets - Ending

**Net (Expense) Revenue
and Changes in Net Assets**

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (933,715)		\$ (933,715)
(243,097)		(243,097)
(235,104)		(235,104)
(95,511)		(95,511)
(88,428)		(88,428)
(396,521)		(396,521)
(495,449)		(495,449)
(174,221)		(174,221)
(93,214)		(93,214)
(265,865)		(265,865)
(473)		(473)
(7,575)		(7,575)
(235,687)		(235,687)
-		-
(280,902)		(280,902)
<u>(3,545,762)</u>		<u>(3,545,762)</u>
-	11,048	11,048
<u>(3,545,762)</u>	<u>11,048</u>	<u>(3,534,714)</u>
1,644,468	-	1,644,468
449,414	-	449,414
43,517	-	43,517
75,082	-	75,082
243,810	-	243,810
1,330,894	-	1,330,894
15,261	268	15,529
35	-	35
6,553	-	6,553
<u>3,809,034</u>	<u>268</u>	<u>3,809,302</u>
<u>263,272</u>	<u>11,316</u>	<u>274,588</u>
<u>2,612,497</u>	<u>75,242</u>	<u>2,687,739</u>
<u>54,603</u>	<u>-</u>	<u>54,603</u>
<u>2,667,100</u>	<u>75,242</u>	<u>2,742,342</u>
<u>\$ 2,930,372</u>	<u>\$ 86,558</u>	<u>\$ 3,016,930</u>

See Accompanying Notes to Financial Statements

**SIOUX CENTRAL COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	General	Debt Service	Capital Projects
Assets			
Cash and Pooled Investments	\$ 671,282	\$ 32,807	\$ 77,019
Receivables:			
Property Taxes	25,363	6,942	-
Property Taxes - Succeeding Year	1,624,704	409,973	-
Due from Other Governmental Agencies	142,505	-	51,088
Total Assets	<u>2,463,854</u>	<u>449,722</u>	<u>128,107</u>
Liabilities and Equity			
Liabilities			
Accounts Payable	61,395	-	-
Accrued Wages and Payroll Liabilities	16,273	-	-
Deferred Revenue - Federal Grants	52,123	-	-
Deferred Revenue - Succeeding Year Taxes	1,624,704	409,973	-
Total Liabilities	<u>1,754,495</u>	<u>409,973</u>	<u>-</u>
Fund Balances			
Reserved for Debt Service	-	39,749	-
Unreserved for:			
General Fund	709,359	-	-
Special Revenue Fund	-	-	-
Capital Project Fund	-	-	128,107
Total Fund Balances	<u>709,359</u>	<u>39,749</u>	<u>128,107</u>
Total Liabilities and Equity	<u>\$ 2,463,854</u>	<u>\$ 449,722</u>	<u>\$ 128,107</u>

See Accompanying Notes to Financial Statements

Other Governmental Funds	Total Governmental Funds
\$ 86,235	\$ 867,343
1,830	34,135
204,676	2,239,353
-	193,593
<u>292,741</u>	<u>3,334,424</u>
2,284	63,679
-	16,273
-	52,123
204,676	2,239,353
<u>206,960</u>	<u>2,371,428</u>
-	39,749
-	709,359
85,781	85,781
-	128,107
<u>85,781</u>	<u>962,996</u>
<u>\$ 292,741</u>	<u>\$ 3,334,424</u>

See Accompanying Notes to Financial Statements

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**SIOUX CENTRAL COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
JUNE 30, 2005**

Amounts reported for Governmental Activities in the Statement of Net assets are different because:

Total Fund Balance - Governmental Funds (page 17)	\$ 962,996
Infrastructure, property, and equipment used in governmental activities are not financial resources and, therefore, are not reported in the funds	5,683,705
Accrued Interest on long term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(25,636)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	<u>(3,690,693)</u>
Total Net Assets - Governmental Activities (page 13)	<u><u>\$ 2,930,372</u></u>

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

	General	Debt Service	Capital Projects
Revenue			
Local Sources:			
Local Tax	\$ 1,644,468	\$ 449,414	\$ 243,810
Tuition	965,960	-	-
Other	77,885	159	106
State Sources	1,642,643	-	-
Federal Sources	724,543	-	-
Total Revenue	<u>5,055,499</u>	<u>449,573</u>	<u>243,916</u>
Expenditures			
Instruction:			
Regular Instruction	2,226,542	-	-
Special Instruction	719,023	-	-
Other Instruction	394,427	-	-
Support Services:			
Student Services	96,495	-	-
Instructional Staff Services	99,138	-	-
Administration Services	395,208	-	-
Operations and Maintenance	437,930	-	2,198
Transportation Services	214,250	-	-
Central Support Services	93,214	-	-
Other Support Services	265,865	-	-
Non-Instructional Programs	473	-	-
Other Expenditures:			
Facilities Acquisition and Construction Services	317	-	96,299
Long-Term Debt:			
Principal	-	290,000	-
Interest and Fiscal Charges	-	221,243	-
AEA Flow-Through	146,814	-	-
Total Expenditures	<u>5,089,696</u>	<u>511,243</u>	<u>98,497</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(34,197)</u>	<u>(61,670)</u>	<u>145,419</u>
Other Financing Sources (Uses)			
Transfers In	-	90,000	-
Transfers Out	-	-	(55,000)
Total Other Financing Sources (Uses)	<u>-</u>	<u>90,000</u>	<u>(55,000)</u>
Net Change in Fund Balance	(34,197)	28,330	90,419
Fund Balances-Beginning of Year	688,953	11,419	37,688
Prior Period Adjustment	54,603	-	-
Fund Balances - Beginning of Year, Restated	<u>743,556</u>	<u>11,419</u>	<u>37,688</u>
Fund Balances- End of Year	<u>\$ 709,359</u>	<u>\$ 39,749</u>	<u>\$ 128,107</u>

See Accompanying Notes to Financial Statements

Other Governmental Funds	Total Governmental Funds
\$ 118,599	\$ 2,456,291
-	965,960
157,961	236,111
-	1,642,643
-	724,543
<u>276,560</u>	<u>6,025,548</u>
-	2,226,542
-	719,023
155,638	550,065
-	96,495
-	99,138
1,313	396,521
73,261	513,389
-	214,250
-	93,214
-	265,865
-	473
20,400	117,016
-	290,000
-	221,243
-	146,814
<u>250,612</u>	<u>5,950,048</u>
<u>25,948</u>	<u>75,500</u>
-	90,000
(35,000)	(90,000)
<u>(35,000)</u>	<u>-</u>
(9,052)	75,500
94,833	832,893
-	54,603
<u>94,833</u>	<u>887,496</u>
<u>\$ 85,781</u>	<u>\$ 962,996</u>

See Accompanying Notes to Financial Statements

**SIOUX CENTRAL COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

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

Net Change in Fund Balances - Total Governmental funds (page 20)	\$ 75,500
Governmental funds report capital outlays, including infrastructure, as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(182,848)
Accrued interest expense that does not require current financial resources	(7,267)
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds without affecting the net assets. The Statement of Activities does not reflect the payment of principal on long-term debt. The principal paid on long-term debt during the current year was:	<u>377,887</u>
Change in Net Assets of Governmental Activities (page 15)	<u><u>\$ 263,272</u></u>

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

	School Nutrition Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 52,548
Inventories	5,961
Total Current Assets	58,509
Noncurrent Assets:	
Infrastructure, Property and Equipment, Net of Accumulated Depreciation	28,049
Total Assets	86,558
 Net Assets	
Invested in Capital Assets, Net of Related Debt	28,049
Unrestricted	58,509
Total Net Assets	\$ 86,558

**SIOUX CENTRAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2005**

	School Nutrition Fund
Operating Revenues:	
Charges for Services	\$ 130,150
Miscellaneous	2,712
Total Operating Revenue	132,862
Operating Expenses:	
Non-Instructional Programs:	
Food Service Operations:	
Salaries	63,782
Benefits	9,006
Food	129,386
Supplies	11,932
Other Expense	5,926
Depreciation	6,062
Total Operating Expenses	226,094
Operating (Loss)	(93,232)
Non-Operating Revenue:	
Interest Income	268
State Lunch Reimbursements	3,518
National School Lunch Program	78,967
Federal Food Commodities Received	21,795
Total Non-Operating Revenue	104,548
Change in Net Assets	11,316
Net Assets - Beginning	75,242
Net Assets - Ending	\$ 86,558

**SIOUX CENTRAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2005**

	School Nutrition Fund
<hr/>	
Cash Flows from Operating Activities	
Cash Received from Customers or Premiums	\$ 139,061
Cash Payments for Salaries and Benefits	(72,788)
Cash Payments for Goods and Services	<u>(123,632)</u>
Net Cash (Used) by Operating Activities	(57,359)
 Cash Flows from Non-Capital Financing Activities	
Federal and State Appropriations Received	<u>82,485</u>
 Cash Flows from Capital and Related Financing Activities	
Acquisition of Capital Assets	<u>(9,995)</u>
 Cash Flows from Investing Activities	
Interest on Investments	<u>268</u>
 Net Increase in Cash and Cash Equivalents	15,399
 Cash and Cash Equivalents at Beginning of Year	<u>37,149</u>
 Cash and Cash Equivalents at End of Year	<u><u>\$ 52,548</u></u>
 Reconciliation of Operating (Loss) to Net Cash Used in Operating Activities:	
Operating (Loss)	\$ (93,232)
Adjustments to Reconcile Operating Income (Loss) to Net Cash (Used) in Operating Activities:	
Depreciation Expense	6,062
Commodities Used	21,795
Change in Assets and Liabilities:	
Decrease in Inventory	1,817
Decrease in Due from Others	<u>6,199</u>
 Net Cash (Used) by Operating Activities	<u><u>\$ (57,359)</u></u>
 Supplemental Schedule of Noncash Noncapital Financial Activities:	
Federal Food Commodities Received	<u><u>\$ 21,795</u></u>

See Accompanying Notes to Financial Statements

SIoux CENTRAL COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Sioux Central Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Sioux Rapids, Rembrandt, Lynn Grove and Peterson, Iowa, and agricultural area in Buena Vista, Clay, Cherokee and O'Brien Counties. The District has also entered into a sharing agreement with the Albert City-Truesdale Community School District for academics beginning in 2005. 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, Sioux Central 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 Sioux Central 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 Buena Vista and Clay Counties Assessor's Conference Boards.

B. Basis of Presentation

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

**SIOUX CENTRAL COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Net Assets presents the District's non-fiduciary 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 asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted Net Assets often have constraints on resources that are imposed which can be removed or modified.

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

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

The District reports the following major governmental funds:

- The **General Fund** is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund accounts for the instructional and most of the support service programs of the District's operations. Revenue of the General Fund consists primarily of local property taxes and state government aid.
- The **Debt Service Fund** is used to account for the accumulation of resources for and the payment of general long-term debt principal and interest.
- The **Capital Projects Fund** is used to account for all resources used in the acquisition and construction of capital facilities.

SIOUX CENTRAL COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District reports the following major proprietary fund:

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

C. Measurement Focus and Basis of Accounting

The government-wide financial statements and the 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 financial 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.

**SIOUX CENTRAL COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

D. Assets, Liabilities and Fund Equity

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

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for 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 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 the budget certification for the following fiscal year becomes effective on the first day of that year. Although the

**SIoux CENTRAL COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 contributed value for 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.

Land	\$ 1,000
Buildings	\$ 10,000
Improvements other than Buildings	\$ 10,000
Furniture and Equipment:	
School Nutrition Fund Equipment	\$ 10,000
Other Furniture and Equipment	\$ 10,000

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

Buildings	50 years
Improvements other than Buildings	20 – 50 years
Furniture and Equipment	5 – 15 years

SIoux CENTRAL COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

Compensated Absences – District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts and related employee benefits would be reported in governmental funds only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2005.

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

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

**SIOUX CENTRAL COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 2 – CASH AND POOLED INVESTMENTS

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

The District had no investments at June 30, 2005.

Note 3 – CAPITAL ASSETS

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

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 125,495	\$ -	\$ -	\$ 125,495
Capital assets being depreciated:				
Buildings	6,377,059	-	-	6,377,059
Improvements other than buildings	-	58,025	-	58,025
Furniture and Equipment	3,725,157	46,700	-	3,771,857
Total capital assets being depreciated	10,102,216	104,725	-	10,206,941
Less: Accumulated Depreciation for:				
Buildings	1,147,871	127,541	-	1,275,412
Improvements other than buildings	-	2,901	-	2,901
Furniture and Equipment	3,213,287	157,131	-	3,370,418
Total Accumulated Depreciation	4,361,158	287,573	-	4,648,731
Total capital assets being depreciated, net	5,741,058	(182,848)	-	5,558,210
Governmental activities capital assets, net	\$ 5,866,553	\$(182,848)	\$ -	\$ 5,683,705
Business-type Activity:				
Furniture and Equipment	\$ 65,024	\$ 9,995	\$ -	\$ 75,019
Less Accumulated Depreciation	40,908	6,062	-	46,970
Business-type activity capital assets, net	\$ 24,116	\$ 3,933	\$ -	\$ 28,049

**SIOUX CENTRAL COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 3 – CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following functions:

Governmental Activities:	
Transportation Services	\$ 6,671
Unallocated	<u>280,902</u>
Total depreciation expense - governmental activities	<u>\$ 287,573</u>
 Business-type Activities:	
Food Service Operations	<u>\$ 6,062</u>

Reconciliation of Investment in Capital Assets:

	Governmental Activities	Business-type Activity
Land	\$ 125,495	\$ -
Capital Assets (net of accumulated depreciation)	5,558,210	28,049
Less: Bonds Payable	3,565,000	-
Lease Payable	100,234	-
Sewer Assessment Payable	<u>25,459</u>	<u>-</u>
Investment in Capital Assets, Net of Related Debt	<u>\$ 1,993,012</u>	<u>\$ 28,049</u>

Note 4 – INTERFUND TRANSFERS

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

Transfer From	Transfer To	Amount
Capital Projects	Debt Service	\$ 55,000
Special Revenue: Physical Plant and Equipment Levy	Debt Service	<u>35,000</u>
		<u>\$ 90,000</u>

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

**SIOUX CENTRAL COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 5 – LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended June 30, 2005 are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
General Obligation Bonds	\$3,855,000	\$ -	\$ 290,000	\$3,565,000	\$ 355,000
Capital Lease Payable	172,293	-	72,059	100,234	74,719
Sewer Assessment Payable	41,287	-	15,828	25,459	16,735
Total Long-Term Liabilities	\$4,068,580	\$ -	\$ 377,887	\$3,690,693	\$ 446,454

General Obligation Bonds

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

Year Ending June 30	Interest Rates	Bond Issue of May 1, 1999	
		Principal	Interest
2006	4.00 %	\$ 355,000	\$ 151,960
2007	4.10	365,000	137,760
2008	4.15	390,000	122,795
2009	4.20	405,000	106,610
2010	4.30	410,000	89,600
2011-2014	4.35 - 4.50	1,640,000	169,538
	Total	<u>\$ 3,565,000</u>	<u>\$ 778,263</u>

Capital Lease Payable

Details of the District's June 30, 2005 capital lease payable are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2006	\$ 74,719	\$ 2,404
2007	25,515	193
	<u>\$ 100,234</u>	<u>\$ 2,597</u>

**SIOUX CENTRAL COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 5 – LONG-TERM LIABILITIES (Continued)

Sewer/Water Assessment Payable

The District was assessed \$134,371 on September 1, 1996, by the City of Sioux Rapids for extending sewer and water lines to the school building site. The assessment is to be paid in semi-annual installments of \$8,970.22 for ten years, with an interest rate of 5.65%. The first payment was made on May 1, 1998. Following is a summary of future payments:

Year Ending June 30	Principal	Interest
2006	\$ 16,735	\$ 1,205
2007	8,724	246
Total	\$ 25,459	\$ 1,451

Note 6 – DEFEASED BONDS OUTSTANDING

In 1999, the District issued refunding bonds to defease certain outstanding bonds, for the purpose of consolidation and to achieve debt service savings. The District has placed the proceeds from the refunding issues in irrevocable escrow accounts with a trust agent to insure payment of debt service on the refunded bonds.

Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. Although defeased, the refunded debt from these earlier issued will not be actually retired until the call dates have come due or until maturity if they are not callable issues. On May 1, 2005, \$3,490,000 of the defeased bonds were called.

Note 7 – 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.

**SIOUX CENTRAL COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 7 – PENSION AND RETIREMENT BENEFITS (Continued)

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003, were \$166,927, \$148,195 and \$147,366 respectively, equal to the required contributions for each year.

Note 8 – 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 \$146,814 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.

Note 9 – RISK MANAGEMENT

Sioux Central Community School District is a member in the Iowa School Employees Benefit Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed in July 1999 for the purpose of managing and funding employee benefits. ISEBA 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-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative 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 \$17,921, of which \$8,532 was paid with the 2004-2005 premiums and \$9,389 is a liability as of June 30, 2005 and will be paid with the 2005-2006 premiums. 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 \$371,031.

**SIOUX CENTRAL COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 9 – RISK MANAGEMENT (CONTINUED)

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

Sioux Central 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.

Note 10 – PRIOR PERIOD ADJUSTMENT

In the financial statements for the years ended June 30, 2004, an error was made in accounting for grant proceeds received from a physical fitness grant. The error has been corrected and has had the following effect on the beginning fund balances:

	<u>General Fund</u>
Beginning Fund Balance, As Previously Reported	\$ 688,953
Prior Period Adjustment	54,603
Beginning Fund Balance, As Restated	\$ 743,556

Note 11 – CONTINGENCY

The District is currently involved in a matter involving the National School Fitness Foundation. The District is currently named as a creditor in the bankruptcies filed by National School Fitness Foundation and School Fitness Systems, LLC. The District filed a proof of claim for \$186,382 in both cases. On September 22, 2005 the District voted to accept the proposed Joint Plan of Liquidation under Chapter 11. The bankruptcy court approved the plan on August 4, 2005. Pursuant to the Joint Plan of Liquidation, the District's total allowed claim is now \$106,688 rather than \$186,382. However, because of the limited assets available for distribution, the amount the District may actually receive has been estimated to be \$15,509.

**REQUIRED SUPPLEMENTARY
INFORMATION**

SIOUX CENTRAL COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS)
GENERAL FUND
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005

	General Fund			Variance with Final Budget Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Amended		
Receipts				
Local Sources:				
Local Taxes	\$ 1,642,698	\$ 1,642,698	\$ 1,633,590	\$ (9,108)
Tuition	467,300	467,300	969,881	502,581
Other	62,600	62,600	73,601	11,001
Intermediate Sources	77,000	77,000	5,927	(71,073)
State Sources	1,843,533	1,843,533	1,574,713	(268,820)
Federal Sources	974,900	974,900	668,708	(306,192)
Total Revenues	<u>5,068,031</u>	<u>5,068,031</u>	<u>4,926,420</u>	<u>(141,611)</u>
Expenditures				
Instruction	3,753,011	3,353,011	3,291,007	62,004
Support Services	1,241,100	1,723,000	1,582,641	140,359
Non-Instructional Programs	33,600	33,600	472	33,128
Other Expenditures	159,511	159,511	85,858	73,653
Total Expenditures	<u>5,187,222</u>	<u>5,269,122</u>	<u>4,959,978</u>	<u>309,144</u>
(Deficiency) of Revenues Over Expenditures	(119,191)	(201,091)	(33,558)	(167,533)
Other Financing Sources (Uses)				
Operating Transfers From Other Funds	-	-	-	-
Operating Transfers to Other Funds	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Fund Balance	(119,191)	(201,091)	(33,558)	(167,533)
Fund Balance at Beginning of Year	<u>727,736</u>	<u>727,736</u>	<u>705,240</u>	<u>22,496</u>
Fund Balance at End of Year	<u>\$ 608,545</u>	<u>\$ 526,645</u>	<u>\$ 671,682</u>	<u>\$ (145,037)</u>

See Accompanying Independent Auditor's Report

**SIOUX CENTRAL COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED JUNE 30, 2005**

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 5,850,712	\$ 174,836	\$ 6,025,548
Expenditures	5,818,046	132,002	5,950,048
Net	32,666	42,834	75,500
Other Financing Sources, Net	-	-	-
Beginning Fund Balances	834,677	52,819	887,496
Ending Fund Balance	\$ 867,343	\$ 95,653	\$ 962,996

	Proprietary Fund		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 221,813	\$ 15,597	\$ 237,410
Expenditures	206,414	19,680	226,094
Net	15,399	(4,083)	11,316
Beginning Net Assets	37,149	38,093	75,242
Ending Net Assets	\$ 52,548	\$ 34,010	\$ 86,558

**SIOUX CENTRAL 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 Standard Board* Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$136,966.

During the fiscal year ending June 30, 2005, the District had one budget amendment. The amendment was as follows:

	Original Budget	5/31/2005 Amendment	Amended Budget
Instruction	\$ 3,852,011	\$ (400,000)	\$ 3,452,011
Student Support Services	1,318,100	481,900	1,800,000
Non-Instructional	243,600	-	243,600
Other Expenditures	744,934	55,066	800,000
	<u>\$ 6,158,645</u>	<u>\$ 136,966</u>	<u>\$ 6,295,611</u>

The following schedule demonstrates the District's compliance to the budget

	Amended Budget	Actual (Cash Basis)	Variance Favorable (Unfavorable)
Instruction	\$ 3,452,011	\$ 3,444,360	\$ 7,651
Student Support Services	1,800,000	1,659,833	140,167
Non-Instructional	243,600	206,886	36,714
Other Expenditures	800,000	713,380	86,620
	<u>\$ 6,295,611</u>	<u>\$ 6,024,459</u>	<u>\$ 271,152</u>

**OTHER SUPPLEMENTARY
INFORMATION**

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

SCHEDULE 1

	Special Revenue Funds			Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	
Assets				
Cash and Cash Equivalents	\$ 45,933	\$ 28,623	\$ 11,679	\$ 86,235
Receivables:				
Property Tax	1,158	-	672	1,830
Succeeding Year Property Tax	160,000	-	44,676	204,676
Total Assets	<u>207,091</u>	<u>28,623</u>	<u>57,027</u>	<u>292,741</u>
Liabilities				
Accounts Payable	-	2,284	-	2,284
Deferred Revenue - Succeeding Year Taxes	160,000	-	44,676	204,676
Total Liabilities	<u>160,000</u>	<u>2,284</u>	<u>44,676</u>	<u>206,960</u>
Fund Balance				
Unreserved for:				
Special Revenue Funds	47,091	26,339	12,351	85,781
Total Fund Balance	<u>47,091</u>	<u>26,339</u>	<u>12,351</u>	<u>85,781</u>
Total Liabilities and Fund Balance	<u>\$ 207,091</u>	<u>\$ 28,623</u>	<u>\$ 57,027</u>	<u>\$ 292,741</u>

See Accompanying Notes to Financial Statements

SIOUX CENTRAL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF INDIVIDUAL STUDENT ACTIVITY ACCOUNT ACTIVITY
FOR THE YEAR ENDED JUNE 30, 2005

SCHEDULE 3

	Balance June 30, 2004	Revenues	Expenditures	Balance June 30, 2005
Senior High				
Drama	6,697	1,448	563	7,582
Spanish Club	-	651	197	454
Cross Country	(2,084)	472	1,018	(2,630)
Basketball	(1,023)	10,673	8,606	1,044
Football	23	7,631	7,721	(67)
Baseball/Softball	(2,999)	17,760	24,642	(9,881)
Track	(12,751)	3,145	8,147	(17,753)
Golf	(1,215)	583	852	(1,484)
Wrestling	(10,417)	1,398	2,612	(11,631)
Volleyball	556	1,778	2,236	98
Drill Team	1,488	9,726	12,778	(1,564)
SC Specialties	(7)	1,524	1,513	4
Cheerleading	-	1,503	1,380	123
Class of 2005	1,584	2,025	1,284	2,325
Class of 2006	-	18,713	18,074	639
Class of 2007	-	2,696	40	2,656
Class of 2008	-	1,767	-	1,767
Class of 2009	-	1,252	-	1,252
HS Student Council	8,017	4,404	4,898	7,523
National Honor Society	149	246	758	(363)
Awards Fund	2,220	6,912	6,075	3,057
HS Activity Pass	2,236	4,653	1,271	5,618
FFA	2,862	24,304	25,050	2,116
	<u>(4,664)</u>	<u>125,264</u>	<u>129,715</u>	<u>(9,115)</u>
Junior High				
JH Cross Country	645	-	-	645
JH Football	6,366	-	793	5,573
JH Baseball	(1,007)	420	1,128	(1,715)
JH Basketball	(3,685)	-	1,014	(4,699)
JH Volleyball	(753)	165	583	(1,171)
JH Softball	(1,476)	-	1,753	(3,229)
JH Track	(3,351)	670	1,015	(3,696)
JH Candy/Juice	15,545	18,795	13,348	20,992
	<u>12,284</u>	<u>20,050</u>	<u>19,634</u>	<u>12,700</u>
Elementary				
Elementary Principal	1,890	2,301	1,137	3,054
Jump Rope for Heart	15	-	-	15
Accelerated Reader	3	-	-	3
Elementary Activity Pass	1,560	335	-	1,895
Elementary Book Fair	2,977	3,922	4,319	2,580
Box Tops	631	578	308	901
	<u>7,076</u>	<u>7,136</u>	<u>5,764</u>	<u>8,448</u>
Miscellaneous				
Interest	423	235	-	658
Family Activity Pass	5,641	3,600	-	9,241
Adult Activity Pass	2,282	1,410	-	3,692
Electrathon	1,240	-	525	715
	<u>9,586</u>	<u>5,245</u>	<u>525</u>	<u>14,306</u>
Total for Activity Funds	\$ 24,282	\$ 157,695	\$ 155,638	\$ 26,339

See Accompanying Notes to Financial Statements

SIOUX CENTRAL COMMUNITY SCHOOL DISTRICT **SCHEDULE 4**
COMPARISON OF TAXES AND INTERGOVERNMENTAL REVENUES AND RECEIPTS
FOR THE YEARS ENDED JUNE 30, 2005, 2004, 2003, 2002

	Modified Accrual Basis of Accounting			
	2005	2004	2003	2002
Local Sources:				
Property Taxes	\$ 2,212,481	\$ 2,254,454	\$ 2,203,614	\$ 2,010,213
LOSST	243,810	44,115	-	-
	<u>2,456,291</u>	<u>2,298,569</u>	<u>2,203,614</u>	<u>2,010,213</u>
State Sources:				
State Foundation Aid	1,323,108			
Foster Care	7,786			
Phase I	41,856			
Phase II	35,397			
Teacher Quality Program	52,851			
AEA Flow-Through	146,814			
Vocational Education Aid	11,065			
State Lunch & Breakfast Reimbursement	3,518			
Iowa Early Intervention Block Grant	22,666			
Other	1,100			
	<u>1,646,161</u>	<u>1,668,404</u>	<u>1,608,905</u>	<u>1,883,138</u>
Federal Sources:				
Title I Grants to Local Educational Agencies	114,907			
Innovative Education Program Strategies (Title V)	1,745			
National School Lunch & Breakfast Program	78,967			
Food Distribution	21,795			
Special Education - Grants to States	21,357			
Federal Teacher Quality Program (Title IIA)	20,748			
Rural Health Outreach Grant	166,183			
Grants to Reduce Alcohol Abuse	183,368			
Rural Education Achievement Program	16,852			
Charter School Grant	155,889			
Other	43,494			
	<u>825,305</u>	<u>500,734</u>	<u>427,155</u>	<u>209,864</u>
Total	<u><u>\$ 4,927,757</u></u>	<u><u>\$ 4,467,707</u></u>	<u><u>\$ 4,239,674</u></u>	<u><u>\$ 4,103,215</u></u>

**SIOUX CENTRAL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

SCHEDULE 5

Grantor/Program	CFDA Number	Grant Number	Program Expenditures
Direct:			
Department of Education:			
Rural Education Achievement Program	84 358A	FY05	\$ 16,852
Safe and Drug Free Schools Grants to Reduce Alcohol Abuse	84.184A	FY05	183,368
NASA Grant	43.001	FY05	5,109
Department of Health and Human Services:			
Rural Health Outreach Grant	93 912	FY05	<u>166,183</u>
Total Direct			<u>371,512</u>
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
Food Distribution	10 550	FY05	21,795
Team Nutrition Grant	10.574	FY05	971
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY05	8,435
National School Lunch Program	10 574	FY05	70,532
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	FY05	93,234
Special Education - Grants to States	84.027	FY05	21,357
Safe and Drug-Free Schools and Communities - States Grants	84 186A	FY05	13
Innovative Education Program Strategies (Title V Program)	84.298	FY05	1,745
Vocational Education - Basic Grants to States	84 048A	FY05	7,479
Charter Schools	84.282	FY05	155,889
Grants for State Assessments and Related Activities	84.369	FY05	2,910
Title IIA - Federal Teacher Quality Program	84 367	FY05	20,748
Iowa Public Television			
Star Schools	84.203	FY05	<u>25,000</u>
Total Indirect			<u>430,108</u>
Total Direct and Indirect			<u>\$ 801,620</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Sioux Central Community School District and is presented on the modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**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**

To the Board of Education of the
Sioux Central 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 Sioux Central Community School District, Iowa as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated November 1, 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 Sioux Central 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 Sioux Central Community School 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 II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 05-II-A is a material weakness. Prior year reportable conditions have all been resolved except for item 04-I-A and 04-I-B.

Compliance

As part of obtaining reasonable assurance about whether Sioux Central Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain

provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

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 general purpose 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 Sioux Central Community School District and other parties to whom Sioux Central 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 Sioux Central 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.

Williams + Company P.C.
Certified Public Accountants

Spencer, Iowa
November 1, 2005

**Independent Auditors' Report on Compliance with Requirements Applicable
to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133**

To the Board of Education of the
Sioux Central Community School District:

Compliance

We have audited the compliance of Sioux Central Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Sioux Central Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs are the responsibility of Sioux Central Community School District's management. Our responsibility is to express an opinion on Sioux Central Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Sioux Central Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Sioux Central Community School District's compliance with those requirements.

In our opinion, Sioux Central Community School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Sioux Central Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Sioux Central Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program 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 compliance 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, we consider item 05-III-A to be a material weakness.

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

Williams + Company, P.C.

Certified Public Accountants

Spencer, Iowa
November 1, 2005

**SIOUX CENTRAL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

PART I – SUMMARY OF INDEPENDENT AUDITOR’S RESULTS

- (A) An unqualified opinion was issued on the financial statements.
- (B) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements, including a material weakness.
- (C) The audit did not disclose any non-compliance, which is material to the financial statements.
- (D) A reportable condition in internal control over major programs was disclosed by the audit of the financial statements, including a material weakness.
- (E) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (F) Major programs were as follows:
 - CFDA Number 84.010 – Title I Grants to Local Educational Agencies
 - CFDA Number 84.186A – Grants to Reduce Alcohol Abuse
 - CFDA Number 84.282 – Charter School Grant
- (G) The dollar threshold used to distinguish between Type A and Type B was \$300,000.
- (H) Sioux Central Community School District did not qualify as a low-risk auditee.
- (I) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section 510(a).

PART II – FINDINGS RELATED TO THE FINANCIAL STATEMENTS (CONTINUED)

INSTANCES OF NON-COMPLIANCE: No matters were reported.

REPORTABLE CONDITIONS:

05-II-A Financial Accounting – Segregation of Duties

Observation – During our review of internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District’s financial statements.

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

**SIoux CENTRAL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

PART II – FINDINGS RELATED TO THE FINANCIAL STATEMENTS (CONTINUED)

Response – The District feels that additional personnel would not be cost effective. However, management and the school board will review procedures and investigate available alternatives.

Conclusion – Response accepted.

PART III – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

INSTANCES OF NON-COMPLIANCE: No matters were reported.

REPORTABLE CONDITIONS:

05-III-A Financial Accounting – Segregation of Duties

Observation – During our review of internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements.

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

Response – The District feels that additional personnel would not be cost effective. However, management and the school board will review procedures and investigate available alternatives.

Conclusion – Response accepted.

PART IV – OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

05-IV-A: Official Depositories – A resolution naming official depositories has been adopted by the Board. Although no maximum deposit amounts were stated in the resolution.

Recommendation – When the School Board sets the official depositories they should also set a maximum deposit amount.

Response – The School Board will adopt maximum deposit amounts for each financial institution when the next resolution naming official depositories is presented.

Conclusion – Response accepted.

**SIOUX CENTRAL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

PART IV – OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

- 05-IV-B: Certified Budget – Disbursements for the year ended June 30, 2005 did not exceed the amended certified budget amounts.
- 05-IV-C: Questionable Disbursements – No expenditures that did not meet the requirement of public purpose as defined in an Attorney General's opinion dated April 25, 1979, were noted.
- 05-IV-D: Travel Expense – No expenditures of Sioux Central Community School District were for travel expenses of spouses of District officials or employees.
- 05-IV-E: Business Transactions – No business transactions between the District and the District officials or employees were noted.
- 05-IV-F: Board Minutes – No transactions were found that we believe should have been approved by the Board minutes but were not.
- 05-IV-G: Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.
- 05-IV-H: Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the District's investment policy were noted.
- 05-IV-I: Certified Annual Report – The Certified Annual Report was not filed timely with the Department of Education.

Recommendation – We recommend that the District file the Certified Annual Report by September 15 as required by the State in future years.

Response – The District will take the steps necessary to ensure that the report is filed timely in the future.

Conclusion – Response accepted.

- 05-IV-J: Deficit Balances – Several student activity accounts had deficit balances at June 30, 2005.

Recommendation – We recommend that the District should investigate alternatives to significantly reduce and/or eliminate this deficit.

Response – The District is aware of this situation and will investigate alternatives to significantly reduce and/or eliminate this deficit by June 30, 2006.

Conclusion – Response accepted.

**SIOUX CENTRAL COMMUNITY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2005**

04-I-A Segregation of Duties - It was noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation – With a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Current Status – This finding still exists at June 30, 2005 (See Comment 05-II-A).

04-I-B Activity Fund Deficit Balances - It was noted that athletic accounts in the Student Activity Fund had deficit balances at June 30, 2004.

Recommendation – The auditor recommended that the District investigate alternatives in order to bring these accounts into a positive financial position.

Current Status – This finding still exists at June 30, 2005, however we do not consider it a Reportable Condition (See Comment 05-IV-K).