



**OFFICE OF AUDITOR OF STATE**  
STATE OF IOWA

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE \_\_\_\_\_ November 29, 2007

Contact: Andy Nielsen  
515/281-5834

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

The District's revenues totaled \$10,028,714 for the year ended June 30, 2007, an increase of 4.6% over the prior year. Revenues included \$2,906,937 in local tax, charges for service of \$898,609, operating grants, contributions and restricted interest of \$1,282,976, capital grants, contributions and restricted interest of \$4,174, instructional support surtax of \$238,535, local option sales and services tax of \$653,307, unrestricted state grants and contributions of \$3,889,785, unrestricted investment earnings of \$116,446 and other general revenues of \$37,945.

Expenses for District operations totaled \$9,853,230, a decrease of less than one percent from the prior year. Expenses included \$5,909,745 for instruction, \$2,019,743 for support services, \$41,639 for non-instructional programs (excluding food service operations), \$1,453,792 for other expenditures and \$428,311 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/reports.htm>.

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**SHELDON COMMUNITY SCHOOL DISTRICT**

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

**JUNE 30, 2007**

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**Sheldon Community School District**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
<b>(Before September 2006 Election)</b>		
Dan Van Gorp	President	2008
Gary Innen	Vice President	2007
Kathy Brock	Board Member	2006
Kecia Hickman	Board Member	2007
Jay Matzke	Board Member	2008
<b>Board of Education</b>		
<b>(After September 2006 Election)</b>		
Dan Van Gorp	President	2008
Gary Innen	Vice President	2007
Kecia Hickman	Board Member	2007
Harlan Bousema	Board Member	2008
Kathy Brock	Board Member	2009
<b>School Officials</b>		
Robin Spears	Superintendent	2007
Bill Borchers	District Secretary/Treasurer and Business Manager	2007
Tom Whorley	Attorney	2007

**Sheldon Community School District**



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Des Moines, Iowa 50319-0004

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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, 2007, 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.

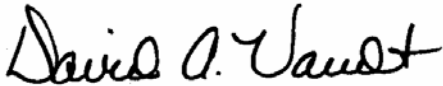
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain 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, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 15, 2007 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 and budgetary comparison information on pages 8 through 16 and 44 through 46 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 six years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 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

November 15, 2007



**Sheldon Community School District**

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2007 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$7,494,736 in fiscal 2006 to \$7,985,700 in fiscal 2007, while General Fund expenditures increased from \$7,796,769 in fiscal 2006 to \$8,140,870 in fiscal 2007. The District's General Fund balance decreased from \$606,509 at the end of fiscal 2006 to \$451,339, a decrease of 25.6%.
- The increase in General Fund revenues is due to increases in State Aid, Teachers Quality Salary Improvement, Non-Public Transportation and Special Education in State Tuition. The increase in expenditures is due to increased expenditures for salaries, benefits, and additional teaching personnel in the areas of Special Education, Elementary Education and Middle School Guidance.
- The General Fund balance decrease is due to District funding increased expenditures for salaries, benefits and additional teaching and guidance personnel.

### **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 statement provides 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.

Other Supplementary Information provides detailed information about the nonmajor funds.

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

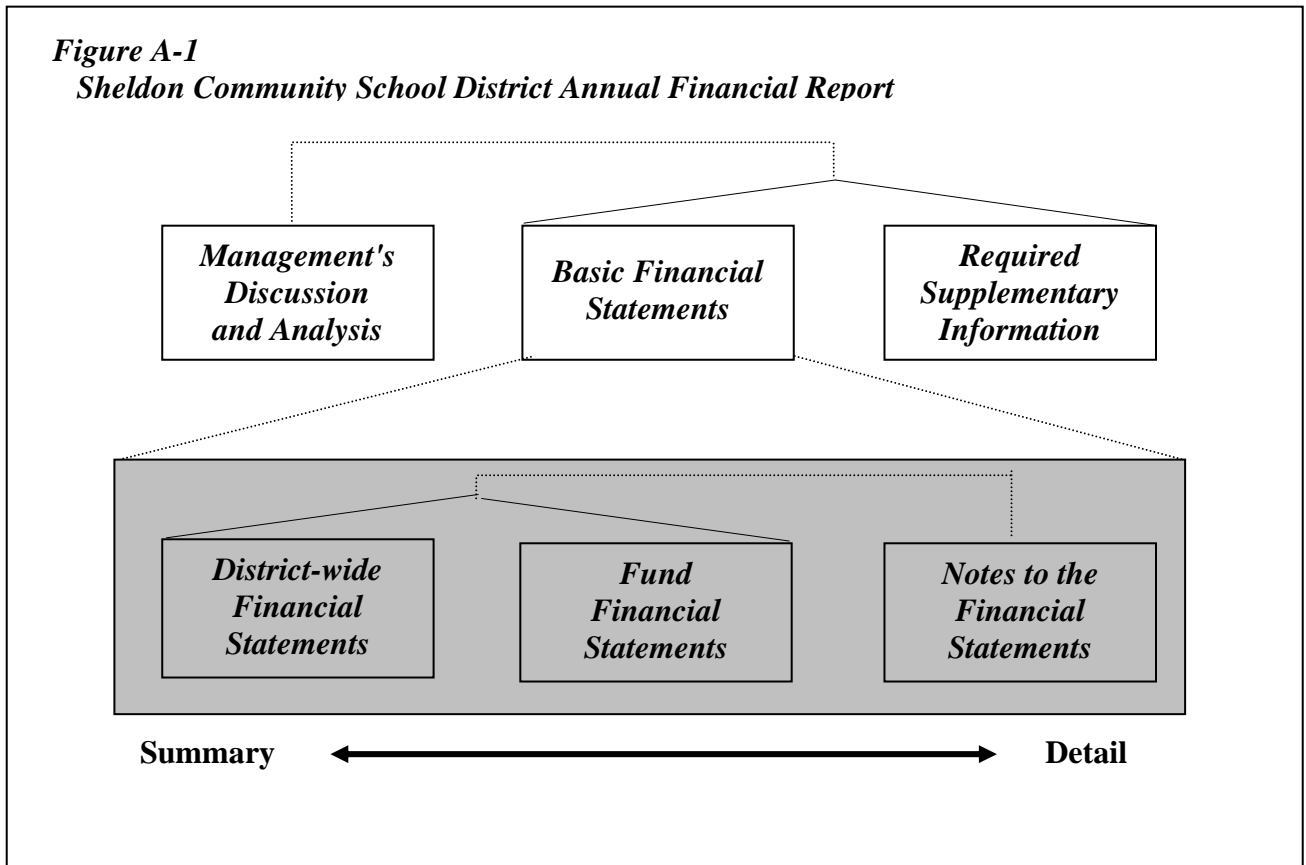


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-wide and Fund Financial Statements</b>				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services	Instances in which the District administers resources on behalf of someone else
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary assets and liabilities-Agency Fund</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during 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, 2007 compared to June 30, 2006.

**Figure A-3**  
**Condensed Statement of Net Assets**  
**(Expressed in Thousands)**

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-2007
Current and other assets	\$ 7,465	6,930	56	18	7,521	6,948	8.2%
Capital assets	8,782	8,778	33	24	8,815	8,802	0.1%
Total assets	16,247	15,708	89	42	16,336	15,750	3.7%
Long-term liabilities	5,691	6,193	-	-	5,691	6,193	-8.1%
Other liabilities	5,101	4,191	6	4	5,107	4,195	21.7%
Total liabilities	10,792	10,384	6	4	10,798	10,388	3.9%
Net assets:							
Invested in capital assets, net of related debt	3,107	2,848	33	-	3,140	2,848	10.3%
Restricted	1,674	1,617	-	-	1,674	1,617	3.5%
Unrestricted	674	859	50	38	724	897	-19.3%
Total net assets	\$ 5,455	5,324	83	38	5,538	5,362	3.3%

The District’s combined net assets increased by 3.3%, or approximately \$176,000, from 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 increased approximately \$57,000, or 3.5%, over 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 – decreased approximately \$173,000, or 19.3%. This reduction in unrestricted net assets was a result of the District using carryover net assets to meet its financial obligations during the year.

Figure A-4 shows the change in net assets for the years ended June 30, 2007 and 2006.

<b>Figure A-4</b>							
<b>Changes in Net Assets (Expressed in Thousands)</b>							
	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	2007	2006	2007	2006	2007	2006	June 30, 2006-2007
Revenues:							
Program revenues:							
Charges for service	\$ 615	585	284	260	899	845	6.4%
Operating grants, contributions and restricted interest	1,120	950	163	162	1,283	1,112	15.4%
Capital grants, contributions and restricted interest	4	-	-	-	4	-	100.0%
General revenues:							
Property tax	2,907	2,939	-	-	2,907	2,939	-1.1%
Instructional support surtax	239	238	-	-	239	238	0.4%
Local option sales and services tax	653	631	-	-	653	631	3.5%
Unrestricted state grants and contributions	3,890	3,677	-	-	3,890	3,677	5.8%
Unrestricted investment earnings	112	112	4	2	116	114	1.8%
Other	38	28	-	-	38	28	35.7%
<b>Total revenues</b>	<b>9,578</b>	<b>9,160</b>	<b>451</b>	<b>424</b>	<b>10,029</b>	<b>9,584</b>	<b>4.6%</b>
Program expenses:							
Instruction	5,910	5,725	-	-	5,910	5,725	3.2%
Support services	2,020	2,515	-	-	2,020	2,515	-19.7%
Non-instructional programs	41	50	428	410	469	460	2.0%
Other expenses	1,454	1,212	-	-	1,454	1,212	20.0%
<b>Total expenses</b>	<b>9,425</b>	<b>9,502</b>	<b>428</b>	<b>410</b>	<b>9,853</b>	<b>9,912</b>	<b>-0.6%</b>
Excess (deficiency) of revenues over (under) expenses before transfers	153	(342)	23	14	176	(328)	153.7%
Transfers	(22)	-	22	-	-	-	-
<b>Increase (decrease) in net assets</b>	<b>131</b>	<b>(342)</b>	<b>45</b>	<b>14</b>	<b>176</b>	<b>(328)</b>	<b>153.7%</b>
Net assets beginning of year	5,324	5,666	38	24	5,362	5,690	-5.8%
<b>Net assets end of year</b>	<b>\$ 5,455</b>	<b>5,324</b>	<b>83</b>	<b>38</b>	<b>5,538</b>	<b>5,362</b>	<b>3.3%</b>

Property tax and unrestricted state grants account for 71% of the total governmental activities revenue. The District's expenses primarily relate to instruction and support services, which account for 84% of the total governmental activities expenses.

### Governmental Activities

Revenues for governmental activities were \$9,577,302 and expenses were \$9,424,919. In a difficult budget year, the District used carryover unrestricted net assets to offset the amount of expenses which exceeded unrestricted revenues.

The following table presents the total and net cost of the District's major governmental activities for fiscal 2007: instruction, support services, non-instructional programs and other expenses.

<b>Figure A-5</b>						
<b>Total and Net Cost of Governmental Activities</b>						
<b>(Expressed in Thousands)</b>						
	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-2007	2007	2006	Change 2006-2007
Instruction	\$ 5,910	5,725	3.2%	4,714	4,585	2.8%
Support services	2,020	2,515	-19.7%	1,846	2,464	-25.1%
Non-instructional programs	41	50	-18.0%	37	45	-17.8%
Other expenses	1,454	1,212	20.0%	1,089	872	24.9%
<b>Total</b>	<b>\$ 9,425</b>	<b>9,502</b>	<b>-0.8%</b>	<b>7,686</b>	<b>7,966</b>	<b>-3.5%</b>

- The cost financed by users of the District's programs was \$614,919.
- Federal and state governments subsidized certain programs with grants, contributions and restricted interest totaling \$1,123,810.
- The net cost of governmental activities was financed with \$3,798,779 in property and other tax, including local option sales and services tax, and \$3,889,785 in unrestricted state grants and contributions.

### **Business Type Activities**

Revenues for business type activities were \$451,412 and expenses were \$428,311. 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 \$2,158,907, a reduction of \$346,420 compared to last year's ending fund balance of \$2,505,327. The reduction is due to a reduction of the General Fund balance by 25.6% as stated in the 2007 Financial Highlights.

### **Governmental Fund Highlights**

- The General Fund balance decreased from \$606,509 to \$451,339, due in part to the increase in expenditures for salaries, benefits and additional teaching personnel.
- The District's deteriorating General Fund financial position is the result of many factors. Growth during the year in tax and grants resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures requiring the District to use carryover fund balance to meet its financial obligations during the year.
- The Capital Projects Fund balance increased from \$928,817 to \$979,301 due to the collection of local option sales and services tax.

### **Proprietary Fund Highlights**

School Nutrition Fund net assets increased from \$37,983 at June 30, 2006 to \$83,236 at June 30, 2007, representing an increase of approximately 119%, due primarily to income before transfers of \$23,101 and a reimbursement of \$22,152 by the Capital Projects, Middle School Construction Fund for kitchen fixtures and equipment originally paid for by the School Nutrition Fund.



## BUDGETARY HIGHLIGHTS

Over the course of the year, Sheldon Community School District amended its annual budget one time to reflect additional expenditures in the Special Revenue, PPEL and Enterprise, School Nutrition Funds.

The District's revenues were \$646,227 greater than budgeted revenues, a variance of 6.9%.

Total expenditures were \$295,597 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.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services function due to the increased cost of plant operations and transportation vehicle repair.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2007, the District had invested, net of accumulated depreciation, \$8.8 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 \$571,382 for governmental and business type activities.

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

	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2006	2005	2006-2007
Land	\$ 83	83	-	-	83	83	0.0%
Construction in progress	24	-	-	-	24	-	100.0%
Buildings	7,287	7,491	-	-	7,287	7,491	-2.7%
Improvements other than buildings	914	764	-	-	914	764	19.6%
Furniture and equipment	451	416	33	24	484	440	10.0%
Infrastructure	23	24	-	-	23	24	100.0%
Total	\$ 8,782	8,778	33	24	8,815	8,802	0.1%

The original cost of the District's capital assets was \$14.1 million. Governmental funds account for \$14.0 million, with the remaining \$0.1 million accounted for in the Proprietary, School Nutrition Fund.

## Long-Term Debt

At June 30, 2007, the District had \$5,675,000 in general obligation debt outstanding. This represents a decrease of approximately 4.3% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

	Total District		Total Change
	June 30,		June 30,
	2007	2006	2006-2007
General obligation bonds	\$ 5,675	5,930	-4.3%
Early retirement	16	263	100.0%
Total	\$ 5,691	6,193	-8.1%

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

The wage settlement for fiscal 2007 included an increase in the amount of the health insurance premium the District furnishes its certified staff and an increase in the base salary for the certified staff. The total negotiated agreement between the Sheldon Education Association and the Sheldon Community School District for Fiscal Year 2008 is an increase of 3.55%. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.

The Instructional Support Levy was increased by Board resolution to 10%, and was accepted by the District patrons. The increase will go into effect for a five-year period beginning with the 2008-09 school year.

## 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, 2007

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash, pooled investments and cash equivalents:			
ISCAP	\$ 1,579,922	-	1,579,922
Other	2,666,004	42,059	2,708,063
Receivables:			
Property tax:			
Delinquent	34,118	-	34,118
Succeeding year	2,626,500	-	2,626,500
Accounts	8,661	-	8,661
Accrued interest:			
ISCAP	13,690	-	13,690
Other	4,587	-	4,587
Due from other governments	531,154	-	531,154
Inventories	-	14,110	14,110
Capital assets, net of accumulated depreciation	8,782,050	32,786	8,814,836
<b>Total assets</b>	<b>16,246,686</b>	<b>88,955</b>	<b>16,335,641</b>
<b>Liabilities</b>			
Accounts payable	104,755	365	105,120
Salaries and benefits payable	711,658	725	712,383
Due to other governments	34,288	-	34,288
Accrued interest payable	19,722	-	19,722
Deferred revenue:			
Succeeding year property tax	2,626,500	-	2,626,500
Other	-	4,629	4,629
ISCAP warrants payable	1,583,000	-	1,583,000
ISCAP accrued interest payable	11,636	-	11,636
ISCAP unamortized premium	9,250	-	9,250
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	265,000	-	265,000
Early retirement payable	16,353	-	16,353
Portion due after one year:			
General obligation bonds payable	5,410,000	-	5,410,000
<b>Total liabilities</b>	<b>10,792,162</b>	<b>5,719</b>	<b>10,797,881</b>

Sheldon Community School District

Statement of Net Assets

June 30, 2007

	Governmental Activities	Business Type Activities	Total
<b>Net assets</b>			
Invested in capital assets, net of related debt	3,107,050	32,786	3,139,836
Restricted for:			
Management levy	265,328	-	265,328
Physical plant and equipment levy	91,490	-	91,490
Other special revenue purposes	228,653	-	228,653
Debt service	106,721	-	106,721
Capital projects	979,301	-	979,301
DHS Medicaid retainer	1,856	-	1,856
Unrestricted	674,125	50,450	724,575
<b>Total net assets</b>	<b>\$ 5,454,524</b>	<b>83,236</b>	<b>5,537,760</b>

See notes to financial statements.

Sheldon Community School District

Statement of Activities

Year ended June 30, 2007

	Expenses	Program Revenues		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs</b>				
Governmental activities:				
Instruction:				
Regular instruction	\$ 3,578,466	228,468	496,228	-
Special instruction	1,398,318	-	63,643	-
Other instruction	932,961	381,651	25,722	-
	<u>5,909,745</u>	<u>610,119</u>	<u>585,593</u>	<u>-</u>
Support services:				
Student	110,587	-	22,176	-
Instructional staff	157,652	-	-	-
Administration	922,365	-	48,146	-
Operation and maintenance of plant	460,302	-	-	-
Transportation	368,837	-	103,016	-
	<u>2,019,743</u>	<u>-</u>	<u>173,338</u>	<u>-</u>
Non-instructional programs	41,639	4,800	-	-
Other expenditures:				
Facilities acquisition	553,113	-	-	4,174
Long-term debt interest	244,660	-	8,211	-
AEA flowthrough	352,494	-	352,494	-
Depreciation (unallocated)*	303,525	-	-	-
	<u>1,453,792</u>	<u>-</u>	<u>360,705</u>	<u>4,174</u>
Total governmental activities	9,424,919	614,919	1,119,636	4,174
Business type activities:				
Non-instructional programs:				
Food service operations	428,311	283,690	163,340	-
Total	<u>\$ 9,853,230</u>	<u>898,609</u>	<u>1,282,976</u>	<u>4,174</u>
<b>General Revenues:</b>				
Property tax levied for general purposes				
Instructional support surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets beginning of year				
Net assets end of year				

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

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(2,853,770)	-	(2,853,770)
(1,334,675)	-	(1,334,675)
(525,588)	-	(525,588)
(4,714,033)	-	(4,714,033)
(88,411)	-	(88,411)
(157,652)	-	(157,652)
(874,219)	-	(874,219)
(460,302)	-	(460,302)
(265,821)	-	(265,821)
(1,846,405)	-	(1,846,405)
(36,839)	-	(36,839)
(548,939)	-	(548,939)
(236,449)	-	(236,449)
-	-	-
(303,525)	-	(303,525)
(1,088,913)	-	(1,088,913)
(7,686,190)	-	(7,686,190)
-	18,719	18,719
(7,686,190)	18,719	(7,667,471)
\$ 2,906,937	-	2,906,937
238,535	-	238,535
653,307	-	653,307
3,889,785	-	3,889,785
112,064	4,382	116,446
37,945	-	37,945
(22,152)	22,152	-
7,816,421	26,534	7,842,955
130,231	45,253	175,484
5,324,293	37,983	5,362,276
\$ 5,454,524	83,236	5,537,760

Sheldon Community School District

Balance Sheet  
Governmental Funds

June 30, 2007

	General	Capital Projects	Nonmajor	Total
<b>Assets</b>				
Cash and pooled investments:				
ISCAP	\$ 1,579,922	-	-	1,579,922
Other	1,088,146	837,578	740,280	2,666,004
Receivables:				
Property tax:				
Delinquent	28,680	-	5,438	34,118
Succeeding year	2,385,000	-	241,500	2,626,500
Accounts	8,661	-	-	8,661
Accrued interest:				
ISCAP	13,690	-	-	13,690
Other	-	4,587	-	4,587
Due from other governments	391,904	139,250	-	531,154
<b>Total assets</b>	<b>\$ 5,496,003</b>	<b>981,415</b>	<b>987,218</b>	<b>7,464,636</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 85,190	2,114	17,451	104,755
Salaries and benefits payable	711,658	-	-	711,658
Due to other governments	34,288	-	-	34,288
ISCAP warrants payable	1,583,000	-	-	1,583,000
ISCAP accrued interest payable	11,636	-	-	11,636
ISCAP unamortized premium	9,250	-	-	9,250
Deferred revenue:				
Succeeding year property tax	2,385,000	-	241,500	2,626,500
Other	224,642	-	-	224,642
Total liabilities	5,044,664	2,114	258,951	5,305,729
Fund balances:				
Reserved for:				
DHS Medicaid retainer	1,856	-	-	1,856
Debt service	-	-	126,443	126,443
Unreserved, reported in:				
General fund	449,483	-	-	449,483
Special revenue funds	-	-	601,824	601,824
Capital projects fund	-	979,301	-	979,301
Total fund balances	451,339	979,301	728,267	2,158,907
<b>Total liabilities and fund balances</b>	<b>\$ 5,496,003</b>	<b>981,415</b>	<b>987,218</b>	<b>7,464,636</b>

See notes to financial statements.



Sheldon Community School District

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

June 30, 2007

<b>Total fund balances of governmental funds (page 22)</b>	\$ 2,158,907
 <b><i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i></b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	8,782,050
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	224,642
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.	(19,722)
Long-term liabilities, including bonds payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported in the governmental	<u>(5,691,353)</u>
<b>Net assets of governmental activities (page 19)</b>	<u><u>\$ 5,454,524</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, 2007

	Capital			Total
	General	Projects	Nonmajor	
<b>Revenues:</b>				
Local sources:				
Local tax	\$ 2,645,827	653,307	484,235	3,783,369
Tuition	228,469	-	-	228,469
Other	112,938	48,830	435,222	596,990
State sources	4,727,058	-	-	4,727,058
Federal sources	271,408	-	-	271,408
Total revenues	<u>7,985,700</u>	<u>702,137</u>	<u>919,457</u>	<u>9,607,294</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	3,594,270	-	-	3,594,270
Special	1,452,227	-	-	1,452,227
Other	578,549	-	354,412	932,961
	<u>5,625,046</u>	<u>-</u>	<u>354,412</u>	<u>5,979,458</u>
Support services:				
Student	116,807	-	-	116,807
Instructional staff	148,092	-	-	148,092
Administration	786,202	-	382,816	1,169,018
Operation and maintenance of plant	760,164	-	-	760,164
Transportation	346,948	-	-	346,948
	<u>2,158,213</u>	<u>-</u>	<u>382,816</u>	<u>2,541,029</u>
Non-instructional programs	5,117	-	-	5,117
Other expenditures:				
Facilities acquisition	-	129,550	423,563	553,113
Long-term debt:				
Principal	-	-	255,000	255,000
Interest and fiscal charges	-	-	245,351	245,351
AEA flowthrough	352,494	-	-	352,494
	<u>352,494</u>	<u>129,550</u>	<u>923,914</u>	<u>1,405,958</u>
Total expenditures	<u>8,140,870</u>	<u>129,550</u>	<u>1,661,142</u>	<u>9,931,562</u>
Excess (deficiency) of revenues over (under) expenditures	(155,170)	572,587	(741,685)	(324,268)
Other financing sources (uses):				
Operating transfers in	-	-	499,951	499,951
Operating transfers out	-	(522,103)	-	(522,103)
Total other financing sources (uses)	<u>-</u>	<u>(522,103)</u>	<u>499,951</u>	<u>(22,152)</u>
Net change in fund balances	(155,170)	50,484	(241,734)	(346,420)
Fund balances beginning of year	606,509	928,817	970,001	2,505,327
Fund balances end of year	<u>\$ 451,339</u>	<u>979,301</u>	<u>728,267</u>	<u>2,158,907</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, 2007

**Net change in fund balances - total governmental funds (page 24)** \$ (346,420)

***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 Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 568,100	
Depreciation expense	(563,802)	4,298

Certain revenues not collected for several months after year end are not considered available revenue and are deferred in the governmental funds. (29,992)

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. 255,000

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 funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 691

Early retirement 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. 246,654

**Change in net assets of governmental activities (page 21)** \$ 130,231

See notes to financial statements.

Sheldon Community School District

Statement of Net Assets  
Proprietary Fund

June 30, 2007

	<u>School Nutrition- Nonmajor</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 42,059
Inventories	14,110
Capital assets, net of accumulated depreciation	32,786
<b>Total assets</b>	<u>88,955</u>
<b>Liabilities</b>	
Accounts payable	365
Salaries and benefits payable	725
Deferred revenue	4,629
<b>Total liabilities</b>	<u>5,719</u>
<b>Net Assets</b>	
Invested in capital assets	32,786
Unrestricted	50,450
<b>Total net assets</b>	<u>\$ 83,236</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, 2007

	<u>School Nutrition- Nonmajor</u>
Operating revenues:	
Local sources:	
Charges for service	\$ 283,690
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries and benefits	193,815
Purchased services	4,686
Supplies	221,293
Depreciation	7,580
Travel	937
Total operating expenses	<u>428,311</u>
Operating loss	<u>(144,621)</u>
Non-operating revenues:	
State sources	5,485
Federal sources	157,855
Interest income	4,382
Total non-operating revenues	<u>167,722</u>
Income before transfers	23,101
Transfers in	<u>22,152</u>
Increase in net assets	45,253
Net assets beginning of year	<u>37,983</u>
Net assets end of year	<u><u>\$ 83,236</u></u>

See notes to financial statements.

## Sheldon Community School District

Statement of Cash Flows  
Proprietary Fund

Year ended June 30, 2007

	<u>School Nutrition- Nonmajor</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 283,904
Cash paid to employees for services	(193,092)
Cash paid to suppliers for goods or services	(198,495)
Net cash used by operating activities	<u>(107,683)</u>
Cash flows from non-capital financing activities:	
State grants received	5,485
Federal grants received	130,652
Operating transfer in	12,152
Net cash provided by non-capital financing activities	<u>148,289</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(16,585)</u>
Cash flows from investing activities:	
Interest on investments	<u>4,485</u>
Net increase in cash and cash equivalents	28,506
Cash and cash equivalents beginning of year	<u>13,553</u>
Cash and cash equivalents end of year	<u>\$ 42,059</u>
<b>Reconciliation of operating loss to net cash used by operating activities:</b>	
Operating loss	\$ (144,621)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	27,203
Depreciation	7,580
Decrease in inventories	882
Increase in accounts payable	334
Increase in salaries and benefits payable	725
Increase in deferred revenue	214
Net cash used by operating activities	<u>\$ (107,683)</u>

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

During the year ended June 30, 2007, the District received \$27,203 of federal commodities.

See notes to financial statements.

Sheldon Community School District

Statement of Fiduciary Net Assets  
Fiduciary Funds

June 30, 2007

	Private Purpose Trust	
	Scholarship	Agency
<b>Assets</b>		
Cash and pooled investments	\$ 640,309	5,293
Accounts receivable	-	82
Accrued interest receivable	945	-
Due from other governments	-	7,762
	<u>641,254</u>	<u>13,137</u>
<b>Total assets</b>		
	641,254	13,137
<b>Liabilities</b>		
Due to other governments	-	13,137
	<u>-</u>	<u>13,137</u>
<b>Net assets</b>		
Reserved for scholarships	\$ 641,254	-
	<u><u>641,254</u></u>	<u><u>-</u></u>

See notes to financial statements.

Sheldon Community School District  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
Year ended June 30, 2007

	<u>Private Purpose Trust Scholarship</u>
Additions	
Local sources:	
Gifts and contributions	\$ 640,309
Net increase in fair value of investments	945
Total additions	<u>641,254</u>
Deductions	<u>-</u>
Change in net assets	641,254
Net assets beginning of year	<u>-</u>
Net assets end of year	<u><u>\$ 641,254</u></u>

See notes to financial statements.



Sheldon Community School District

Notes to Financial Statements

June 30, 2007

**(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 funds:

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

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, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2006.

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.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements 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.

Deferred 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, 2007, expenditures in the support services function exceeded the amount budgeted.

**(2) Cash and Pooled Investments**

The District’s deposits in banks at June 30, 2007 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, 2007, the District had the following investments and maturity:

Investment Type	Fair Value	Maturity
Repurchase Agreement	<u>\$ 135,405</u>	Monthly
<u>Bowers Scholarship Trust Portfolio</u>		
Cash and Money Market	\$ 147,185	N/A
Municipal and Corporate Bonds	295,665	varies
Unit Trusts	36,683	varies
Mutual Funds	<u>161,721</u>	varies
Total	<u>\$ 641,254</u>	

In addition, the District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$1,661,765 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk and custodial credit: 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 \$135,405 investment in a repurchase agreement is held in the name of the District and the underlying securities (totaling \$291,553) 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 BBB 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 5.55% of the District's total investments. The District's investment in the Bowers Scholarship Trust Portfolio is 26.3% 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 purchased outright with District funds.

**(3) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Enterprise:		
School Nutrition	Capital Projects	\$ 22,152
Debt Service	Capital Projects	499,951
Total		<u>\$ 522,103</u>

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 which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity and monthly statements are provided regarding their cash balance, interest earnings and

amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07B	1/26/2007	1/25/2008	\$ 593,483	13,395	595,000	11,384
2007-08A	6/28/2007	6/27/2008	986,439	295	988,000	252
			\$ 1,579,922	13,690	1,583,000	11,636

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2007 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2006-2007A	\$ -	370,000	370,000	-

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07B	4.250%	5.315%
2007-08A	4.500	5.455



(5) **Capital Assets**

Capital assets activity for the year ended June 30, 2007 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 83,303	-	-	83,303
Construction in progress	-	23,847	-	23,847
Total capital assets not being depreciated	83,303	23,847	-	107,150
Capital assets being depreciated:				
Buildings	9,859,068	-	-	9,859,068
Improvements other than buildings	1,936,955	343,970	-	2,280,925
Furniture and equipment	1,521,789	200,283	-	1,722,072
Infrastructure	25,963	-	-	25,963
Total capital assets being depreciated	13,343,775	544,253	-	13,888,028
Less accumulated depreciation for:				
Buildings	2,367,977	204,634	-	2,572,611
Improvements other than buildings	1,173,036	193,439	-	1,366,475
Furniture and equipment	1,106,583	164,864	-	1,271,447
Infrastructure	1,730	865	-	2,595
Total accumulated depreciation	4,649,326	563,802	-	5,213,128
Total capital assets being depreciated, net	8,694,449	(19,549)	-	8,674,900
Governmental activities capital assets, net	\$ 8,777,752	4,298	-	8,782,050
<b>Business type activities:</b>				
Furniture and equipment	\$ 137,287	16,585	7,051	146,821
Less accumulated depreciation	113,506	7,580	7,051	114,035
Business type activities capital assets, net	\$ 23,781	9,005	-	32,786
Depreciation expense was charged to the following functions:				
Governmental activities:				
Instruction:				
Regular				\$ 106,478
Special				16,317
Support services:				
Student				1,555
Instructional staff				9,560
Operation and maintenance of plant				36,191
Transportation				53,654
Non-instructional programs				36,522
				260,277
Unallocated				303,525
Total depreciation expense - governmental activities				\$ 563,802
Business type activities:				
Food service operations				\$ 7,580

**(6) Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2007 are summarized as follows:

	Balance Beginning of Year	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 5,930,000	255,000	5,675,000	265,000
Early retirement	263,007	246,654	16,353	16,353
Total	\$ 6,193,007	501,654	5,691,353	281,353

Early Retirement

The District offered a voluntary early retirement plan to its certified employees until March 1, 2006. Eligible employees must have been at least age fifty-five 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, payable in a lump sum or in up to four installments, was calculated as the difference between the salary schedule base in effect for the employee's last year of employment and the employee's total current salary for that year.

Early retirement benefits paid during the year ended June 30, 2007 totaled \$246,654.

Bonded Debt

Details of the District's June 30, 2007 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of Sep 1, 2002			
	Interest Rates	Principal	Interest	Total
2008	3.25%	\$ 265,000	236,664	501,664
2009	3.50	275,000	228,051	503,051
2010	3.75	300,000	218,426	518,426
2011	3.75	305,000	207,176	512,176
2012	4.00	320,000	195,739	515,739
2013-2017	4.00-4.30	1,885,000	768,954	2,653,954
2018-2022	4.375-4.70	2,325,000	328,464	2,653,464
Total		\$ 5,675,000	2,183,474	7,858,474

**(7) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary

information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$274,923, \$263,320 and \$245,155, respectively, equal to the required contributions for each year.

**(8) Risk Management**

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

**(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$352,494 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

**Sheldon Community School District**

**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, 2007

	Governmental Funds Actual	Proprietary Fund Actual
<b>Revenues:</b>		
Local sources	\$ 4,608,828	288,072
State sources	4,727,058	5,485
Federal sources	271,408	157,855
Total revenues	<u>9,607,294</u>	<u>451,412</u>
<b>Expenditures:</b>		
Instruction	5,979,458	-
Support services	2,541,029	-
Non-instructional programs	5,117	428,311
Other expenditures	1,405,958	-
Total expenditures	<u>9,931,562</u>	<u>428,311</u>
Excess (deficiency) of revenues over (under) expenditures	(324,268)	23,101
Other financing sources (uses), net	<u>(22,152)</u>	<u>22,152</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(346,420)	45,253
Balances beginning of year	<u>2,505,327</u>	<u>37,983</u>
Balances end of year	<u><u>\$ 2,158,907</u></u>	<u><u>83,236</u></u>

See accompanying independent auditor's report.

Total Actual	Budgeted Amounts		Final to Actual Variance
	Original	Final	
4,896,900	4,462,104	4,462,104	434,796
4,732,543	4,606,575	4,606,575	125,968
429,263	343,800	343,800	85,463
10,058,706	9,412,479	9,412,479	646,227
5,979,458	6,289,000	6,289,000	309,542
2,541,029	2,270,250	2,470,250	(70,779)
433,428	400,000	450,000	16,572
1,405,958	1,446,220	1,446,220	40,262
10,359,873	10,405,470	10,655,470	295,597
(301,167)	(992,991)	(1,242,991)	941,824
-	-	-	-
(301,167)	(992,991)	(1,242,991)	941,824
2,543,310	1,849,171	1,849,171	694,139
2,242,143	856,180	606,180	1,635,963

Sheldon Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2007

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 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 \$250,000.

During the year ended June 30, 2007, expenditures in the support services function exceeded the amount budgeted.



**Other Supplementary Information**

**Schedule 1**

## Sheldon Community School District

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2007

	Special Revenue				Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	
<b>Assets</b>					
Cash and pooled investments	\$ 280,237	228,653	104,947	126,443	740,280
Receivables:					
Property tax:					
Delinquent	2,886	-	2,552	-	5,438
Succeeding year	22,500	-	219,000	-	241,500
<b>Total assets</b>	<b>\$ 305,623</b>	<b>228,653</b>	<b>326,499</b>	<b>126,443</b>	<b>987,218</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 1,442	-	16,009	-	17,451
Deferred revenue:					
Succeeding year property tax	22,500	-	219,000	-	241,500
Total liabilities	23,942	-	235,009	-	258,951
Fund equity:					
Fund balances:					
Reserved for debt service	-	-	-	126,443	126,443
Unreserved	281,681	228,653	91,490	-	601,824
Total fund equity	281,681	228,653	91,490	126,443	728,267
<b>Total liabilities and fund balances</b>	<b>\$ 305,623</b>	<b>228,653</b>	<b>326,499</b>	<b>126,443</b>	<b>987,218</b>

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, 2007

	Special Revenue				Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	
Revenues:					
Local sources:					
Local tax	\$ 243,766	-	240,469	-	484,235
Other	25,627	392,608	8,776	8,211	435,222
Total revenues	269,393	392,608	249,245	8,211	919,457
Expenditures:					
Current:					
Instruction:					
Other	-	354,412	-	-	354,412
Support services:					
Administration	382,816	-	-	-	382,816
Other expenditures:					
Facilities acquisition	-	-	423,563	-	423,563
Long-term debt:					
Principal	-	-	-	255,000	255,000
Interest and other charges	-	-	-	245,351	245,351
Total expenditures	382,816	354,412	423,563	500,351	1,661,142
Excess (deficiency) of revenues over (under) expenditures	(113,423)	38,196	(174,318)	(492,140)	(741,685)
Other financing sources:					
Operating transfers in	-	-	-	499,951	499,951
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(113,423)	38,196	(174,318)	7,811	(241,734)
Fund balances beginning of year	395,104	190,457	265,808	118,632	970,001
Fund balances end of year	\$ 281,681	228,653	91,490	126,443	728,267

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, 2007

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Boys Basketball	\$ 1,000	1,269	1,269	1,000
Cross Country	500	1,210	1,210	500
Football	6,500	7,459	7,459	6,500
Boys Golf	700	378	378	700
Boys Track	1,000	100	100	1,000
Baseball	1,000	1,459	759	1,700
Wrestling	1,000	2,150	2,150	1,000
Girls Basketball	1,000	286	286	1,000
Girls Softball	1,582	4,232	2,132	3,682
Girls Track	1,000	100	100	1,000
Girls Volleyball	1,000	568	568	1,000
Girls Golf	700	244	244	700
Weightlifting	507	700	506	701
Dance Team	5,312	7,544	6,619	6,237
Cheerleaders	15,054	16,224	17,295	13,983
Activity Tickets	-	13,007	13,007	-
Concession - High School	2,461	48,194	49,648	1,007
Concession - Middle School	3,920	5,612	5,572	3,960
Reserved Seat Tickets	349	38	-	387
Activity Passes	-	1,280	1,280	-
All Sports	28,248	8,170	13,717	22,701
Athletic Uniforms	4,500	9,505	9,505	4,500
Flags	883	-	590	293
Spanish Club	17,584	7,506	3,787	21,303
Art Club	4,381	1,364	317	5,428
Science Club	2,208	661	978	1,891
Speech Club	3,844	3,036	4,122	2,758
Family Career & Community Leaders of America (FCCLA)	1,063	7,289	3,437	4,915
Fellowship of Christian Athletes (FCA)	1,745	1,282	1,627	1,400
Future Business Leaders	1,428	857	1,028	1,257
Future Farmers of America	2,541	23,286	20,638	5,189
College Farm	(12,626)	58,706	39,772	6,308
Middle School:				
SOAR	2,581	11,891	10,981	3,491
Band	867	1,734	1,776	825
Vocal Music	1,830	620	806	1,644
Student Council	3,287	3,664	4,450	2,501
Magazine Sales	-	36,581	36,581	-
Playground Equipment	1,785	-	686	1,099
5/6 Entrepreneur	-	3,509	1,645	1,864

## Sheldon Community School District

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

Year ended June 30, 2007

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
High School:				
Student Council	3,527	5,378	5,085	3,820
National Honor Society	18	1,143	1,072	89
Leadership Group	201	-	-	201
Band Uniform Rent	4,753	21,000	1,854	23,899
Musical	1,296	3,702	3,320	1,678
Annual	8,620	3,460	3,415	8,665
Band	1,534	9,856	10,985	405
Jazz Band	23	-	-	23
Vocal Music	9,922	5,014	9,688	5,248
Choir Robes	16	-	-	16
Choir Trip	127	-	-	127
Swing Choir	2,726	5,037	4,804	2,959
Summer Theater	4,606	16,660	12,662	8,604
Music Department Trip	2,011	-	-	2,011
Band Trip	7,201	-	-	7,201
Science Department	100	-	-	100
Elementary Boxtop	1,669	12,486	11,867	2,288
District Hospitality	197	-	-	197
Student Vending Machines	2,805	1,305	-	4,110
Investments	7,036	10,957	12,024	5,969
Community Musical	5,555	-	5,555	-
Class of:				
2000/2010	3,555	-	65	3,490
2001/2011	-	3,352	-	3,352
2004/2014	1,046	-	373	673
2005/2015	600	-	25	575
2006/2016	1,664	373	2,037	-
2007/2017	1,915	1,170	2,049	1,036
2008/2018	3,500	-	477	3,023
2009/2019	3,500	-	30	3,470
Total	\$ 190,457	392,608	354,412	228,653

See accompanying independent auditor's report.

**Schedule 4**

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## Sheldon Community School District

Schedule of Changes in Fiduciary Assets and Liabilities -  
Agency Fund

Year ended June 30, 2007

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
<b>Assets</b>				
Cash and pooled investments	\$ 4,777	8,649	8,133	5,293
Accounts receivable	146	82	146	82
Due from other governments	8,972	7,762	8,972	7,762
<b>Total assets</b>	<b>\$ 13,895</b>	<b>16,493</b>	<b>17,251</b>	<b>13,137</b>
<b>Liabilities</b>				
Due to other governments	\$ 13,895	8,649	9,407	13,137

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 Seven Years

	Modified Accrual Basis						
	2007	2006	2005	2004	2003	2002	2001
<b>Revenues:</b>							
Local sources:							
Local tax	\$ 3,783,369	3,778,943	3,705,094	3,971,901	3,186,542	2,860,636	2,913,234
Tuition	228,469	205,636	195,411	172,579	118,391	153,730	144,252
Other	596,990	525,867	549,856	456,981	595,179	526,095	578,310
State sources	4,727,058	4,348,956	4,158,412	3,647,447	3,917,172	3,901,738	3,801,426
Federal sources	271,408	231,222	350,161	894,075	278,416	254,029	189,025
<b>Total</b>	<b>\$ 9,607,294</b>	<b>9,090,624</b>	<b>8,958,934</b>	<b>9,142,983</b>	<b>8,095,700</b>	<b>7,696,228</b>	<b>7,626,247</b>
<b>Expenditures:</b>							
Instruction:							
Regular	\$ 3,594,270	3,965,895	3,730,320	3,534,552	3,336,688	3,327,480	3,051,435
Special	1,452,227	963,874	979,108	788,266	687,714	824,714	825,552
Other	932,961	837,581	945,675	842,041	810,318	859,480	838,075
Support services:							
Student	116,807	94,290	72,821	81,986	241,027	215,154	161,912
Instructional staff	148,092	131,141	136,586	124,936	135,636	126,830	127,036
Administration services	1,169,018	908,871	823,388	827,693	728,667	684,547	666,894
Operation and maintenance of plant	760,164	770,570	649,462	579,527	511,765	531,349	520,053
Transportation	346,948	301,381	246,718	240,987	211,953	251,185	309,502
Central support	-	123	27,631	-	14,560	112,199	7,217
Non-instructional programs	5,117	71	9,042	8,502	5,000	-	22,651
Other expenditures:							
Facilities acquisition	553,113	257,939	733,736	4,718,670	2,456,560	338,011	354,814
Long-term debt:							
Principal	255,000	250,000	240,000	200,000	145,000	140,000	168,655
Interest and other charges	245,351	252,851	260,051	268,501	209,444	19,450	25,294
AEA flowthrough	352,494	334,941	325,668	325,688	366,540	349,094	355,112
<b>Total</b>	<b>\$ 9,931,562</b>	<b>9,069,528</b>	<b>9,180,206</b>	<b>12,541,349</b>	<b>9,860,872</b>	<b>7,779,493</b>	<b>7,434,202</b>

See accompanying independent auditor's report.

**Sheldon Community School District**





**OFFICE OF AUDITOR OF STATE**  
STATE OF IOWA

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated November 15, 2007. 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, not for the purpose of expressing our 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.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Sheldon Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Sheldon Community School District's financial statements that is more than inconsequential will not be prevented or detected by Sheldon Community School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Sheldon Community School District's internal control.

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

### Compliance and Other Matters

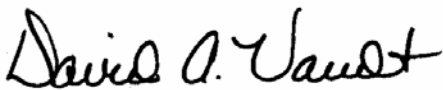
As part of obtaining reasonable assurance about whether Sheldon Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 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.

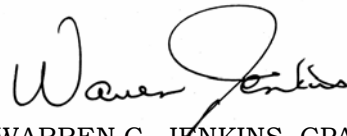
Sheldon Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Sheldon Community School District's responses and, accordingly, we express no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

November 15, 2007

Sheldon Community School District

Schedule of Findings

Year ended June 30, 2007

**Findings Related to the Financial Statements:**

**SIGNIFICANT DEFICIENCIES:**

- (A) Information Systems – During our review of internal control, the existing control activities in the District's computer based financial systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the District's computer based financial systems were noted:

While the District verbally represented it requires annual password changes, the District does not have written policies over the computer based financial system requiring password changes because software does not require the user to change log-ins/passwords periodically.

Also, the District does not have a written disaster recovery plan covering the computer based financial system.

Recommendation – The District should develop written policies addressing the above items in order to improve the District's control over the computer based financial systems. A written disaster recovery plan should be developed.

Response – The District will continue to work on a disaster recovery plan for the computer based financial system. The passwords on the financial computer will be changed every 90 days.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

Sheldon Community School District

Schedule of Findings

Year ended June 30, 2007

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – Disbursements for the year ended June 30, 2007 exceeded the amended budget for the support services function.

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 continue to monitor the expenditures in relation to the budget and will adjust the budget if necessary.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

- (3) Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- (4) Business Transactions – No business transactions between the District and District officials or employees were noted.

- (5) 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.

- (6) Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.

- (7) Certified Enrollment – No variances in the basic enrollment data certified to the Iowa Department of Education were noted.

- (8) 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 purchased outright with District funds. 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.

- (9) Certified Annual Report – The Certified Annual Report was certified to the Iowa Department of Education.

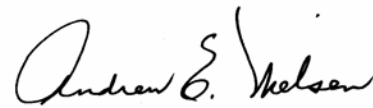
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Sheldon Community School District

Staff

This audit was performed by:

Susan D. Battani, CPA, Director  
Nancy F. Curtis, CPA, Senior Auditor II  
James L. Blekfeld, CPA, Senior Auditor  
Jennifer L. Wall, CPA, Staff Auditor  
R. Curtis Nelson, Assistant Auditor

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

Andrew E. Nielsen, CPA  
Deputy Auditor of State