



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____

January 6, 2011

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released an audit report on Sheldon Community School District in Sheldon, Iowa.

The District's revenues totaled \$11,666,824 for the year ended June 30, 2010, an increase of 2.4 % over the prior year. Revenues included \$3,446,162 in local tax, charges for service of \$916,830, operating grants, contributions and restricted interest of \$2,313,631, capital grants, contributions and restricted interest of \$25,560, instructional support surtax of \$447,197, statewide sales, services and use tax of \$739,751, unrestricted state grants and contributions of \$3,416,840, unrestricted investment earnings of \$1,950, insurance recoveries of \$349,585 and other general revenues of \$9,318.

Expenses for District operations totaled \$11,381,348, an increase of 4.7% over the prior year. Expenses included \$6,677,929 for instruction, \$2,205,859 for support services, \$14,950 for non-instructional programs (excluding food service operations), \$2,006,714 for other expenditures and \$475,896 for food service operations.

A copy of the audit report is available for review in the District Secretary's office, in the Office of Auditor of State and on the Auditor of State's web site at :

<http://auditor.iowa.gov/reports/1030-5949-B00F.pdf>.

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SHELDON COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2010

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Sheldon Community School District

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|---|--|---------------------|
| Board of Education | | |
| (Before September 2009 Election) | | |
| Dan Van Gorp | President | 2009 |
| Gary Ihnen | Vice President | 2011 |
| Randy Merley | Board Member | 2009 |
| Glen Goedken | Board Member | 2011 |
| Kecia Hickman | Board Member | 2011 |
| Board of Education | | |
| (After September 2009 Election) | | |
| Gary Ihnen | President | 2011 |
| Kecia Hickman | Vice President | 2011 |
| Glen Goedken | Board Member | 2011 |
| Randy Merley | Board Member | 2013 |
| Susan Rensink | Board Member | 2013 |
| School Officials | | |
| Robin Spears | Superintendent | 2010 |
| Bill Borchers | District Secretary/Treasurer and Business Manager | 2010 |
| Tom Whorley | Attorney | 2010 |

Sheldon Community School District



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Independent Auditor's Report

To the Board of Education of
Sheldon 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 Sheldon Community School District, Sheldon, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

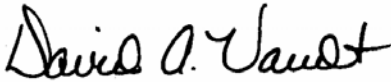
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain 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 Sheldon Community School District at June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

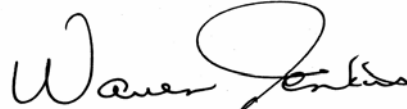
In accordance with Government Auditing Standards, we have also issued our report dated December 21, 2010 on our consideration of Sheldon Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant 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, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 8 through 16 and 44 through 47 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 Sheldon 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 nine years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the 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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 21, 2010

Sheldon Community School District

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sheldon 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, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$9,303,494 in fiscal year 2009 to \$9,236,730 in fiscal year 2010, while General Fund expenditures increased from \$8,916,290 in fiscal year 2009 to \$8,948,592 in fiscal year 2010. The District's General Fund balance increased from \$760,693 at the end of fiscal year 2009 to \$1,048,831 at the end of fiscal year 2010, an increase of 37.9%.
- The majority of the decrease in General Fund revenues is due to the 10% across the board cut in State funding less the amount offset by funds received under the American Recovery and Reinvestment Act (ARRA). The increase in expenditures is due to increases in salaries, benefits and instructional expenditures less savings in the support services areas.
- The General Fund balance increase is due to the District retaining some of the funds received under the American Recovery and Reinvestment Act (ARRA) received during fiscal year 2010 which will not be expended until fiscal years 2011 and 2012.

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 Sheldon Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements report Sheldon Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The governmental fund financial statements tell how governmental services were financed in the short term as well as what remains for future spending. The proprietary fund financial statements offer short-term and long-term financial information about activities the District operates like a business. In Sheldon Community School District, the school nutrition program operations are the only enterprise reported as a proprietary fund. The remaining statements provide financial information about activities for which Sheldon Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

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, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

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

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

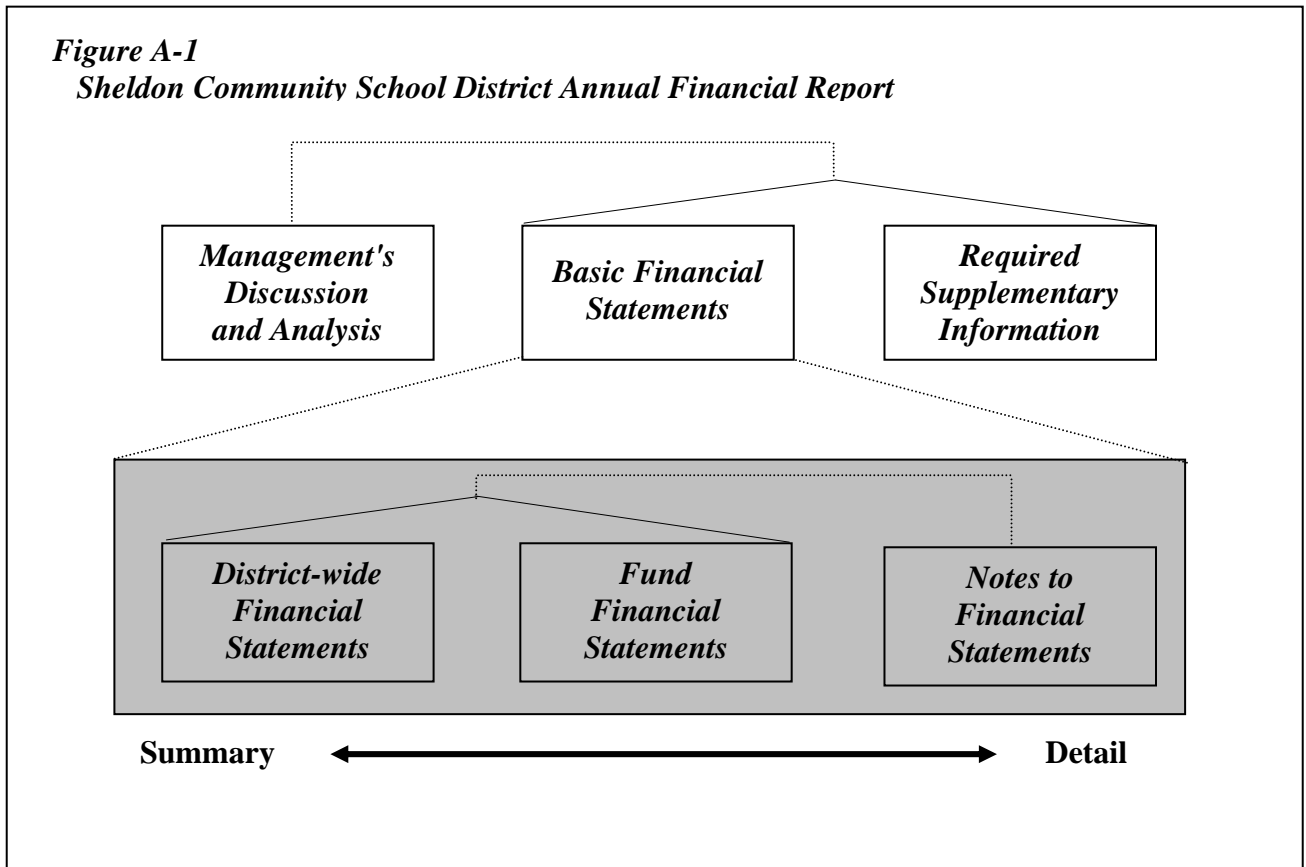


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

| Figure A-2 Major Features of the Government-wide and Fund Financial Statements | | | | |
|---|--|--|--|---|
| | Government-wide Statements | Fund Statements | | |
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire District (except fiduciary funds) | The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance | Activities the District operates similar to private businesses: food services | Instances in which the District administers resources on behalf of someone else |
| 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 | <ul style="list-style-type: none"> • Statement of fiduciary assets and liabilities-Agency Fund |
| 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 the 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 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, the Special Revenue Funds, the Debt Service Fund and the 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 Fund, one type of proprietary fund, is the same as its business type activities, but provides 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 and Agency Funds.

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

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

The required financial statements for the District’s 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 total net assets at June 30, 2010 compared to June 30, 2009.

| | Governmental Activities | | Business Type Activities | | Total District | | % Total Change June 30, 2009-2010 |
|--|-------------------------|--------|--------------------------|------|----------------|--------|---|
| | June 30, 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | |
| Current and other assets | \$ 6,856 | 8,767 | 158 | 106 | 7,014 | 8,873 | -21.0% |
| Capital assets | 9,005 | 8,604 | 31 | 25 | 9,036 | 8,629 | 4.7% |
| Total assets | 15,861 | 17,371 | 189 | 131 | 16,050 | 17,502 | -8.3% |
| Long-term liabilities | 5,025 | 5,166 | - | - | 5,025 | 5,166 | -2.7% |
| Other liabilities | 4,630 | 6,226 | 9 | 9 | 4,639 | 6,235 | -25.6% |
| Total liabilities | 9,655 | 11,392 | 9 | 9 | 9,664 | 11,401 | -15.2% |
| Net assets: | | | | | | | |
| Invested in capital assets, net of related debt | 4,170 | 3,469 | 31 | 25 | 4,201 | 3,494 | 20.2% |
| Restricted | 821 | 1,378 | - | - | 821 | 1,378 | -40.4% |
| Unrestricted | 1,215 | 1,132 | 149 | 97 | 1,364 | 1,229 | 11.0% |
| Total net assets | \$ 6,206 | 5,979 | 180 | 122 | 6,386 | 6,101 | 4.7% |

The District’s combined net assets increased 4.7%, or approximately \$285,000, over the prior year. The largest portion of the District’s net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets.

Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District’s restricted net assets decreased approximately \$557,000, or 40.4%, from the prior year.

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 – increased approximately \$135,000, or 11%.

Figure A-4 shows the changes in net assets for the years ended June 30, 2010 and 2009.

| Figure A-4 | | | | | | | |
|---|-----------------|---------------|---------------|------------|---------------|---------------|-----------------------|
| Changes in Net Assets (Expressed in Thousands) | | | | | | | |
| | Governmental | | Business Type | | Total | | % Total |
| | Activities | | Activities | | District | | Change |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | June 30, 2009-2010 |
| Revenues: | | | | | | | |
| Program revenues: | | | | | | | |
| Charges for service | \$ 594 | 584 | 323 | 333 | 917 | 917 | 0.0% |
| Operating grants, contributions and restricted interest | 2,105 | 1,767 | 209 | 183 | 2,314 | 1,950 | 18.7% |
| Capital grants, contributions and restricted interest | 25 | 25 | - | - | 25 | 25 | 0.0% |
| General revenues: | | | | | | | |
| Property tax | 3,446 | 3,214 | - | - | 3,446 | 3,214 | 7.2% |
| Instructional support surtax | 447 | 273 | - | - | 447 | 273 | 63.7% |
| Statewide sales, services and use tax | 740 | 734 | - | - | 740 | 734 | 0.8% |
| Unrestricted state grants | 3,417 | 4,241 | - | - | 3,417 | 4,241 | -19.4% |
| Unrestricted investment earnings | 2 | 33 | - | 1 | 2 | 34 | -94.1% |
| Insurance recoveries | 350 | - | - | - | 350 | - | 100.0% |
| Other | 7 | 9 | 2 | 1 | 9 | 10 | -10.0% |
| Total revenues | 11,133 | 10,880 | 534 | 518 | 11,667 | 11,398 | 2.4% |
| Program expenses: | | | | | | | |
| Instruction | 6,678 | 6,854 | - | - | 6,678 | 6,854 | -2.6% |
| Support services | 2,206 | 2,402 | - | - | 2,206 | 2,402 | -8.2% |
| Non-instructional programs | 15 | 43 | 476 | 490 | 491 | 533 | -7.9% |
| Other expenses | 2,007 | 1,079 | - | - | 2,007 | 1,079 | 86.0% |
| Total expenses | 10,906 | 10,378 | 476 | 490 | 11,382 | 10,868 | 4.7% |
| Increase in net assets | 227 | 502 | 58 | 28 | 285 | 530 | -46.2% |
| Net assets beginning of year | 5,979 | 5,477 | 122 | 94 | 6,101 | 5,571 | 9.5% |
| Net assets end of year | \$ 6,206 | 5,979 | 180 | 122 | 6,386 | 6,101 | 4.7% |

Property tax and unrestricted state grants account for 62% of the total governmental activities revenue. The District's expenses primarily relate to instruction and support services, which account for 81% of the total governmental activities expenses.

Governmental Activities

Revenues for governmental activities were \$11,132,808 and expenses were \$10,905,452.

The following table presents the total and net cost of the District's major governmental activities for fiscal year 2010: instruction, support services, non-instructional programs and other expenses.

| Figure A-5 | | | | | | |
|--|------------------------|---------------|---------------------|----------------------|--------------|---------------------|
| Total and Net Cost of Governmental Activities | | | | | | |
| (Expressed in Thousands) | | | | | | |
| | Total Cost of Services | | | Net Cost of Services | | |
| | 2010 | 2009 | Change 2009-2010 | 2010 | 2009 | Change 2009-2010 |
| Instruction | \$ 6,678 | 6,854 | -2.6% | 4,499 | 5,001 | -10.0% |
| Support services | 2,206 | 2,402 | -8.2% | 2,124 | 2,298 | -7.6% |
| Non-instructional programs | 15 | 43 | -65.1% | 9 | 39 | -76.9% |
| Other expenses | 2,007 | 1,079 | 86.0% | 1,549 | 664 | 133.3% |
| Total | \$ 10,906 | 10,378 | 5.1% | 8,181 | 8,002 | 2.2% |

For the year ended June 30, 2010:

- The cost financed by users of the District's programs was \$593,622.
- Federal and state governments subsidized certain programs with grants, contributions and restricted interest totaling \$2,130,260.
- The net cost of governmental activities was financed with \$4,633,110 in property and other tax, including statewide sales, services and tax, and \$3,416,840 in unrestricted state grants and contributions.

Business Type Activities

Revenues for business type activities were \$534,016 and expenses were \$475,896. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, Sheldon 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 \$1,764,102, a decrease of \$386,979 compared to last year's ending fund balance of \$2,151,081. The decrease is due to an increase in the use of the balance in the Local Option Sales, Services and Use Tax Account within the Capital Projects Fund to help pay for the capital improvement projects completed or started during fiscal year 2010.

Governmental Fund Highlights

The General Fund balance increased from \$760,693 to \$1,048,831 due to the District retaining some of the funds received under the American Recovery and Reinvestment Act (ARRA) which will be expended in fiscal years 2011 and 2012.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$122,234 at June 30, 2009 to \$180,354 at June 30, 2010, representing an increase of approximately 47.5%, due primarily to an increase in revenue from federal sources.

BUDGETARY HIGHLIGHTS

Over the course of the year, Sheldon Community School District amended its annual budget one time by \$1,010,000 to reflect additional expenditures in the Special Revenue, Physical Plant and Equipment Levy, the Capital Projects and the Enterprise, School Nutrition Funds.

The District's revenues were \$352,796 less than budgeted revenues, a variance of 3%.

Total expenditures were \$1,060,127 less than budgeted expenditures, due primarily to the District's budget for the General Fund. 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 ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had invested, net of accumulated depreciation, approximately \$9.0 million in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Total depreciation expense for the year was \$544,044 for governmental and business type activities.

Figure A-6
Capital Assets, net of Accumulated Depreciation
(expressed in thousands)

| | Governmental | | Business Type | | Total | | % Total Change |
|--------------------------------------|-----------------|--------------|---------------|-----------|--------------|--------------|-------------------|
| | Activities | | Activities | | District | | |
| | June 30, | | June 30, | | June 30, | | |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2009-2010 |
| Land | \$ 83 | 83 | - | - | 83 | 83 | 0.0% |
| Construction in progress | 52 | 344 | - | 4 | 52 | 348 | -85.1% |
| Buildings | 7,544 | 6,877 | - | - | 7,544 | 6,877 | 9.7% |
| Improvements other than buildings | 861 | 941 | - | - | 861 | 941 | -8.5% |
| Furniture and equipment | 444 | 337 | 31 | 21 | 475 | 358 | 32.7% |
| Infrastructure | 21 | 22 | - | - | 21 | 22 | -4.5% |
| Total | \$ 9,005 | 8,604 | 31 | 25 | 9,036 | 8,629 | 4.7% |

The original cost of the District's capital assets was approximately \$15.9 million. Governmental funds account for \$15.8 million, with the remaining \$.1 million accounted for in the Proprietary, School Nutrition Fund.

Long-Term Liabilities

At June 30, 2010, the District had \$4,835,000 in general obligation bonded indebtedness outstanding. This represents a decrease of approximately 5.8% from last year. (See Figure A-7) Additional information about the District's long-term liabilities is presented in Note 6 to the financial statements.

| Figure A-7 | | | |
|--|----------|----------|-----------|
| Outstanding Long-Term Liabilities | | | |
| (expressed in thousands) | | | |
| | Total | | % Total |
| | District | | Change |
| | June 30, | June 30, | June 30, |
| | 2010 | 2009 | 2009-2010 |
| General obligation bonds | \$ 4,835 | 5,135 | -5.8% |
| Early retirement | 167 | 31 | 438.7% |
| Net OPEB liability | 22 | - | 100.0% |
| Total | \$ 5,024 | 5,166 | -2.7% |

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

The wage settlement for fiscal year 2010 was very small, with the majority of the change being taken by the increased cost of health insurance even though the Certified Staff went with a higher deductible insurance plan.

The District will receive approximately \$200,000 in Education Jobs Funds which will be used in fiscal year 2012 to help maintain the current staff employment level, providing there is not a large reduction in students.

The District has levied for additional Cash Reserves in the past and will continue to levy for these funds to help offset any reduction in the funding from the State of Iowa.

The District is being very watchful of its expenditures on capital projects and held a vote on December 7, 2010 on the continuation of the Voted Property Plant and Equipment Levy that expires on June 30, 2011. The rate is \$.50/\$1,000 of assessed valuation. This levy was passed.

The School Board will have an election in September of 2011, in which the positions of three of the veteran directors will be up for re-election. This election could have an impact on the decisions of the Board and the District.

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 Bill Borchers, District Secretary/Treasurer and Business Manager, Sheldon Community School District, 1700 E. 4th Street, Sheldon, Iowa, 51201.

Basic Financial Statements

Sheldon Community School District

Statement of Net Assets

June 30, 2010

| | Governmental Activities | Business Type Activities | Total |
|---|----------------------------|-----------------------------|-------------------|
| Assets | | | |
| Cash, pooled investments and cash equivalents | \$ 2,669,388 | 144,560 | 2,813,948 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 67,885 | - | 67,885 |
| Succeeding year | 3,344,000 | - | 3,344,000 |
| Accounts | 80,206 | - | 80,206 |
| Due from other governments | 694,006 | - | 694,006 |
| Inventories | - | 13,915 | 13,915 |
| Capital assets, net of accumulated depreciation | 9,005,133 | 31,169 | 9,036,302 |
| Total assets | 15,860,618 | 189,644 | 16,050,262 |
| Liabilities | | | |
| Accounts payable | 204,067 | 828 | 204,895 |
| Salaries and benefits payable | 814,293 | 1,627 | 815,920 |
| Due to other governments | 67,344 | - | 67,344 |
| Accrued interest payable | 17,265 | - | 17,265 |
| Unearned revenue: | | | |
| Succeeding year property tax | 3,344,000 | - | 3,344,000 |
| Other | 183,104 | 6,835 | 189,939 |
| Long-term liabilities: | | | |
| Portion due within one year: | | | |
| General obligation bonds | 305,000 | - | 305,000 |
| Early retirement | 82,418 | - | 82,418 |
| Portion due after one year: | | | |
| General obligation bonds | 4,530,000 | - | 4,530,000 |
| Early retirement | 85,020 | - | 85,020 |
| Net OPEB liability | 22,000 | - | 22,000 |
| Total liabilities | 9,654,511 | 9,290 | 9,663,801 |

Sheldon Community School District

Statement of Net Assets

June 30, 2010

| | Governmental Activities | Business Type Activities | Total |
|---|----------------------------|-----------------------------|------------------|
| Net assets | | | |
| Invested in capital assets, net of related debt | 4,170,133 | 31,169 | 4,201,302 |
| Restricted for: | | | |
| Debt service | 115,725 | - | 115,725 |
| Capital projects | 18,523 | - | 18,523 |
| Categorical funding | 122,583 | - | 122,583 |
| Statewide sales, services and use tax | 335,017 | - | 335,017 |
| Other special revenue purposes | 229,215 | - | 229,215 |
| Unrestricted | 1,214,911 | 149,185 | 1,364,096 |
| Total net assets | \$ 6,206,107 | 180,354 | 6,386,461 |

See notes to financial statements.

Sheldon Community School District

Statement of Activities

Year ended June 30, 2010

| | Expenses | Program Revenues | | |
|------------------------------------|----------------------|---------------------|---|---|
| | | Charges for Service | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| Functions/Programs | | | | |
| Governmental activities: | | | | |
| Instruction: | | | | |
| Regular instruction | \$ 3,928,335 | 210,991 | 1,060,734 | - |
| Special instruction | 1,969,309 | - | 176,983 | - |
| Other instruction | 780,285 | 376,134 | 354,553 | - |
| | <u>6,677,929</u> | <u>587,125</u> | <u>1,592,270</u> | <u>-</u> |
| Support services: | | | | |
| Student | 116,853 | - | 12,734 | - |
| Instructional staff | 85,688 | - | - | - |
| Administration | 1,077,985 | - | 2,286 | - |
| Operation and maintenance of plant | 766,103 | - | - | - |
| Transportation | 120,798 | 1,027 | 65,649 | - |
| Central support services | 38,432 | - | - | - |
| | <u>2,205,859</u> | <u>1,027</u> | <u>80,669</u> | <u>-</u> |
| Non-instructional programs | <u>14,950</u> | <u>5,470</u> | <u>-</u> | <u>-</u> |
| Other expenditures: | | | | |
| Facilities acquisition | 1,153,066 | - | - | 25,560 |
| Long-term debt interest | 217,889 | - | 188 | - |
| AEA flow through | 431,559 | - | 431,573 | - |
| Depreciation (unallocated)* | 204,200 | - | - | - |
| | <u>2,006,714</u> | <u>-</u> | <u>431,761</u> | <u>25,560</u> |
| Total governmental activities | <u>10,905,452</u> | <u>593,622</u> | <u>2,104,700</u> | <u>25,560</u> |
| Business type activities: | | | | |
| Non-instructional programs: | | | | |
| Food service operations | 475,896 | 323,208 | 208,931 | - |
| Total | <u>\$ 11,381,348</u> | <u>916,830</u> | <u>2,313,631</u> | <u>25,560</u> |

General Revenues:

Property tax levied for
 general purposes
Instructional support surtax
Statewide sales, services and use tax
Unrestricted state grants
Unrestricted investment earnings
Insurance recoveries
Other
Total general revenues
Change in net assets
Net assets beginning of year
Net assets end of year

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

See notes to financial statements.

| Net (Expense) Revenue and Changes in Net Assets | | |
|--|-----------------------------|--------------------|
| Governmental Activities | Business Type Activities | Total |
| (2,656,610) | - | (2,656,610) |
| (1,792,326) | - | (1,792,326) |
| (49,598) | - | (49,598) |
| <u>(4,498,534)</u> | - | <u>(4,498,534)</u> |
| (104,119) | - | (104,119) |
| (85,688) | - | (85,688) |
| (1,075,699) | - | (1,075,699) |
| (766,103) | - | (766,103) |
| (54,122) | - | (54,122) |
| (38,432) | - | (38,432) |
| <u>(2,124,163)</u> | - | <u>(2,124,163)</u> |
| (9,480) | - | (9,480) |
| (1,127,506) | - | (1,127,506) |
| (217,701) | - | (217,701) |
| 14 | - | 14 |
| (204,200) | - | (204,200) |
| <u>(1,549,393)</u> | - | <u>(1,549,393)</u> |
| (8,181,570) | - | (8,181,570) |
| - | 56,243 | 56,243 |
| <u>(8,181,570)</u> | <u>56,243</u> | <u>(8,125,327)</u> |
| \$ 3,446,162 | - | 3,446,162 |
| 447,197 | - | 447,197 |
| 739,751 | - | 739,751 |
| 3,416,840 | - | 3,416,840 |
| 1,631 | 319 | 1,950 |
| 349,585 | - | 349,585 |
| 7,760 | 1,558 | 9,318 |
| <u>8,408,926</u> | <u>1,877</u> | <u>8,410,803</u> |
| 227,356 | 58,120 | 285,476 |
| 5,978,751 | 122,234 | 6,100,985 |
| <u>\$ 6,206,107</u> | <u>180,354</u> | <u>6,386,461</u> |

Sheldon Community School District

Balance Sheet
Governmental Funds

June 30, 2010

| | General | Nonmajor | Total |
|--|---------------------|------------------|------------------|
| Assets | | | |
| Cash and pooled investments | \$ 1,997,941 | 671,447 | 2,669,388 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 59,439 | 8,446 | 67,885 |
| Succeeding year | 2,827,000 | 517,000 | 3,344,000 |
| Accounts | 843 | 79,363 | 80,206 |
| Due from other governments | 517,070 | 176,936 | 694,006 |
| Total assets | \$ 5,402,293 | 1,453,192 | 6,855,485 |
| Liabilities and Fund Balances | | | |
| Liabilities: | | | |
| Accounts payable | \$ 62,509 | 141,558 | 204,067 |
| Salaries and benefits payable | 814,293 | - | 814,293 |
| Due to other governments | 67,344 | - | 67,344 |
| Deferred revenue: | | | |
| Succeeding year property tax | 2,827,000 | 517,000 | 3,344,000 |
| Other | 582,316 | 79,363 | 661,679 |
| Total liabilities | 4,353,462 | 737,921 | 5,091,383 |
| Fund balances: | | | |
| Reserved for: | | | |
| Categorical funding | 122,583 | - | 122,583 |
| Debt service | - | 132,990 | 132,990 |
| Unreserved, reported in: | | | |
| General fund | 926,248 | - | 926,248 |
| Special revenue funds | - | 228,741 | 228,741 |
| Capital projects fund | - | 353,540 | 353,540 |
| Total fund balances | 1,048,831 | 715,271 | 1,764,102 |
| Total liabilities and fund balances | \$ 5,402,293 | 1,453,192 | 6,855,485 |

See notes to financial statements.

Sheldon Community School District

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

June 30, 2010

| | |
|---|----------------------------|
| Total fund balances of governmental funds (page 22) | \$ 1,764,102 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. | 9,005,133 |
| Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds. | 478,575 |
| 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. | (17,265) |
| Long-term liabilities, including bonds payable, other postemployment benefits payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds. | <u>(5,024,438)</u> |
| Net assets of governmental activities (page 19) | <u><u>\$ 6,206,107</u></u> |

See notes to financial statements.

Exhibit E

Sheldon Community School District

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

Year ended June 30, 2010

| | General | Nonmajor | Total |
|---|---------------------|------------------|-------------------|
| Revenues: | | | |
| Local sources: | | | |
| Local tax | \$ 3,490,121 | 1,152,042 | 4,642,163 |
| Tuition | 210,991 | - | 210,991 |
| Other | 14,266 | 378,504 | 392,770 |
| State sources | 4,851,180 | 25,000 | 4,876,180 |
| Federal sources | 670,172 | - | 670,172 |
| Total revenues | <u>9,236,730</u> | <u>1,555,546</u> | <u>10,792,276</u> |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 3,839,273 | - | 3,839,273 |
| Special | 1,950,572 | - | 1,950,572 |
| Other | 615,510 | 375,020 | 990,530 |
| | <u>6,405,355</u> | <u>375,020</u> | <u>6,780,375</u> |
| Support services: | | | |
| Student | 53,364 | - | 53,364 |
| Instructional staff | 98,639 | - | 98,639 |
| Administration | 764,951 | 173,638 | 938,589 |
| Operation and maintenance of plant | 764,563 | - | 764,563 |
| Transportation | 388,181 | - | 388,181 |
| Central support | 38,432 | - | 38,432 |
| | <u>2,108,130</u> | <u>173,638</u> | <u>2,281,768</u> |
| Non-instructional programs | <u>3,548</u> | <u>-</u> | <u>3,548</u> |
| Other expenditures: | | | |
| Facilities acquisition | - | 1,433,401 | 1,433,401 |
| Long-term debt: | | | |
| Principal | - | 300,000 | 300,000 |
| Interest and other charges | - | 218,826 | 218,826 |
| AEA flow through | 431,559 | - | 431,559 |
| | <u>431,559</u> | <u>1,952,227</u> | <u>2,383,786</u> |
| Total expenditures | <u>8,948,592</u> | <u>2,500,885</u> | <u>11,449,477</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>288,138</u> | <u>(945,339)</u> | <u>(657,201)</u> |
| Other financing sources (uses): | | | |
| Insurance recoveries | - | 270,222 | 270,222 |
| Operating transfers in | - | 518,426 | 518,426 |
| Operating transfers out | - | (518,426) | (518,426) |
| Total other financing sources (uses) | <u>-</u> | <u>270,222</u> | <u>270,222</u> |
| Net change in fund balances | 288,138 | (675,117) | (386,979) |
| Fund balances beginning of year | 760,693 | 1,390,388 | 2,151,081 |
| Fund balances end of year | <u>\$ 1,048,831</u> | <u>715,271</u> | <u>1,764,102</u> |

See notes to financial statements.

Sheldon 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, 2010

Net change in fund balances - total governmental funds (page 24) \$ (386,979)

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

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

| | | |
|---------------------------------|------------------|---------|
| Expenditures for capital assets | \$ 936,509 | |
| Depreciation expense | <u>(534,885)</u> | 401,624 |

| | | |
|---|--|--------|
| Certain revenues not collected for several months after year end are not considered available revenue and are deferred in the governmental funds. | | 70,310 |
|---|--|--------|

| | | |
|---|--|---------|
| Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. | | 300,000 |
|---|--|---------|

| | | |
|---|--|-----|
| Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the governmental funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. | | 937 |
|---|--|-----|

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

| | | |
|-------------------------------|-----------------|------------------|
| Early retirement | (136,536) | |
| Other postemployment benefits | <u>(22,000)</u> | <u>(158,536)</u> |

Change in net assets of governmental activities (page 21) \$ 227,356

See notes to financial statements.

Sheldon Community School District

Statement of Net Assets
Proprietary Fund

June 30, 2010

| | <u>Enterprise</u> <u>School</u> <u>Nutrition</u> |
|---|--|
| Assets | |
| Cash and cash equivalents | \$ 144,560 |
| Inventories | 13,915 |
| Capital assets, net of accumulated depreciation | <u>31,169</u> |
| Total assets | <u>189,644</u> |
| Liabilities | |
| Accounts payable | 828 |
| Salaries and benefits payable | 1,627 |
| Unearned revenue | <u>6,835</u> |
| Total liabilities | <u>9,290</u> |
| Net Assets | |
| Invested in capital assets | 31,169 |
| Unrestricted | <u>149,185</u> |
| Total net assets | <u>\$ 180,354</u> |

See notes to financial statements.

Sheldon Community School District

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund

Year ended June 30, 2010

| | <u>Enterprise</u> <u>School</u> <u>Nutrition</u> |
|------------------------------|--|
| Operating revenues: | |
| Local sources: | |
| Charges for service | \$ 323,208 |
| Miscellaneous | 1,558 |
| Total operating revenues | <u>324,766</u> |
| Operating expenses: | |
| Non-instructional programs: | |
| Food service operations: | |
| Salaries and benefits | 205,428 |
| Purchased services | 5,060 |
| Supplies | 256,081 |
| Depreciation | 9,159 |
| Travel | 168 |
| Total operating expenses | <u>475,896</u> |
| Operating loss | <u>(151,130)</u> |
| Non-operating revenues: | |
| State sources | 4,940 |
| Federal sources | 203,991 |
| Interest income | 319 |
| Total non-operating revenues | <u>209,250</u> |
| Increase in net assets | 58,120 |
| Net assets beginning of year | <u>122,234</u> |
| Net assets end of year | <u>\$ 180,354</u> |

See notes to financial statements.

Exhibit I

Sheldon Community School District

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2010

| | <u>Enterprise School Nutrition</u> |
|---|--|
| Cash flows from operating activities: | |
| Cash received from sale of lunches and breakfasts | \$ 324,797 |
| Cash paid to employees for services | (205,463) |
| Cash paid to suppliers for goods or services | (230,335) |
| Net cash used by operating activities | <u>(111,001)</u> |
| Cash flows from non-capital financing activities: | |
| State grants received | 4,940 |
| Federal grants received | 168,172 |
| Net cash provided by non-capital financing activities | <u>173,112</u> |
| Cash flows from capital and related financing activities: | |
| Acquisition of capital assets | <u>(14,778)</u> |
| Cash flows from investing activities: | |
| Interest on investments | <u>319</u> |
| Net increase in cash and cash equivalents | 47,652 |
| Cash and cash equivalents beginning of year | <u>96,908</u> |
| Cash and cash equivalents end of year | <u>\$ 144,560</u> |
| Reconciliation of operating loss to net cash used by operating activities: | |
| Operating loss | \$ (151,130) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | |
| Commodities used | 35,819 |
| Depreciation | 9,159 |
| Increase in inventories | (4,919) |
| Decrease in accounts payable | (94) |
| Increase in salaries and benefits payable | 133 |
| Increase in unearned revenue | 31 |
| Net cash used by operating activities | <u>\$ (111,001)</u> |

Non-cash investing, capital and financing activities:

During the year ended June 30, 2010, the District received \$35,819 of federal commodities.

See notes to financial statements.

Sheldon Community School District

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2010

| | Private Purpose Trust | |
|-----------------------------|-----------------------------|--------------|
| | Scholarship | Agency |
| Assets | | |
| Cash and pooled investments | \$ 615,047 | 976 |
| Accounts receivable | - | 227 |
| Accrued interest receivable | 1,734 | - |
| Total assets | <u>616,781</u> | <u>1,203</u> |
| Liabilities | | |
| Accounts payable | - | 76 |
| Due to other governments | - | 1,127 |
| Total liabilities | <u>-</u> | <u>1,203</u> |
| Net assets | | |
| Reserved for scholarships | <u>\$ 616,781</u> | <u>-</u> |

See notes to financial statements.

Exhibit K

Sheldon Community School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2010

| | <u>Private Purpose Trust Scholarship</u> |
|---|--|
| Additions: | |
| Interest income | \$ 71 |
| Miscellaneous | 1,734 |
| Net increase in fair value of investments | <u> 50,813</u> |
| Total additions | <u> 52,618</u> |
| Deductions: | |
| Regular instruction: | |
| Scholarships awarded | <u> 25,252</u> |
| Change in net assets | 27,366 |
| Net assets beginning of year | <u> 589,415</u> |
| Net assets end of year | <u><u> \$ 616,781</u></u> |

See notes to financial statements.

Sheldon Community School District

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies

Sheldon Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Sheldon, Iowa, and the predominate agricultural territory in O'Brien County. 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, Sheldon 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. Sheldon Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organization – The District participates in jointly governed organizations that provide 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 both the O'Brien County and Sioux County Assessor's Conference Boards.

B. Basis of Presentation

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

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

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function 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 fund:

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

The District reports the following nonmajor proprietary fund:

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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.

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2009.

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

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

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and 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.

| Asset Class | Amount |
|-----------------------------------|-----------|
| Land | \$ 25,000 |
| Buildings | 25,000 |
| Improvements other than buildings | 5,000 |
| Furniture and equipment: | |
| School Nutrition Fund equipment | 500 |
| Other furniture and equipment | 5,000 |

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

| Asset Class | Estimated Useful Lives (In Years) |
|-----------------------------------|-----------------------------------|
| Buildings | 20-50 years |
| Improvements other than buildings | 5-20 years |
| Furniture and equipment | 2-20 years |

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

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

Unearned revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and unspent grant proceeds.

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 not available for appropriation or legally restricted by outside parties for use for a specific purpose.

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

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, expenditures exceeded the amount budgeted in the other expenditures function prior to a budget amendment.

(2) Cash and Pooled Investments

The District’s deposits in banks at June 30, 2010 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, 2010, the District had the following investments:

| Investment Type | Fair Value | Maturity |
|---|------------|----------|
| Repurchase Agreement | \$ 71,583 | Monthly |
| <u>Bowers Scholarship Trust Portfolio</u> | | |
| Cash and Money Market | \$ 29,872 | N/A |
| Municipal and Corporate Bonds | 271,415 | varies |
| Unit Trusts | 23,889 | varies |
| Mutual Funds | 144,885 | varies |
| Total | \$ 470,061 | |

In addition, the District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$1,664,654 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk and custodial credit risk: As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the District.

The District's \$71,583 investment in a repurchase agreement is held in the name of the District and the underlying securities, totaling \$212,251, are held by an authorized custodian of the District.

Credit risk: The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service. The investments in the Bowers Scholarship Trust Portfolio had ratings from AAA/Aaa to B by Moody's Investors Service and Standard & Poors.

Concentration of credit risk: The District places no limit on the amount that may be invested in any one issuer. The District's investment in the repurchase agreement is 2.78% of the District's total investments. The District's investment in the Bowers Scholarship Trust Portfolio is 18.27% of the District's total investments.

During fiscal 2007, the District entered into an agreement to receive a donation of \$640,309 for student scholarships in the form of an investment portfolio held by an authorized custodian of the District. Some of the investments do not appear to be allowable under Chapter 12B of the Code of Iowa. However, the investments were purchased by the donor and received by the District as a gift rather than being purchased by the District.

(3) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

| Transfer to | Transfer from | Amount |
|--------------|------------------|------------|
| Debt Service | Capital Projects | \$ 518,426 |

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

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa 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. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. Bankers Trust Co. NA is the trustee for the program.

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. The District must make minimum warrant repayments on the 25th of each month immediately following the final date the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The interest rate of the series 2009-2010A warrants was 2.50%. A summary of the District's ISCAP activity for the year ended June 30, 2010 is as follows:

| Series | Warrant Date | Final Warrant Maturity | Balance Beginning of Year | Advances Received | Advances Repaid | Balance End of Year |
|------------|--------------|------------------------|---------------------------|-------------------|-----------------|---------------------|
| 2009-2010A | 6/25/2009 | 6/23/2010 | \$ - | 450,000 | 450,000 | - |

During the year ended June 30, 2010, the District paid \$6,923 of interest on the ISCAP warrants.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2010 was as follows:

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|---|---------------------------|-----------|-----------|---------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 83,303 | - | - | 83,303 |
| Construction in progress | 343,940 | 761,251 | 1,053,400 | 51,791 |
| Total capital assets not being depreciated | 427,243 | 761,251 | 1,053,400 | 135,094 |
| Capital assets being depreciated: | | | | |
| Buildings | 9,835,202 | 917,116 | - | 10,752,318 |
| Improvements other than buildings | 2,725,702 | 50,228 | - | 2,775,930 |
| Furniture and equipment | 1,880,557 | 261,314 | 51,450 | 2,090,421 |
| Infrastructure | 25,963 | - | - | 25,963 |
| Total capital assets being depreciated | 14,467,424 | 1,228,658 | 51,450 | 15,644,632 |
| Less accumulated depreciation for: | | | | |
| Buildings | 2,958,012 | 250,490 | - | 3,208,502 |
| Improvements other than buildings | 1,784,967 | 129,511 | - | 1,914,478 |
| Furniture and equipment | 1,543,852 | 154,018 | 51,450 | 1,646,420 |
| Infrastructure | 4,327 | 866 | - | 5,193 |
| Total accumulated depreciation | 6,291,158 | 534,885 | 51,450 | 6,774,593 |
| Total capital assets being depreciated, net | 8,176,266 | 693,773 | - | 8,870,039 |
| Governmental activities capital assets, net | \$ 8,603,509 | 1,455,024 | 1,053,400 | 9,005,133 |

Business type activities:

Capital assets not being depreciated:

| | | | | | |
|--|----|-------|-------|-------|---|
| Construction in progress | \$ | 4,730 | 3,482 | 8,212 | - |
| Total capital assets not being depreciated | | 4,730 | 3,482 | 8,212 | - |

Capital assets being depreciated:

| | | | | | |
|-------------------------------|--|---------|--------|---|---------|
| Furniture and equipment | | 143,092 | 19,508 | - | 162,600 |
| Less accumulated depreciation | | 122,272 | 9,159 | - | 131,431 |

| | | | | | |
|---|--|--------|--------|---|--------|
| Total capital assets being depreciated, net | | 20,820 | 10,349 | - | 31,169 |
|---|--|--------|--------|---|--------|

| | | | | | |
|--|----|--------|--------|-------|--------|
| Business type activities capital assets, net | \$ | 25,550 | 13,831 | 8,212 | 31,169 |
|--|----|--------|--------|-------|--------|

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction:

| | | | | | |
|---------|--|--|--|----|--------|
| Regular | | | | \$ | 74,542 |
| Special | | | | | 16,317 |
| Other | | | | | 19,279 |

Support services:

| | | | | | |
|------------------------------------|--|--|--|--|--------|
| Student | | | | | 62,829 |
| Instructional staff | | | | | 3,237 |
| Operation and maintenance of plant | | | | | 45,742 |
| Transportation | | | | | 70,412 |
| Non-instructional programs | | | | | 38,327 |

Unallocated

| | | | | | |
|--|--|--|--|----|---------|
| Total depreciation expense - governmental activities | | | | \$ | 534,885 |
|--|--|--|--|----|---------|

Business type activities:

| | | | | | |
|-------------------------|--|--|--|----|-------|
| Food service operations | | | | \$ | 9,159 |
|-------------------------|--|--|--|----|-------|

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2010 are summarized as follows:

| | Balance Beginning of Year | Additions | Reductions | Balance End of Year | Due Within One Year |
|--------------------------|---------------------------------|-----------|------------|---------------------------|---------------------------|
| General obligation bonds | \$ 5,135,000 | - | 300,000 | 4,835,000 | 305,000 |
| Early retirement | 30,902 | 167,438 | 30,902 | 167,438 | 82,418 |
| Net OPEB liability | - | 22,000 | - | 22,000 | - |
| Total | \$ 5,165,902 | 189,438 | 330,902 | 5,024,438 | 387,418 |

General Obligation Bonds

Details of the District's June 30, 2010 general obligation bonded indebtedness are as follows:

| Year Ending June 30, | Bond Issue of Sep 1, 2002 | | | |
|----------------------------|---------------------------|--------------|-----------|-----------|
| | Interest Rates | Principal | Interest | Total |
| 2011 | 3.75% | \$ 305,000 | 207,176 | 512,176 |
| 2012 | 4.00 | 320,000 | 195,739 | 515,739 |
| 2013 | 4.00 | 345,000 | 182,939 | 527,939 |
| 2014 | 4.00 | 360,000 | 169,139 | 529,139 |
| 2015 | 4.10 | 375,000 | 154,739 | 529,739 |
| 2016-2020 | 4.20-4.50 | 2,140,000 | 520,581 | 2,660,581 |
| 2021-2022 | 4.60-4.70 | 990,000 | 70,020 | 1,060,020 |
| Total | | \$ 4,835,000 | 1,500,333 | 6,335,333 |

Early Retirement

During the year ended June 30, 2010, the District offered a voluntary early retirement plan to its certified employees until February 1, 2010. Eligible employees must be at least age fifty-five by June 30, 2010 and must have completed fifteen years of service to the District. Employees must have completed an application which was subject to approval by the Board of Education. The early retirement incentive for each eligible employee is payable in three equal installments and was calculated as the percentage of total salary determined based on the severance benefit option selected by the employee. Eligible employees will also receive single group health insurance for the time period defined in the severance benefit option selected.

Early retirement benefits of \$30,902 were paid during the year ended June 30, 2010, which relate to a previous early retirement plan.

(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 4.30% of their annual covered salary and the District is required to contribute 6.65% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$351,419, \$332,196 and \$308,264, respectively, equal to the required contributions for each year.

(8) Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 87 active and 9 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

| | |
|--|-------------------------|
| Annual required contribution | \$ 83,000 |
| Interest on net OPEB obligation | - |
| Adjustment to annual required contribution | - |
| Annual OPEB cost | <u>83,000</u> |
| Contributions made | <u>(61,000)</u> |
| Increase in net OPEB obligation | 22,000 |
| Net OPEB obligation beginning of year | - |
| Net OPEB obligation end of year | <u><u>\$ 22,000</u></u> |

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the District contributed \$61,000 to the medical plan. Plan members eligible for benefits contributed \$42,728, or 41.2% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

| <u>Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|-------------------|-------------------------|---|----------------------------|
| June 30, 2010 | \$ 83,000 | 73.5% | \$ 22,000 |

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$759,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$759,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$4,366,000 and the ratio of the UAAL to covered payroll was 17.4%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions includes a 4.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

Projected claim costs of the medical plan are \$11,417 per year for retirees less than age 65. The salary increase rate was assumed to be 3.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(9) 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.

(10) 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 \$431,559 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(11) Subsequent Event

In November 2010, the District issued \$4,395,000 of general obligation school refunding bonds to crossover advance refund \$4,210,000 of outstanding general obligation school bonds on June 1, 2012.

Required Supplementary Information

Sheldon 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, 2010

| | Governmental Funds Actual | Proprietary Fund Actual | Total Actual |
|--|---------------------------------|-------------------------------|-----------------|
| Revenues: | | | |
| Local sources | \$ 5,245,924 | 325,085 | 5,571,009 |
| State sources | 4,876,180 | 4,940 | 4,881,120 |
| Federal sources | 670,172 | 203,991 | 874,163 |
| Total revenues | 10,792,276 | 534,016 | 11,326,292 |
| Expenditures/Expenses: | | | |
| Instruction | 6,780,375 | - | 6,780,375 |
| Support services | 2,281,768 | - | 2,281,768 |
| Non-instructional programs | 3,548 | 475,896 | 479,444 |
| Other expenditures | 2,383,786 | - | 2,383,786 |
| Total expenditures/expenses | 11,449,477 | 475,896 | 11,925,373 |
| Excess (deficiency) of revenues over (under) expenditures/expenses | (657,201) | 58,120 | (599,081) |
| Other financing sources, net | 270,222 | - | 270,222 |
| Excess (deficiency) of revenues and other financing sources over expenditures/expenses | (386,979) | 58,120 | (328,859) |
| Balances beginning of year | 2,151,081 | 122,234 | 2,273,315 |
| Balances end of year | \$ 1,764,102 | 180,354 | 1,944,456 |

See accompanying independent auditor's report.

| Budgeted Amounts | | Final to |
|-------------------|-------------------|------------------|
| Original | Final | Actual |
| | | Variance |
| 5,308,917 | 5,308,917 | 262,092 |
| 6,017,071 | 6,017,071 | (1,135,951) |
| 353,100 | 353,100 | 521,063 |
| <u>11,679,088</u> | <u>11,679,088</u> | <u>(352,796)</u> |
| 7,125,393 | 7,125,393 | 345,018 |
| 2,906,402 | 2,906,402 | 624,634 |
| 425,000 | 485,000 | 5,556 |
| 1,518,705 | 2,468,705 | 84,919 |
| <u>11,975,500</u> | <u>12,985,500</u> | <u>1,060,127</u> |
| (296,412) | (1,306,412) | 707,331 |
| - | - | 270,222 |
| (296,412) | (1,306,412) | 977,553 |
| <u>1,024,108</u> | <u>1,024,108</u> | <u>1,249,207</u> |
| <u>727,696</u> | <u>(282,304)</u> | <u>2,226,760</u> |

Sheldon Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2010

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary 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 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 function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$1,010,000.

During the year ended June 30, 2010, expenditures exceeded the amount budgeted in the other expenditures function prior to a budget amendment.

Sheldon Community School District

Schedule of Funding Progress for the
Retiree Health Plan

Required Supplementary Information

| Year Ended June 30, | Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---------------------------|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 2010 | Jul 1, 2009 | - | \$ 759,000 | 759,000 | 0.0% | 4,365,760 | 17.4% |

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Sheldon Community School District

Other Supplementary Information

Schedule 1

Sheldon Community School District

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2010

| | Special Revenue | | | | | |
|--|-------------------------|---------------------|--|---------------------|-----------------|------------------|
| | Manage- ment Levy | Student Activity | Physical Plant and Equipment Levy | Capital Projects | Debt Service | Total |
| Assets | | | | | | |
| Cash and pooled investments | \$ 125,414 | 229,215 | 3,789 | 180,039 | 132,990 | 671,447 |
| Receivables: | | | | | | |
| Property tax: | | | | | | |
| Delinquent | 4,228 | - | 4,218 | - | - | 8,446 |
| Succeeding year | 270,000 | - | 247,000 | - | - | 517,000 |
| Accounts | - | - | 79,363 | - | - | 79,363 |
| Due from other governments | - | - | - | 176,936 | - | 176,936 |
| Total assets | \$ 399,642 | 229,215 | 334,370 | 356,975 | 132,990 | 1,453,192 |
| Liabilities and Fund Balances | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable | \$ 5,104 | - | 133,019 | 3,435 | - | 141,558 |
| Deferred revenue: | | | | | | |
| Succeeding year property tax | 270,000 | - | 247,000 | - | - | 517,000 |
| Other | - | - | 79,363 | - | - | 79,363 |
| Total liabilities | 275,104 | - | 459,382 | 3,435 | - | 737,921 |
| Fund balances: | | | | | | |
| Reserved for debt service | - | - | - | - | 132,990 | 132,990 |
| Unreserved | 124,538 | 229,215 | (125,012) | 353,540 | - | 582,281 |
| Total fund balances | 124,538 | 229,215 | (125,012) | 353,540 | 132,990 | 715,271 |
| Total liabilities and fund balances | \$ 399,642 | 229,215 | 334,370 | 356,975 | 132,990 | 1,453,192 |

See accompanying independent auditor's report.

Sheldon Community School District

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

Year ended June 30, 2010

| | Special Revenue | | | | | Total |
|---|-------------------------|---------------------|--|---------------------|-----------------|-----------|
| | Manage- ment Levy | Student Activity | Physical Plant and Equipment Levy | Capital Projects | Debt Service | |
| Revenues: | | | | | | |
| Local sources: | | | | | | |
| Local tax | \$ 151,465 | - | 260,826 | 739,751 | - | 1,152,042 |
| Other | 395 | 376,709 | 652 | 560 | 188 | 378,504 |
| State sources | - | - | 25,000 | - | - | 25,000 |
| Total revenues | 151,860 | 376,709 | 286,478 | 740,311 | 188 | 1,530,546 |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| Instruction: | | | | | | |
| Other | - | 375,020 | - | - | - | 375,020 |
| Support services: | | | | | | |
| Administration | 173,638 | - | - | - | - | 173,638 |
| Other expenditures: | | | | | | |
| Facilities acquisition | - | - | 863,146 | 570,255 | - | 1,433,401 |
| Long-term debt: | | | | | | |
| Principal | - | - | - | - | 300,000 | 300,000 |
| Interest and other charges | - | - | - | - | 218,826 | 218,826 |
| Total expenditures | 173,638 | 375,020 | 863,146 | 570,255 | 518,826 | 2,500,885 |
| Excess (deficiency) of revenues over (under) expenditures | (21,778) | 1,689 | (576,668) | 170,056 | (518,638) | (945,339) |
| Other financing sources (uses): | | | | | | |
| Insurance recoveries | - | - | 270,222 | - | - | 270,222 |
| Operating transfers in | - | - | - | - | 518,426 | 518,426 |
| Operating transfers out | - | - | - | (518,426) | - | (518,426) |
| Total other financing sources (uses) | - | - | 270,222 | (518,426) | 518,426 | 270,222 |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses | (21,778) | 1,689 | (306,446) | (348,370) | (212) | (675,117) |
| Fund balances beginning of year | 146,316 | 227,526 | 181,434 | 701,910 | 133,202 | 1,390,388 |
| Fund balances end of year | \$ 124,538 | 229,215 | (125,012) | 353,540 | 132,990 | 715,271 |

See accompanying independent auditor's report.

Schedule 3

Sheldon Community School District

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2010

| Account | Balance Beginning of Year | Revenues | Expenditures | Balance End of Year |
|---|---------------------------------|----------|--------------|---------------------------|
| Boys Basketball | \$ 1,000 | 966 | 966 | 1,000 |
| Cross Country | 500 | 724 | 724 | 500 |
| Football | 6,688 | 8,244 | 8,432 | 6,500 |
| Boys Golf | 700 | 533 | 533 | 700 |
| Boys Track | 1,000 | 1,980 | 1,980 | 1,000 |
| Baseball | 1,375 | 1,831 | 1,706 | 1,500 |
| Wrestling | 1,000 | 3,597 | 3,097 | 1,500 |
| Girls Basketball | 1,000 | 2,372 | 2,372 | 1,000 |
| Girls Softball | 2,332 | 1,391 | 2,298 | 1,425 |
| Girls Track | 1,000 | 966 | 966 | 1,000 |
| Girls Volleyball | 2,500 | 1,041 | 2,541 | 1,000 |
| Girls Golf | 700 | 974 | 974 | 700 |
| Weightlifting | 1,031 | 1,275 | 310 | 1,996 |
| Dance Team | 7,952 | 10,070 | 7,038 | 10,984 |
| Cheerleaders | 4,086 | 13,701 | 11,821 | 5,966 |
| Activity Tickets | - | 10,825 | 10,825 | - |
| Concession - High School | 819 | 39,525 | 39,321 | 1,023 |
| Concession - Middle School | 4,835 | 6,810 | 4,029 | 7,616 |
| Reserved Seat Tickets | - | 53 | - | 53 |
| Activity Passes | - | 480 | 480 | - |
| All Sports | 19,190 | 6,237 | 22,333 | 3,094 |
| Athletic Uniforms | 4,500 | 6,081 | 7,581 | 3,000 |
| Flags | 743 | - | 612 | 131 |
| Spanish Club | 19,293 | 6,942 | 8,744 | 17,491 |
| Art Club | 4,841 | - | 447 | 4,394 |
| Science Club | 1,011 | 850 | 1,411 | 450 |
| Speech Club | 1,537 | 7,600 | 5,302 | 3,835 |
| Family Career & Community Leaders of America (FCCLA) | 3,725 | 1,970 | 2,706 | 2,989 |
| Orab FB Club | - | 1,390 | 1,050 | 340 |
| Orab VB Club | - | 1,935 | 565 | 1,370 |
| Fellowship of Christian Athletes (FCA) | 375 | 425 | - | 800 |
| Future Business Leaders | 1,393 | 605 | 897 | 1,101 |
| Future Farmers of America | 586 | 19,691 | 20,167 | 110 |
| College Farm | 21,556 | 60,127 | 41,036 | 40,647 |
| Middle School: | | | | |
| SOAR | 6,793 | 10,044 | 9,465 | 7,372 |
| Band | 601 | 2,104 | 2,130 | 575 |
| Vocal Music | 2,241 | 1,038 | 719 | 2,560 |
| Student Council | 4,654 | 5,714 | 4,910 | 5,458 |
| Magazine Sales | - | 42,090 | 42,090 | - |
| Playground Equipment | 525 | - | 68 | 457 |
| 5/6 Entrepreneur | 2,268 | - | 2,233 | 35 |

Sheldon Community School District

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2010

| Account | Balance Beginning of Year | Revenues | Expenditures | Balance End of Year |
|--------------------------|---------------------------------|----------|--------------|---------------------------|
| High School: | | | | |
| Student Council | 3,570 | 19,727 | 18,991 | 4,306 |
| National Honor Society | - | 2,649 | 1,755 | 894 |
| SADD | 1,204 | 425 | 807 | 822 |
| Band Uniform Rent | 11,856 | 1,418 | 144 | 13,130 |
| Musical | 125 | 3,084 | 3,124 | 85 |
| Annual | 4,640 | 5,471 | 7,496 | 2,615 |
| Band | 3,737 | 9,762 | 10,837 | 2,662 |
| Jazz Band | 23 | - | - | 23 |
| Vocal Music | 5,636 | 3,669 | 5,943 | 3,362 |
| Choir Robes | 16 | - | - | 16 |
| Choir Trip | 127 | - | - | 127 |
| Swing Choir | 4,546 | 8,103 | 8,409 | 4,240 |
| Summer Theater | 14,237 | 17,601 | 19,796 | 12,042 |
| Music Department Trip | 2,020 | - | - | 2,020 |
| Band Trip | 3,880 | - | - | 3,880 |
| Science Department | 100 | - | - | 100 |
| Elementary Boxtop | 5,482 | 15,455 | 12,898 | 8,039 |
| District Hospitality | 197 | 100 | 246 | 51 |
| Student Vending Machines | 5,545 | 180 | - | 5,725 |
| Investments | 11,190 | 575 | 4,513 | 7,252 |
| Class of: | | | | |
| 2000/2010 | 2,968 | 1,245 | 3,700 | 513 |
| 2001/2011 | 3,230 | 942 | 1,482 | 2,690 |
| 2002/2012 | 3,321 | - | - | 3,321 |
| 2003/2013 | 3,961 | - | - | 3,961 |
| 2004/2014 | 639 | 4,102 | - | 4,741 |
| 2005/2015 | 575 | - | - | 575 |
| 2008/2018 | 351 | - | - | 351 |
| Total | \$ 227,526 | 376,709 | 375,020 | 229,215 |

See accompanying independent auditor's report.

Sheldon Community School District

Sheldon Community School District

Schedule of Changes in Fiduciary Assets and Liabilities -
Agency Fund

Year ended June 30, 2010

| | Balance Beginning of Year | Additions | Deductions | Balance End of Year |
|-----------------------------|---------------------------------|------------|---------------|---------------------------|
| Assets | | | | |
| Cash and pooled investments | \$ 7,458 | 762 | 7,244 | 976 |
| Accounts receivable | 172 | 227 | 172 | 227 |
| Due from other governments | 6,727 | - | 6,727 | - |
| Total assets | \$ 14,357 | 989 | 14,143 | 1,203 |
| Liabilities | | | | |
| Accounts payable | \$ - | 76 | - | 76 |
| Due to other governments | 14,357 | 913 | 14,143 | 1,127 |
| Total liabilities | \$ 14,357 | 989 | 14,143 | 1,203 |

See accompanying independent auditor's report.

Sheldon Community School District

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

For the Last Ten Years

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|------------------------------------|----------------------|-------------------|------------------|------------------|------------------|
| Revenues: | | | | | |
| Local sources: | | | | | |
| Local tax | \$ 4,642,163 | 4,218,043 | 3,713,942 | 3,783,369 | 3,778,943 |
| Tuition | 210,991 | 174,806 | 227,067 | 228,469 | 205,636 |
| Other | 392,770 | 468,238 | 514,158 | 596,990 | 525,867 |
| State sources | 4,876,180 | 5,663,888 | 4,884,895 | 4,727,058 | 4,348,956 |
| Federal sources | 670,172 | 337,095 | 225,695 | 271,408 | 231,222 |
| Total | \$ 10,792,276 | 10,862,070 | 9,565,757 | 9,607,294 | 9,090,624 |
| Expenditures: | | | | | |
| Instruction: | | | | | |
| Regular | \$ 3,839,273 | 4,241,257 | 3,679,180 | 3,594,270 | 3,965,895 |
| Special | 1,950,572 | 1,541,143 | 1,531,007 | 1,452,227 | 963,874 |
| Other | 990,530 | 974,648 | 1,017,840 | 932,961 | 837,581 |
| Support services: | | | | | |
| Student | 53,364 | 55,830 | 50,906 | 116,807 | 94,290 |
| Instructional staff | 98,639 | 136,095 | 136,384 | 148,092 | 131,141 |
| Administration services | 938,589 | 1,003,993 | 918,615 | 1,169,018 | 908,871 |
| Operation and maintenance of plant | 764,563 | 811,773 | 801,142 | 760,164 | 770,570 |
| Transportation | 388,181 | 341,938 | 393,383 | 346,948 | 301,381 |
| Central support | 38,432 | - | - | - | 123 |
| Non-instructional programs | 3,548 | 56 | 6,960 | 5,117 | 71 |
| Other expenditures: | | | | | |
| Facilities acquisition | 1,433,401 | 590,733 | 439,767 | 553,113 | 257,939 |
| Long-term debt: | | | | | |
| Principal | 300,000 | 275,000 | 265,000 | 255,000 | 250,000 |
| Interest and other charges | 218,826 | 228,451 | 237,063 | 245,351 | 252,851 |
| AEA flow through | 431,559 | 394,824 | 362,665 | 352,494 | 334,941 |
| Total | \$ 11,449,477 | 10,595,741 | 9,839,912 | 9,931,562 | 9,069,528 |

See accompanying independent auditor's report.

| Modified Accrual Basis | | | | |
|------------------------|------------|-----------|-----------|-----------|
| 2005 | 2004 | 2003 | 2002 | 2001 |
| 3,705,094 | 3,971,901 | 3,186,542 | 2,860,636 | 2,913,234 |
| 195,411 | 172,579 | 118,391 | 153,730 | 144,252 |
| 549,856 | 456,981 | 595,179 | 526,095 | 578,310 |
| 4,158,412 | 3,647,447 | 3,917,172 | 3,901,738 | 3,801,426 |
| 350,161 | 894,075 | 278,416 | 254,029 | 189,025 |
| 8,958,934 | 9,142,983 | 8,095,700 | 7,696,228 | 7,626,247 |
| 3,730,320 | 3,534,552 | 3,336,688 | 3,327,480 | 3,051,435 |
| 979,108 | 788,266 | 687,714 | 824,714 | 825,552 |
| 945,675 | 842,041 | 810,318 | 859,480 | 838,075 |
| 72,821 | 81,986 | 241,027 | 215,154 | 161,912 |
| 136,586 | 124,936 | 135,636 | 126,830 | 127,036 |
| 823,388 | 827,693 | 728,667 | 684,547 | 666,894 |
| 649,462 | 579,527 | 511,765 | 531,349 | 520,053 |
| 246,718 | 240,987 | 211,953 | 251,185 | 309,502 |
| 27,631 | - | 14,560 | 112,199 | 7,217 |
| 9,042 | 8,502 | 5,000 | - | 22,651 |
| 733,736 | 4,718,670 | 2,456,560 | 338,011 | 354,814 |
| 240,000 | 200,000 | 145,000 | 140,000 | 168,655 |
| 260,051 | 268,501 | 209,444 | 19,450 | 25,294 |
| 325,668 | 325,688 | 366,540 | 349,094 | 355,112 |
| 9,180,206 | 12,541,349 | 9,860,872 | 7,779,493 | 7,434,202 |

Schedule 6

Sheldon Community School District
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2010

| Grantor/Program | CFDA Number | Grant Number | Expen- ditures |
|--|----------------|-----------------|-------------------|
| Indirect: | | | |
| U.S. Department of Agriculture: | | | |
| Iowa Department of Education: | | | |
| School Nutrition Cluster Programs: | | | |
| School Breakfast Program | 10.553 | FY10 | \$ 21,455 |
| National School Lunch Program | 10.555 | FY10 | 182,536 * |
| | | | 203,991 |
| U.S. Department of Education: | | | |
| Iowa Department of Education: | | | |
| Title I Grants to Local Educational Agencies | 84.010 | FY10 | 94,026 |
| Career and Technical Education - Basic Grants to States (\$6,472 provided to subrecipients) | 84.048 | FY10 | 16,588 |
| Special Education - Preschool Grants | 84.173 | FY10 | 2,683 ** |
| Safe and Drug-Free Schools and Communities - State Grants | 84.186 | FY10 | 2,927 |
| Fund for the Improvement of Education | 84.215 | FY10 | 25,000 |
| Improving Teacher Quality State Grants | 84.367 | FY10 | 38,461 |
| Grants for State Assessments and Related Activities | 84.369 | FY10 | 12,763 |
| ARRA - Special Education Grants to States, Recovery Act | 84.391 | FY10 | 21,057 ** |
| ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act | 84.394 | FY10 | 458,416 |
| Area Education Agency #4: | | | |
| Special Education - Grants to States | 84.027 | FY10 | 61,449 ** |
| Total | | | \$ 937,361 |

* - Includes \$35,819 of non-cash awards.

** - Total for Special Education Cluster (IDEA) is \$85,189.

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Sheldon Community School District and is presented on the accrual or 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. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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

To the Board of Education of
Sheldon 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 Sheldon Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated December 21, 2010. 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 Sheldon Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sheldon Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Sheldon Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting we consider to be a material weakness and another deficiency we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-10 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-B-10 to be a significant deficiency.

Compliance and Other Matters

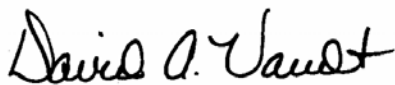
As part of obtaining reasonable assurance about whether Sheldon Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a 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 IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2010 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.

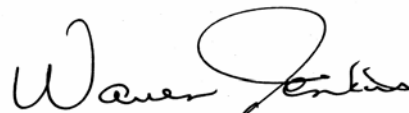
Sheldon Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Sheldon Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Sheldon Community School District and other parties to whom Sheldon 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 Sheldon 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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 21, 2010

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

Sheldon Community School District



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

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Independent Auditor's 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
Sheldon Community School District:

Compliance

We have audited the compliance of Sheldon Community School District with the types of compliance requirements described in 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, 2010. Sheldon 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 each of its major federal programs is the responsibility of Sheldon Community School District's management. Our responsibility is to express an opinion on Sheldon Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, 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 Sheldon Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Sheldon Community School District's compliance with those requirements.

In our opinion, Sheldon Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

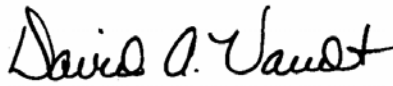
Internal Control Over Compliance

The management of Sheldon 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 Sheldon 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Sheldon Community School District's internal control over compliance.

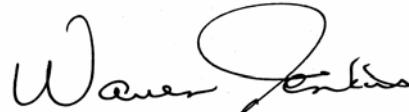
A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses, as defined above.

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 21, 2010

Sheldon Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2010

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) A significant deficiency and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - School Nutrition Cluster Programs:
 - CFDA Number 10.553 – School Breakfast Program
 - CFDA Number 10.553 – School Breakfast Program
 - CFDA Number 84.394 – ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Sheldon Community School District did not qualify as a low-risk auditee.

Sheldon Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2010

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-10 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The person responsible for the detailed recordkeeping of investments is also the custodian of investments. As a compensating control, an independent person is to verify and review all investment changes. However, no independent reviews were performed during fiscal year 2010.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances. An independent person should verify and review all investment changes.

Response - The District will use the services of the District Office part-time clerical help to randomly verify the investments of the District.

Conclusion - Response accepted.

II-B-10 Information Systems - The District does not have a written disaster recovery plan covering the computer based financial system.

Recommendation - A written disaster recovery plan should be developed.

Response - The District will continue to work on implementing a written disaster recovery plan.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses in internal control over the major programs were noted.

Sheldon Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-10 Certified Budget – Disbursements for the year ended June 30, 2010 exceeded the budget for the other expenditures function prior to a budget amendment.

Recommendation – The budget should have been amended in sufficient amounts as required by Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The District will monitor the monthly expenditures so as to not allow the budget to be exceeded before it is amended.

Conclusion – Response accepted.

IV-B-10 Questionable Disbursements – During the year ended June 30, 2010, the District paid for balloon bouquets for Board Members from the General Fund. These expenditures may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented.

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

Recommendation – The Board should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the District should establish a written policy, including the requirement for proper documentation of public purpose.

Response – The District will make sure any recognition or method of appreciation for the Board is not paid out of the General Fund.

Conclusion – Response accepted.

IV-C-10 Travel Expense – No expenditures of District money for travel expenses of spouses of District officers or employees were noted. No travel advances to District officials or employees were noted.

IV-D-10 Business Transactions – No business transactions between the District and District officials or employees were noted.

IV-E-10 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-F-10 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

Sheldon Community School District

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

IV-G-10 Certified Enrollment – No variances in the basic enrollment data certified to the Iowa Department of Education were noted.

IV-H-10 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

IV-I-10 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District’s investment policy were noted.

During fiscal 2007, the District entered into an agreement to receive a donation for student scholarships in the form of an investment portfolio. Some of the investments do not appear to be allowable under Chapter 12B of the Code of Iowa. However, the investments were purchased by the donor and received by the District as a gift rather than being purchased by the District. The District agreed to periodically review these investments and reinvest in allowable investment instruments in accordance with Chapter 12B of the Code of Iowa and the District’s investment policy.

IV-J-10 Certified Annual Report – The Certified Annual Report was certified timely to the Iowa Department of Education.

IV-K-10 Categorical Funding – No instances were noted of categorical funding being used to supplant rather than supplement other funds.

IV-L-10 Statewide Sales, Services and Use Tax – No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. For the year ended June 30, 2010, the District’s financial activity and other required information for the statewide sales, services and use tax revenue are as follows:

| | | |
|---|----------------|-------------------|
| Beginning balance | | <u>\$ 683,360</u> |
| Revenues: | | |
| Statewide sales, services and use tax | | 739,751 |
| Interest on investments | | <u>537</u> |
| Total revenues | | 740,288 |
| Expenditures: | | |
| School infrastructure: | | |
| Buildings | \$ 570,225 | |
| Debt service for school infrastructure: | | |
| General obligation debt | <u>518,426</u> | <u>1,088,631</u> |
| Ending balance | | <u>\$ 335,017</u> |

Sheldon Community School District
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2010

The statewide sales, services and use tax revenue received during the year ended June 30, 2010 is equivalent to a reduction in the following levies:

| | Per \$1,000 of Taxable Valuation | Property Tax Dollars |
|-----------------------------------|--|----------------------------|
| Debt service levy | \$ 1.65128 | 518,426 |
| Physical plant and equipment levy | .70496 | 221,325 |

IV-M-10 Deficit Fund Balance – The Special Revenue, Physical Plant and Equipment Levy (PPEL) Fund had a deficit fund balance at June 30, 2010 of \$125,012.

Recommendation – The District should continue to investigate alternatives to eliminate this deficit in order to return this fund to a sound financial condition.

Response – The District will continue to monitor funds expended in the PPEL Fund, so as to not cause a deficit fund balance.

Conclusion – Response accepted.

IV-N-10 Unclaimed Property - Section 556.11 of the Code of Iowa requires all unclaimed property, including outstanding payroll checks greater than a year old and all other checks greater than three years old, be reported to the State Treasurer as unclaimed property by November 1 for the preceding fiscal year. The District did not properly report these items to the State Treasurer for the fiscal year ended June 30, 2010.

Recommendation – The District should comply with Section 556.11 of the Code of Iowa.

Response – The District will comply with the Code of Iowa.

Conclusion – Response accepted.

Sheldon Community School District

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Jennifer L. Wall, CPA, Senior Auditor
Sara L. McDermott, Assistant Auditor
Nancy J. Umsted, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, looped initial "A".

Andrew E. Nielsen, CPA
Deputy Auditor of State