

SHEFFIELD-CHAPIN COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

## Table of Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-Wide Financial Statements:		
Statement of Net Assets	A	14-15
Statement of Activities	B	16-17
Governmental Fund Financial Statements:		
Balance Sheet	C	18
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	19
Statement of Revenues, Expenditures and Changes in Fund Balances	E	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	21
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	22
Statement of Revenues, Expenses, and Changes in Net Assets	H	23
Statement of Cash Flows	I	24
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	25
Statement of Changes in Fiduciary Net Assets	K	26
Notes to Financial Statements		27-36
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		38
Notes to Required Supplementary Information - Budgetary Reporting		39
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	41
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	42
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	43
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	4	44
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 <u>Government Auditing Standards</u>		45-46
Schedule of Findings		47-49



Gary E. Horton CPA

PO Box 384

Clarion, IA 50525-0384

(515)532-6681 Phone

(515) 532-2405 Fax

BETCO@mchsi.com E-mail

Independent Auditor's Report

To the Board of Education of  
Sheffield-Chapin 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 Sheffield-Chapin Community School District, Sheffield, Iowa, as of and for the year ended June 30, 2006, 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 Sheffield-Chapin Community School District at June 30, 2006, 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 September 6, 2006, on our consideration of Sheffield-Chapin Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract 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 38 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 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 Sheffield-Chapin 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, 2005, (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplemental 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.

BURTON E. TRACY & CO., P.C.  
Certified Public Accountants

September 6, 2006

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Sheffield-Chapin 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, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2006 Financial Highlights

- General Fund revenues increased from \$2,655,319 in fiscal 2005 to \$2,835,380 in fiscal 2006, while General Fund expenditures increased from \$2,723,561 in fiscal 2005 to \$2,800,290 in fiscal 2006. The District's General Fund balance increased from \$220,760 in fiscal 2005 to \$256,002 in fiscal 2006, a 16% increase.
- The increase in General Fund revenues was attributable to an increase in property tax and state and grant revenue in fiscal 2006. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures.

### 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 the Sheffield-Chapin 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 the Sheffield-Chapin 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 the Sheffield-Chapin Community School District acts solely as an agent or custodian for the benefit of those outside of District government.

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

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

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds.

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

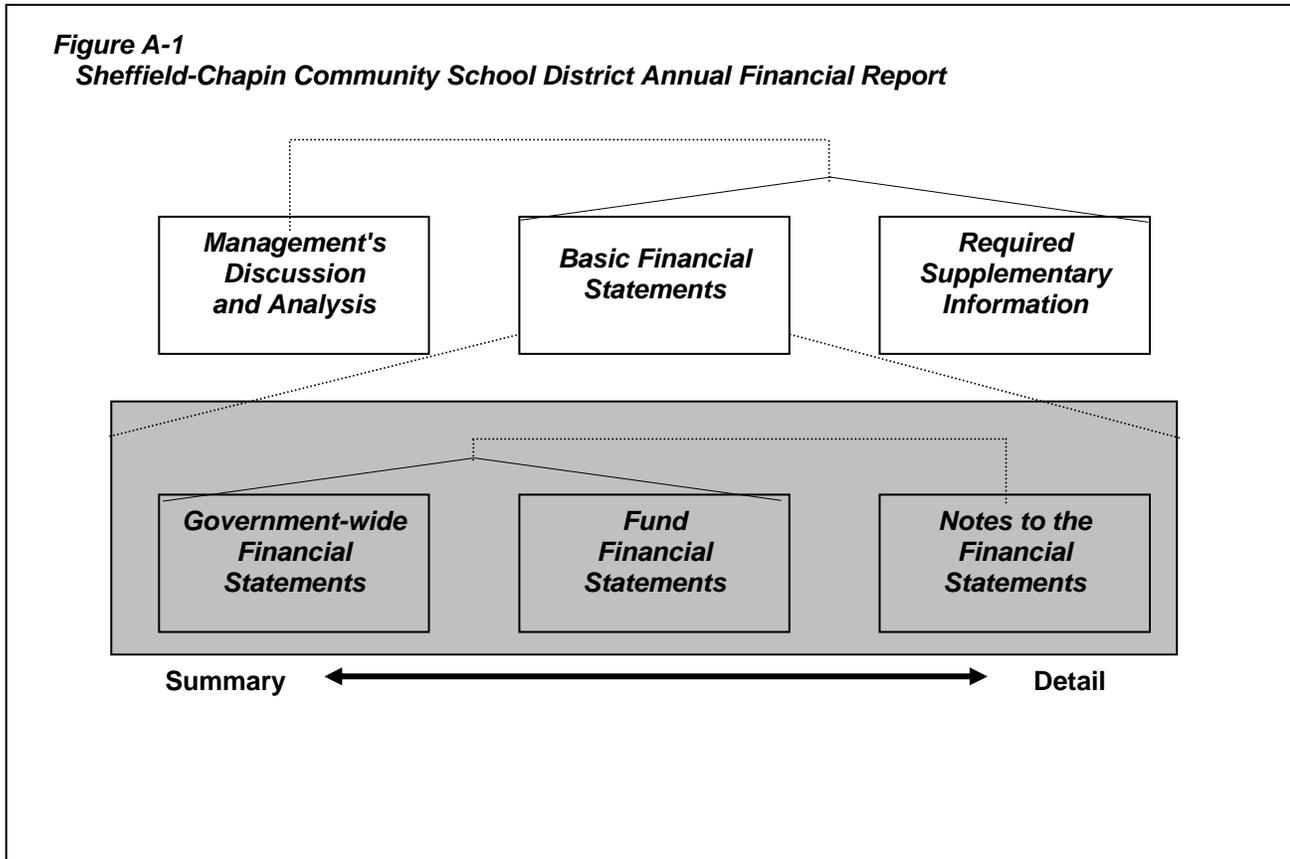


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-wide and Fund Financial Statements</b>				
	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: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
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, 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 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 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, Debt Service Fund and Capital Projects Fund.

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

2. *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the 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. The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

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

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

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 fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

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 at June 30, 2006 compared to June 30, 2005.

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2005-2006
	Governmental Activities		Business-type Activities		Total School District		
	2006	2005	2006	2005	2006	2005	
	\$	\$	\$	\$	\$	\$	
Current and other assets	2,347,659	2,476,860	10,683	16,014	2,358,342	2,492,874	(5.4%)
Capital assets	2,866,465	2,825,729	27,085	29,653	2,893,550	2,855,382	1.4%
<b>Total assets</b>	<b>5,214,124</b>	<b>5,302,589</b>	<b>37,768</b>	<b>45,667</b>	<b>5,251,892</b>	<b>5,348,256</b>	<b>(1.8%)</b>
Long-term liabilities	1,842,162	1,955,324	0	0	1,842,162	1,955,324	(5.7%)
Other liabilities	1,494,259	1,734,092	2,761	1,907	1,497,020	1,735,999	(13.7%)
<b>Total liabilities</b>	<b>3,336,421</b>	<b>3,689,416</b>	<b>2,761</b>	<b>1,907</b>	<b>3,339,182</b>	<b>3,691,323</b>	<b>(9.5%)</b>
Net Assets:							
Invested in capital assets, net of related debt	1,111,465	929,864	27,085	29,653	1,138,550	959,517	18.7%
Restricted	500,305	389,400	0	0	500,305	389,400	28.5%
Unrestricted	265,933	293,909	7,922	14,107	273,855	308,016	(11.1%)
<b>TOTAL NET ASSETS</b>	<b>1,877,703</b>	<b>1,613,173</b>	<b>35,007</b>	<b>43,760</b>	<b>1,912,710</b>	<b>1,656,933</b>	<b>15.5%</b>

The District's combined net assets increased by nearly 15.5%, or approximately \$255,777 over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$110,905 or 28.5% over the prior year. The increase was primarily a result of sales tax revenues for fiscal year 2006 that will be spent in a future year for equipment and capital improvements.

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 approximately \$34,161, or 11.1%.

Figure A-4 shows the change in net assets for the years ended June 30, 2006 and 2005.

Figure A-4

	Change in Net Assets						Percentage Change 2005-2006
	Governmental Activities		Business-type Activities		Total School District		
	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	
Revenues							
Program Revenues:							
Charges for services	379,212	364,002	62,556	69,056	441,768	433,058	2.1%
Operating grants & contributions	302,557	277,638	57,081	45,474	359,638	323,112	11.3%
Capital grants & contributions	0	5,130	0	0	0	5,130	(100%)
General Revenues:							
Property taxes	1,198,475	1,176,861	0	0	1,198,475	1,176,861	1.9%
Income Surtax	162,151	152,074	0	0	162,151	152,074	6.7%
Local option sales tax	180,013	185,423	0	0	180,013	185,423	(2.9%)
Unrestricted state grants	1,241,997	1,160,323	0	0	1,241,997	1,160,323	7.1%
Unrestricted investment earnings	15,234	14,077	74	65	15,308	14,142	8.3%
Other revenue	30,425	1,665	0	0	30,425	1,665	1727.3%
<b>Total Revenues</b>	<b>3,510,064</b>	<b>3,337,193</b>	<b>119,711</b>	<b>114,595</b>	<b>3,629,775</b>	<b>3,451,788</b>	<b>5.2%</b>
Expenses:							
Instruction	2,092,718	2,032,228	0	0	2,092,718	2,032,228	3%
Support services	857,103	823,127	0	0	857,103	823,127	4.2%
Non-instructional programs	0	4,130	128,464	111,397	128,464	115,527	11.2%
Other expenditures	295,713	311,080	0	0	295,713	311,080	(4.9%)
<b>Total expenses</b>	<b>3,245,534</b>	<b>3,170,565</b>	<b>128,464</b>	<b>111,397</b>	<b>3,373,998</b>	<b>3,281,962</b>	<b>2.8%</b>
<b>CHANGE IN NET ASSETS</b>	<b>264,530</b>	<b>166,628</b>	<b>(8,753)</b>	<b>3,198</b>	<b>255,777</b>	<b>169,826</b>	<b>50.6%</b>
Net assets beginning of year	1,613,173	1,446,545	43,760	40,562	1,656,933	1,487,107	11.5%
Net assets end of year	1,877,703	1,613,173	35,007	43,760	1,912,710	1,656,933	15.5%

Property tax and unrestricted state grants account for 67.2% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 87.4% of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$3,510,064 and expenses were \$3,245,534 which amounted to an increase in net assets of \$264,530. Approximately \$74,000 of the increase in net assets was created by local option sales tax revenues that were not spent in fiscal year 2006.

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**

	<b>Total Cost of Services 2006</b>	<b>Total Cost of Services 2005</b>	<b>Net Cost of Services 2006</b>	<b>Net Cost of Services 2005</b>
	\$	\$	\$	\$
Instruction	2,092,718	2,032,228	1,516,797	1,490,466
Support Services	857,103	823,127	854,873	821,547
Non-instructional Programs	0	4,130	0	2,476
Other Expenses	295,713	311,080	192,095	209,306
<b>TOTAL</b>	<b><u>3,245,534</u></b>	<b><u>3,170,565</u></b>	<b><u>2,563,765</u></b>	<b><u>2,523,795</u></b>

- The cost financed by users of the District’s programs was \$379,212.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$302,557.
- The net cost of governmental activities was financed with \$1,198,475 in property tax; \$162,151 in income surtax; \$180,013 in local option sales and service tax; and \$1,241,997 in unrestricted state grants.

**Business Type Activities**

Revenues for business type activities were \$119,711 and expenses were \$128,464. 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.

The snack a la carte program was discontinued because of state regulations. This reduced the revenue brought into the School Nutrition Fund.

**INDIVIDUAL FUND ANALYSIS**

As previously noted, the Sheffield-Chapin 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 \$727,165, well above last year’s ending fund balances of \$619,151. However, the primary reason for the increase in combined fund balances in fiscal 2006 is due to unexpended Local Option Sales Tax proceeds received in fiscal 2006.

**Governmental Fund Highlights**

- In an effort to reduce expenditures the District entered into an agreement with Rockwell-Swaledale CSD to share eight (8) teaching positions: English, PE/Health, Physics, Vocal, Instrumental, Ag, Industrial Arts and Geography.
- The General Fund balance increased from \$220,760 to \$256,202.
- The Physical Plant and Equipment Levy (PEEL) Fund balance decreased from \$75,671 in 2005 to \$65,808 in 2006. A new suburban was purchased for \$30,503.

- The Capital Projects Fund balance increased due to the revenues received in fiscal 2006. This balance is entirely from the one cent local option sales tax passed in Cerro Gordo County on March 3, 2003 and Franklin County on June 17, 2003. A portion of these monies will be used in the summer of 2006 to replace the elementary boiler, elementary roof, and tuck-pointing for the elementary school.

### **Proprietary Fund Highlights**

School Nutrition Fund net assets decreased from \$43,760 at June 30, 2005 to \$35,007 at June 30, 2006 representing a decrease of approximately 21%. 9,338 breakfasts were served in 2006 compared to 8,116 breakfasts in 2005. 47,025 lunches were served in 2006 compared to 43,636 lunches in 2005.

Revenue from student lunches and breakfasts for 2006 was \$54,478 compared to \$52,665 in 2005. This 3.4% increase was due to Meservey-Thornton K-4 students and Rockwell Swaledale high school students eating lunch in our building.

### **Fiduciary Fund Highlights**

The Fiduciary Fund net assets decreased from \$12,385 at the beginning of the year to \$11,607 at year end. Scholarships amounting to \$2,535 were awarded in 2006.

## **BUDGETARY HIGHLIGHTS**

The published budget was not amended during fiscal year 2006.

District receipts were \$82,011 more than budgeted receipts, a variance of 2.3%.

District expenditures were \$2,064 over budget in non-instructional programs, \$160,286 over budget in the other expenditures area. The certified budget was exceeded in these functional areas due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2006, the District had invested \$2,893,550 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 represents a net increase of 1.4% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$103,907 for Government Activities and \$3,378 for Business-type activities.

During fiscal year 2006 the District purchased land from the Baptist Church for the playground at a cost of \$7,000.

At June 30, 2006 the District had construction commitments of \$135,900 for a boiler, \$23,240 for tuck pointing and \$39,500 to complete a roof project.

Figure A-6

**Capital Assets (net of depreciation)**

	Governmental		Business type		Total		Percentage Change 2004-2005
	Activities		Activities		School District		
	2006	2005	2006	2005	2006	2005	
	\$	\$	\$	\$	\$	\$	
Construction in Progress	107,140				107,140		100%
Land	44,944	37,944	0	0	44,944	37,944	18.4%
Buildings	2,508,324	2,574,720	0	0	2,508,324	2,574,720	(2.6%)
Improvements	10,946	11,692	0	0	10,946	11,692	(6.4%)
Equipment & Furniture	195,111	201,373	27,085	29,653	222,196	231,026	(3.8%)
<b>TOTAL</b>	<b>2,866,465</b>	<b>2,825,729</b>	<b>27,085</b>	<b>29,653</b>	<b>2,893,550</b>	<b>2,855,382</b>	<b>(1.4%)</b>

**Long-Term Debt**

At June 30, 2006, the District had \$1,842,162 in general obligation and other long-term debt outstanding. This represents an decrease of approximately 5.8% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

The District offers a voluntary early retirement plan to its certified employees. Early retirement benefits paid during the year ended June 30, 2006, totaled \$16,680.

Figure A-7

**Outstanding Long-Term Obligations**

	Total School District		Percentage Change 2004-2005
	2006	2005	
	\$	\$	
General Obligation Bonds	1,755,000	1,870,000	(6.1%)
Capital Leases	0	25,865	(100%)
Early Retirement	87,162	59,459	46.6%
	<u>1,842,162</u>	<u>1,955,324</u>	<u>(5.8%)</u>

**ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

- It appears that our enrollments are stable and will continue to be this way for the next few years.
- On August 8, 2006, 88% of the public voted to consolidate with the Meservey-Thornton Community School District on July 1, 2007.

**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 Lorna Meyer, District Secretary/Treasurer, Sheffield-Chapin Community School District, 504 Park, Sheffield, Iowa, 50475.

## BASIC FINANCIAL STATEMENTS

## SHEFFIELD-CHAPIN COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and cash equivalents:			
ISCAP	122,829	-	122,829
Other	698,217	6,535	704,752
Receivables:			
Property tax:			
Delinquent	18,053	-	18,053
Succeeding year	1,281,187	-	1,281,187
Accounts	6	-	6
Accrued interest:			
ISCAP	38	-	38
Due from other governments	227,329	-	227,329
Inventories	-	4,148	4,148
Capital assets, net of accumulated depreciation	<u>2,866,465</u>	<u>27,085</u>	<u>2,893,550</u>
<b>Total assets</b>	<u>5,214,124</u>	<u>37,768</u>	<u>5,251,892</u>
<b>Liabilities</b>			
Accounts payable	63,024	810	63,834
Salaries and benefits payable	11,260	-	11,260
Accrued interest payable	14,776	-	14,776
Deferred revenue:			
Succeeding year property tax	1,281,187	-	1,281,187
Other	-	1,951	1,951
ISCAP warrants payable	123,000	-	123,000
ISCAP accrued interest payable	76	-	76
ISCAP premium	936	-	936
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	120,000	-	120,000
Termination benefits	16,668	-	16,668
Portion due after one year:			
General obligation bonds payable	1,635,000	-	1,635,000
Termination benefits	<u>70,494</u>	<u>-</u>	<u>70,494</u>
<b>Total liabilities</b>	<u>3,336,421</u>	<u>2,761</u>	<u>3,339,182</u>

## SHEFFIELD-CHAPIN COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Net assets</b>			
Invested in capital assets, net of related debt	1,111,465	27,085	1,138,550
Restricted for:			
Gifted and talented program	7,444	-	7,444
Physical plant and equipment levy	112,084	-	112,084
Other special revenue purposes	42,565	-	42,565
Capital Projects local option sales and services tax	338,212	-	338,212
Unrestricted	<u>265,933</u>	<u>7,922</u>	<u>273,855</u>
<b>Total net assets</b>	<u><u>1,877,703</u></u>	<u><u>35,007</u></u>	<u><u>1,912,710</u></u>

## SHEFFIELD-CHAPIN COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2006

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>		
		<b>Charges for Services</b>	<b>Operating Grants, Contributions and Restricted Interest</b>	<b>Capital Grants, Contributions and Restricted Interest</b>
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular instruction	1,137,970	98,268	157,702	-
Special instruction	501,168	130,283	16,448	-
Other instruction	453,580	148,431	24,789	-
	<u>2,092,718</u>	<u>376,982</u>	<u>198,939</u>	<u>-</u>
Support services:				
Student services	40,773	-	-	-
Instructional staff services	45,784	-	-	-
Administration services	387,417	-	-	-
Operation and maintenance of plant services	230,789	1,500	-	-
Transportation services	152,340	730	-	-
	<u>857,103</u>	<u>2,230</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	30,034	-	-	-
Long-term debt interest	95,128	-	209	-
AEA flowthrough	103,409	-	103,409	-
Depreciation (unallocated)*	67,142	-	-	-
	<u>295,713</u>	<u>-</u>	<u>103,618</u>	<u>-</u>
Total governmental activities	3,245,534	379,212	302,557	-
Business type activities:				
Non-instructional programs:				
Food service operations	128,464	62,556	57,081	-
Total	<u>3,373,998</u>	<u>441,768</u>	<u>359,638</u>	<u>-</u>
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes				
Debt service				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				

**Change in net assets**

Net assets beginning of year

Net assets end of year

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

See notes to financial statements.

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
<u>\$</u>	<u>\$</u>	<u>\$</u>
(882,000)	-	(882,000)
(354,437)	-	(354,437)
(280,360)	-	(280,360)
<u>(1,516,797)</u>	<u>-</u>	<u>(1,516,797)</u>
(40,773)	-	(40,773)
(45,784)	-	(45,784)
(387,417)	-	(387,417)
(229,289)	-	(229,289)
(151,610)	-	(151,610)
<u>(854,873)</u>	<u>-</u>	<u>(854,873)</u>
(30,034)	-	(30,034)
(94,919)	-	(94,919)
-	-	-
(67,142)	-	(67,142)
<u>(192,095)</u>	<u>-</u>	<u>(192,095)</u>
(2,563,765)	-	(2,563,765)
-	(8,827)	(8,827)
<u>(2,563,765)</u>	<u>(8,827)</u>	<u>(2,572,592)</u>
959,344	-	959,344
210,900	-	210,900
28,231	-	28,231
162,151	-	162,151
180,013	-	180,013
1,241,997	-	1,241,997
15,234	74	15,308
30,425	-	30,425
<u>2,828,295</u>	<u>74</u>	<u>2,828,369</u>
264,530	(8,753)	255,777
<u>1,613,173</u>	<u>43,760</u>	<u>1,656,933</u>
<u>1,877,703</u>	<u>35,007</u>	<u>1,912,710</u>

## SHEFFIELD-CHAPIN COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2006

	General Fund	Capital Projects Local Option Sales Tax	Debt Service	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
<b>Assets</b>					
Cash and pooled investments:					
ISCAP	122,829	-	-	-	122,829
Other	228,477	338,716	960	130,064	698,217
Receivables:					
Property tax:					
Delinquent	13,569	-	3,156	1,328	18,053
Succeeding year	966,134	-	208,858	106,195	1,281,187
Accounts	6	-	-	-	6
Accrued interest - ISCAP	38	-	-	-	38
Due from other governments	129,929	50,396	-	47,004	227,329
<b>Total assets</b>	<b>1,460,982</b>	<b>389,112</b>	<b>212,974</b>	<b>284,591</b>	<b>2,347,659</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	9,367	50,900	-	2,757	63,024
Salaries and benefits payable	11,260	-	-	-	11,260
ISCAP warrants payable	123,000	-	-	-	123,000
ISCAP accrued interest payable	76	-	-	-	76
ISCAP premium	936	-	-	-	936
Deferred revenue:					
Succeeding year property tax	966,134	-	208,858	106,195	1,281,187
Other	94,007	-	-	47,004	141,011
Total liabilities	<u>1,204,780</u>	<u>50,900</u>	<u>208,858</u>	<u>155,956</u>	<u>1,620,494</u>
Fund balances:					
Reserved for:					
Gifted and talented program	7,444	-	-	-	7,444
Debt service	-	-	4,116	-	4,116
Unreserved reported in:					
General Fund	248,758	-	-	-	248,758
Special Revenue Funds	-	-	-	128,635	128,635
Capital Projects Fund	-	338,212	-	-	338,212
Total fund balances	<u>256,202</u>	<u>338,212</u>	<u>4,116</u>	<u>128,635</u>	<u>727,165</u>
<b>Total liabilities and fund balances</b>	<b>1,460,982</b>	<b>389,112</b>	<b>212,974</b>	<b>284,591</b>	<b>2,347,659</b>

See notes to financial statements.

## SHEFFIELD-CHAPIN COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets

June 30, 2006

	\$
<b>Total fund balances of governmental funds (Exhibit C)</b>	727,165
<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 reported as assets in the governmental funds.	2,866,465
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	141,011
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(14,776)
Long-term liabilities, including bonds payable and termination benefits payable, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(1,842,162)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>1,877,703</u></u>

## SHEFFIELD-CHAPIN COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds

Year ended June 30, 2006

	General Fund	Capital Projects Local Option Sales Tax	Debt Service	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	1,006,982	160,807	210,900	141,845	1,520,534
Tuition	221,632	-	-	-	221,632
Other	62,601	1,539	209	138,747	203,096
State sources	1,449,883	19,206	127	53	1,469,269
Federal sources	94,282	-	-	-	94,282
Total revenues	<u>2,835,380</u>	<u>181,552</u>	<u>211,236</u>	<u>280,645</u>	<u>3,508,813</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	1,097,528	-	-	9,568	1,107,096
Special instruction	501,168	-	-	-	501,168
Other instruction	312,556	-	-	139,372	451,928
	<u>1,911,252</u>	<u>-</u>	<u>-</u>	<u>148,940</u>	<u>2,060,192</u>
Support services:					
Student services	40,773	-	-	-	40,773
Instructional staff services	45,784	-	-	-	45,784
Administration services	364,071	-	-	23,346	387,417
Operation and maintenance of plant services	220,087	-	-	8,319	228,406
Transportation services	114,914	-	-	38,370	153,284
	<u>785,629</u>	<u>-</u>	<u>-</u>	<u>70,035</u>	<u>855,664</u>
Other expenditures:					
Facilities acquisition	-	107,218	-	36,956	144,174
Long-term debt:					
Principal	-	-	140,865	-	140,865
Interest and fiscal charges	-	-	96,847	-	96,847
AEA flowthrough	103,409	-	-	-	103,409
	<u>103,409</u>	<u>107,218</u>	<u>237,712</u>	<u>36,956</u>	<u>485,295</u>
Total expenditures	<u>2,800,290</u>	<u>107,218</u>	<u>237,712</u>	<u>255,931</u>	<u>3,401,151</u>
Excess (deficiency) of revenues over (under) expenditures	<u>35,090</u>	<u>74,334</u>	<u>(26,476)</u>	<u>24,714</u>	<u>107,662</u>
Other financing sources (uses):					
Sales of materials and equipment	352	-	-	-	352
Operating transfers in	-	-	26,840	-	26,840
Operating transfers out	-	-	-	(26,840)	(26,840)
Total other financing sources (uses)	<u>352</u>	<u>-</u>	<u>26,840</u>	<u>(26,840)</u>	<u>352</u>
Net change in fund balances	35,442	74,334	364	(2,126)	108,014
Fund balances beginning of year	<u>220,760</u>	<u>263,878</u>	<u>3,752</u>	<u>130,761</u>	<u>619,151</u>
Fund balances end of year	<u>256,202</u>	<u>338,212</u>	<u>4,116</u>	<u>128,635</u>	<u>727,165</u>

See notes to financial statements.

## SHEFFIELD-CHAPIN COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances - Governmental Funds to the  
Statement of Activities

Year ended June 30, 2006

	\$	\$
<b>Net change in fund balances - total governmental funds (Exhibit E)</b>		108,014
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the year as follows:		
Expenditures for capital assets	144,643	
Depreciation expense	<u>(103,907)</u>	40,736
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.		
		899
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
		140,865
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities interest expense is recognized as the interest accrues, regardless of when it is due.		
		1,719
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Termination benefits		<u>(27,703)</u>
<b>Changes in net assets of governmental activities (Exhibit B)</b>		<u><u>264,530</u></u>

## SHEFFIELD-CHAPIN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Funds

June 30, 2006

	Nonmajor School Nutrition
	<u>\$</u>
<b>Assets</b>	
Cash and cash equivalents	6,535
Inventories	4,148
Capital assets, net of accumulated depreciation	<u>27,085</u>
<b>Total assets</b>	<u>37,768</u>
<b>Liabilities</b>	
Accounts payable	810
Deferred revenue	<u>1,951</u>
<b>Total liabilities</b>	<u>2,761</u>
<b>Net assets</b>	
Invested in capital assets, net of related debt	27,085
Unrestricted	<u>7,922</u>
<b>Total net assets</b>	<u><u>35,007</u></u>

SHEFFIELD-CHAPIN COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenses, and Changes in Net Assets  
Proprietary Funds

Year ended June 30, 2006

	Nonmajor School Nutrition <u>\$</u>
Operating revenue:	
Local sources:	
Charges for service	<u>62,556</u>
Operating expenses:	
Non-instructional programs:	
Salaries	37,994
Benefits	14,123
Purchased services	706
Supplies	72,263
Depreciation	<u>3,378</u>
	<u>128,464</u>
Operating gain (loss)	<u>(65,908)</u>
Non-operating revenue:	
State sources	1,857
Federal sources	55,224
Interest income	74
Total non-operating revenue	<u>57,155</u>
Change in net assets	(8,753)
Net assets beginning of year	<u>43,760</u>
Net assets end of year	<u><u>35,007</u></u>

## SHEFFIELD-CHAPIN COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2006

	Nonmajor School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	63,112
Cash payments to employees for services	(52,117)
Cash payments to suppliers for goods or services	(60,721)
Net cash used by operating activities	<u>(49,726)</u>
Cash flows from non-capital financing activities:	
State grants received	1,857
Federal grants received	41,290
Net cash provided by non-capital financing activities	<u>43,147</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities:	
Interest on investments	<u>74</u>
Net increase (decrease) in cash and cash equivalents	(6,505)
Cash and cash equivalents at beginning of year	<u>13,040</u>
Cash and cash equivalents at end of year	<u><u>6,535</u></u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>	
Operating gain (loss)	(65,908)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	13,934
Depreciation	3,378
Decrease (increase) in inventories	(1,686)
Decrease (increase) in accounts receivable	512
(Decrease) increase in deferred revenue	44
Net cash used in operating activities	<u><u>(49,726)</u></u>

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

During the year ended June 30, 2006, the District received \$13,934 of federal commodities.

SHEFFIELD-CHAPIN COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Funds

June 30, 2006

	Private Purpose Trust Scholarship
	<u>\$</u>
<b>Assets</b>	
Cash and pooled investments	11,607
<b>Liabilities</b>	<u>-</u>
<b>Net Assets</b>	
Reserved for scholarships	<u><u>11,607</u></u>

## SHEFFIELD-CHAPIN COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2006

	Private Purpose Trust Scholarship <u>\$</u>
Additions:	
Local sources:	
Gifts and contributions	825
Investment income	<u>932</u>
Total additions	<u>1,757</u>
Deductions:	
Support services:	
Scholarships awarded	<u>2,535</u>
Change in net assets	(778)
Net assets beginning of year	<u>12,385</u>
Net assets end of year	<u><u>11,607</u></u>

# SHEFFIELD-CHAPIN COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2006

### 1. Summary of Significant Accounting Policies

Sheffield-Chapin 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 Sheffield and Chapin, Iowa and the predominately agricultural territory in a portion of Cerro Gordo and Franklin 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, Sheffield-Chapin Community School District has included all funds, organizations, 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 Sheffield-Chapin Community School District has no component units that 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 does 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 County Assessor's 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 service.

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

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt 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 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 clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions, and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

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

The District reports the following major governmental funds:

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

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

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

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

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

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

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

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

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from 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, have a maturity date no longer than three months.

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the

District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005, through June 30, 2006, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

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 governmental and 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 repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

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

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

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

The District's collection of library books and other similar materials are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to District policy that requires proceeds from the sale of these items, if any, to be used to acquire other collection items.

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 receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of unspent grant proceeds, amounts received in advance for meal sales and succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Employees are not paid for unused vacation and sick leave benefits when employment with the District ends.

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

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

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

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the non-instructional programs and other expenditures functions exceeded the amounts budgeted. It also appears that the District exceeded its General Fund unspent authorized budget.

## 2. **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2006 were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2006, the District had the following investments:

	<u>Fair Value</u>
	\$
First American Strategy Funds:	
Income Strategy Growth & Income Allocation Fund Class A	10,348

**3. Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
		\$
Debt Service Fund	Nonmajor Funds:	
	Physical Plant and Equipment Levy Fund	26,840

The transfer moved revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

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

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each participating entity is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2006, is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
			\$	\$	\$	\$
2006-07A	6/28/06	6/28/07	<u>122,829</u>	<u>38</u>	<u>123,000</u>	<u>76</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006, is as follows:

<u>Balance Beginning of Year</u>	<u>Advances Received</u>	<u>Advances Repaid</u>	<u>Balance End of Year</u>
\$	\$	\$	\$
-	<u>50,000</u>	<u>50,000</u>	-

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

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
	%	%
2005-06A	4.000	3.903
2006-07A	4.500	5.676

## 5. Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Construction in process	-	107,140	-	107,140
Land	37,944	7,000	-	44,944
	<u>37,944</u>	<u>114,140</u>	<u>-</u>	<u>152,084</u>
Capital assets being depreciated:				
Buildings	3,427,852	-	-	3,427,852
Improvements other than buildings	119,463	-	-	119,463
Furniture and equipment	664,304	30,503	15,276	679,531
Total capital assets being deprec.	<u>4,211,619</u>	<u>30,503</u>	<u>15,276</u>	<u>4,226,846</u>
Less accumulated depreciation for:				
Buildings	853,132	66,396	-	919,528
Improvements other than buildings	107,771	746	-	108,517
Furniture and equipment	462,931	36,765	15,276	484,420
Total accumulated depreciation	<u>1,423,834</u>	<u>103,907</u>	<u>15,276</u>	<u>1,512,465</u>
Total capital assets being depreciated, net	<u>2,787,785</u>	<u>(73,404)</u>	<u>-</u>	<u>2,714,381</u>
Governmental activities capital assets, net	<u>2,825,729</u>	<u>40,736</u>	<u>-</u>	<u>2,866,465</u>
	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$
<b>Business type activities:</b>				
Furniture and equipment	58,029	810	-	58,839
Less accumulated depreciation	<u>28,376</u>	<u>3,378</u>	<u>-</u>	<u>31,754</u>
Business type activities capital assets, net	<u>29,653</u>	<u>(2,568)</u>	<u>-</u>	<u>27,085</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	3,171
Other	1,652
Support Services:	
Operation and maintenance of plant services	2,383
Transportation	29,559
	<u>36,765</u>
Unallocated depreciation	67,142
	<u>103,907</u>
Total depreciation expense – governmental activities	
Business type activities:	
Food services	3,378
	<u>3,378</u>

## 6. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
General obligation bonds	1,870,000	-	115,000	1,755,000	120,000
Capital leases	25,865	-	25,865	-	-
Termination Benefits	59,459	44,383	16,680	87,162	16,668
	<u>1,955,324</u>	<u>44,383</u>	<u>157,545</u>	<u>1,842,162</u>	<u>136,668</u>
Total					

### Termination Benefits

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least fifteen years of continuous service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education. The board may limit the number of early retirements to two per year.

Early retirement benefits include the District paying a limited portion of the retiree's health insurance premiums until the retiree is eligible for Medicare.

Early retirement benefits will be paid in three equal installments beginning in January following the start of retirement. The second payment will be paid the following July, and the third and final payment shall be paid during July of the next year.

At June 30, 2006, the District has obligations to six participants with a total liability of \$87,162. Actual early retirement expenditures for the year ended June 30, 2006 totaled \$16,680.

## General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

<u>Year Ending June 30,</u>	<u>Bond Issue of November, 1997</u>			
	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	<u>%</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
2007	4.80	120,000	88,658	208,658
2008	4.95	130,000	81,458	211,458
2009	5.00	135,000	75,348	210,348
2010	5.10	140,000	68,935	208,935
2011	5.15	150,000	62,145	212,145
2012-2016	5.20-5.45	875,000	191,426	1,066,426
2017	5.45	<u>205,000</u>	<u>10,558</u>	<u>215,558</u>
		<u>1,755,000</u>	<u>578,528</u>	<u>2,333,528</u>

### **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.

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, 2006, 2005 and 2004. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$93,270, \$91,894, and \$87,991 respectively, equal to the required contributions for each year.

### **8. Risk Management**

The 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.

### **9. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$103,409 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**10. Lease Commitment**

The District entered into a five-year operating lease for a copy machine. The payments the District will make over the remaining lease term are as follows:

<u>Year Ended June 30</u>	<u>Lease Payment</u>
2007	\$ 3,495

**11. Construction Commitment**

The District has entered into contracts totaling \$298,640 for roof repairs, boiler replacement and tuckpointing. As of June 30, 2006 costs of \$100,000 had been incurred against the contracts. The balances remaining at June 30, 2006 will be paid as work on the project progresses.

**12. Subsequent Events**

In August of 2006 the citizens of the Sheffield-Chapin and Merservey-Thornton Community School Districts approved a merger of the two districts. The merger will be effective July 1, 2007.

REQUIRED SUPPLEMENTARY INFORMATION

SHEFFIELD-CHAPIN COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures, and Changes in Balances -  
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2006

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
<b>Revenues:</b>						
Local sources	1,945,262	62,630	2,007,892	1,966,987	1,966,987	40,905
State sources	1,469,269	1,857	1,471,126	1,450,126	1,450,126	21,000
Federal sources	94,282	55,224	149,506	129,400	129,400	20,106
Total revenues	<u>3,508,813</u>	<u>119,711</u>	<u>3,628,524</u>	<u>3,546,513</u>	<u>3,546,513</u>	<u>82,011</u>
<b>Expenditures:</b>						
Instruction	2,060,192	-	2,060,192	2,174,100	2,174,100	113,908
Support services	855,664	-	855,664	933,400	933,400	77,736
Non-instructional programs	-	128,464	128,464	126,400	126,400	(2,064)
Other expenditures	485,295	-	485,295	325,009	325,009	(160,286)
Total expenditures	<u>3,401,151</u>	<u>128,464</u>	<u>3,529,615</u>	<u>3,558,909</u>	<u>3,558,909</u>	<u>29,294</u>
Excess (deficiency) of revenues over (under) expenditures	107,662	(8,753)	98,909	(12,396)	(12,396)	111,305
Other financing sources (uses) net	<u>352</u>	<u>-</u>	<u>352</u>	<u>-</u>	<u>-</u>	<u>352</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	108,014	(8,753)	99,261	(12,396)	(12,396)	111,657
Balance beginning of year	<u>619,151</u>	<u>43,760</u>	<u>662,911</u>	<u>700,628</u>	<u>700,628</u>	<u>(37,717)</u>
Balance end of year	<u><u>727,165</u></u>	<u><u>35,007</u></u>	<u><u>762,172</u></u>	<u><u>688,232</u></u>	<u><u>688,232</u></u>	<u><u>73,940</u></u>

SHEFFIELD-CHAPIN COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2006

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 except Internal Service, 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 a GAAP basis.

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

During the year ended June 30, 2006, expenditures in the non-instructional programs and other expenditures functions exceeded the amounts budgeted. It also appears that the District exceeded its General Fund unspent authorized budget.

OTHER SUPPLEMENTARY INFORMATION

## SHEFFIELD-CHAPIN COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2006

Assets	Special Revenue Funds			Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	
	\$	\$	\$	
Cash and pooled investments	19,356	44,641	66,067	130,064
Receivables:				
Property tax:				
Delinquent	906	-	422	1,328
Succeeding year	70,000	-	36,195	106,195
Due from other governments	-	-	47,004	47,004
<b>Total assets</b>	<b>90,262</b>	<b>44,641</b>	<b>149,688</b>	<b>284,591</b>
<b>Liabilities &amp; Fund Balances</b>				
Liabilities:				
Accounts payable	-	2,076	681	2,757
Deferred revenue:				
Succeeding year property tax	70,000	-	36,195	106,195
Other	-	-	47,004	47,004
Total liabilities	70,000	2,076	83,880	155,956
Fund balances:				
Unreserved fund balance reported in:				
Special Revenue Funds	20,262	42,565	65,808	128,635
<b>Total liabilities and fund balances</b>	<b>90,262</b>	<b>44,641</b>	<b>149,688</b>	<b>284,591</b>

## SHEFFIELD-CHAPIN COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds

Year ended June 30, 2006

	Special Revenue Funds			Total
	Management	Student	Physical	
	Levy	Activity	Plant and	
		Fund	Equipment	
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	60,039	-	81,806	141,845
Other	50	135,701	2,996	138,747
State sources	36	-	17	53
Total revenues	<u>60,125</u>	<u>135,701</u>	<u>84,819</u>	<u>280,645</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	9,568	-	-	9,568
Other instruction	-	139,372	-	139,372
Support services:				
Administration services	22,963	-	383	23,346
Operation and maintenance of plant services	8,319	-	-	8,319
Transportation services	7,867	-	30,503	38,370
Other expenditures:				
Facilities acquisition	-	-	36,956	36,956
Total expenditures	<u>48,717</u>	<u>139,372</u>	<u>67,842</u>	<u>255,931</u>
Excess (deficiency) of revenues over (under) expenditures	11,408	(3,671)	16,977	24,714
Other financing sources (uses):				
Operating transfers out	-	-	(26,840)	(26,840)
Net change in fund balances	11,408	(3,671)	(9,863)	(2,126)
Fund balances beginning of year	<u>8,854</u>	<u>46,236</u>	<u>75,671</u>	<u>130,761</u>
Fund balances end of year	<u>20,262</u>	<u>42,565</u>	<u>65,808</u>	<u>128,635</u>

## SHEFFIELD-CHAPIN COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

<u>Account</u>	Balance Beginning of Year \$	Revenues \$	Expenditures \$	Intra-Fund Transfers \$	Balance End of Year \$
Athletics	1,514	56,005	63,081	-	(5,562)
Cheerleaders	3,668	1,803	1,381	-	4,090
Cheerleading merchandise	(3,705)	-	878	-	(4,583)
Band club	266	-	-	-	266
Track	1,025	140	1,459	-	(294)
Annual	4,056	7,388	7,524	-	3,920
Drama	3,330	437	511	-	3,256
Science club	(1,694)	264	877	-	(2,307)
Science club merchandise	2,526	799	476	-	2,849
Speech	76	3,693	2,403	-	1,366
Class of 2003	445	-	28	28	445
Class of 2004	103	-	-	-	103
Class of 2005	1,170	-	-	-	1,170
Class of 2006	9,962	2,614	11,966	(192)	418
Class of 2007	2,852	18,498	18,655	164	2,859
Class of 2008	5,262	554	446	-	5,370
Class of 2009	-	6,292	527	-	5,765
Student council	8,903	4,596	3,304	(200)	9,995
Student council merchandise	517	3,990	1,044	-	3,463
Student awards	1,058	308	431	-	935
Elementary student council	4,902	28,320	22,305	200	11,117
Ending accounts payable	-	-	2,076	-	(2,076)
Totals	<u>46,236</u>	<u>135,701</u>	<u>139,372</u>	<u>-</u>	<u>42,565</u>

## SHEFFIELD-CHAPIN COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function  
All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2006	2005	2004	2003
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,520,534	1,515,234	1,402,126	1,324,652
Tuition	221,632	198,946	274,005	213,805
Other	203,096	180,919	152,454	226,052
State sources	1,469,269	1,342,162	1,255,227	1,261,865
Federal sources	94,282	100,808	81,136	82,796
Total revenues	<u>3,508,813</u>	<u>3,338,069</u>	<u>3,164,948</u>	<u>3,109,170</u>
Expenditures:				
Instruction:				
Regular instruction	1,107,096	1,190,441	1,095,950	1,068,733
Special instruction	501,168	520,540	473,041	409,489
Other instruction	451,928	313,484	277,337	346,965
Support services:				
Student services	40,773	39,173	39,060	62,616
Instructional staff services	45,784	76,954	77,929	85,856
Administration services	387,417	359,744	382,404	344,820
Operation and maintenances of plant services	228,406	199,226	254,041	178,200
Transportation services	153,284	118,945	181,505	86,494
Central support services	-	-	-	31,216
Non-instructional programs	-	4,130	8,709	-
Other expenditures:				
Facilities acquisition	144,174	51,415	21,673	41,963
Long-term debt:				
Principal	140,865	134,925	121,974	111,243
Interest and other charges	96,847	104,373	109,515	114,521
AEA flowthrough	103,409	96,523	97,175	101,144
Total expenditures	<u>3,401,151</u>	<u>3,209,873</u>	<u>3,140,313</u>	<u>2,983,260</u>

Gary E. Horton CPA

PO Box 384  
Clarion, IA 50525-0384  
(515)532-6681 Phone  
(515) 532-2405 Fax  
BETCO@mchsi.com E-mail

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  
Sheffield-Chapin 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 Sheffield-Chapin Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 6, 2006. 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 Sheffield-Chapin Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. 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 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 items 06-I-A and 06-I-B are material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sheffield-Chapin 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 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. 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, 2006 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 Sheffield-Chapin Community School District and other parties to whom Sheffield-Chapin Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Sheffield-Chapin 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.

BURTON E. TRACY & CO., P.C.  
Certified Public Accountants

September 6, 2006

SHEFFIELD-CHAPIN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

06-I-A Segregation of Duties: The limited number of personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although we noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

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

District Response: The District is aware of the lack of complete segregation of duties and will make changes as the opportunity arises.

Conclusion: Response accepted.

06-I-B Federal and State Grants: The District receives various state and federal grants each year. Some of the grants are received annually and others are for only a year or two. However, all of these grants require that the District's accounting records track how each grant was spent and require that any grant expenditure reporting to state or federal officials match the District's accounting records. We noted that often the accounting department was unaware of certain grant expenditures.

Recommendation: Administrators and other employees responsible for grant administration and the accounting department must work together to ensure that all grant expenses are properly reported in the District's accounting records.

District Response: We will improve our financial reporting for grant expenditures.

Conclusion: Response accepted.

SHEFFIELD-CHAPIN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting:

06-II-A Certified Budget: Expenditures for the year ended June 30, 2006, exceeded the amounts budgeted in the non-instructional programs and other expenditures functional areas. It also appears that the District exceeded its General Fund unspent authorized budget for the year ended June 30, 2006.

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. The District should contact the Iowa Department of Education and the School Budget Review Committee to resolve the unspent authorized budget issue.

District Response: We will amend future budgets before disbursements exceed the budget. We have contacted the School Budget Review Committee.

Conclusion: Response accepted.

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

06-II-C Travel Expenses: 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.

06-II-D Business Transactions: We noted no transactions between the District and District officials or employees.

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

06-II-F Board Minutes: No transactions requiring board approval that had not been approved by the board were noted.

06-II-G Certified Enrollment: No variances in the basic enrollment data certified to the Department of Education were noted.

06-II-H Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

06-II-I Certified Annual Report: The Certified Annual Report was not due at the date of the audit.

06-II-J Reclassification of Student Activity Fund Accounts: The Student Activity Fund is to be used to account for the District's extracurricular student activity program. We noted accounts in the Student Activity Fund that may belong more appropriately in other funds.

Recommendation: We recommend these accounts be reviewed and transferred to the proper fund.

SHEFFIELD-CHAPIN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting (continued):

District Response: We will review the accounts and make any necessary adjustments.

Conclusion: Response accepted.

06-II-K Public Hearing: The Code of Iowa requires that schools hold a public hearing for all capital improvements with a cost exceeding \$25,000. We noted that the Board approved a capital improvement without holding a public hearing.

Recommendation: The District should hold public hearings for all capital projects with cost in excess of \$25,000.

District Response: We will do this in the future.

Conclusion: Response accepted.