



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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David A. Vaudt, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE _____ November 30, 2006

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

The District's revenues totaled \$9,584,021 for the year ended June 30, 2006, an increase of 3% over the prior year. Revenues included \$2,938,718 in local taxes, charges for service of \$845,271, operating grants, contributions and restricted interest of \$1,112,152, instructional support surtax of \$238,227, local option sales and services tax of \$631,007, unrestricted state grants and contributions of \$3,676,724, unrestricted investment earnings of \$114,036 and other general revenues of \$27,886.

Expenses for District operations totaled \$9,911,802, an increase of 10% over the prior year. Expenses included \$5,724,954 for instruction, \$2,514,691 for support services, \$49,654 for non-instructional programs (excluding food service operations), \$1,212,680 for other expenditures and \$409,823 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, 2006

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Sheldon Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2005 Election)		
Dan Van Gorp	President	2005
Gary Innen	Vice President	2007
Mark Brown	Board Member	2005
Kathy Brock	Board Member	2006
Kecia Hickman	Board Member	2007
Board of Education		
(After September 2005 Election)		
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
School Officials		
Robin Spears	Superintendent	2006
Bill Borchers	District Secretary/Treasurer and Business Manager	2006
Tom Whorley	Attorney	2006

Sheldon Community School District



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Independent Auditor's Report

To the Board of Education of
Sheldon Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Sheldon Community School District, Sheldon, Iowa, as of and for the year ended June 30, 2006, 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, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 15, 2006 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 42 through 45 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 five years ended June 30, 2005 (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

September 15, 2006

Sheldon Community School District

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sheldon Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$7,141,470 in fiscal 2005 to \$7,494,736 in fiscal 2006, while General Fund expenditures increased from \$7,303,271 in fiscal 2005 to \$7,796,769 in fiscal 2006. The District's General Fund balance decreased from \$908,542 at the end of fiscal 2005 to \$606,509 at the end of fiscal 2006, a 33% decrease.
- The increase in General Fund revenues was primarily due to an increase in state and local funding during fiscal 2006. The increase in expenditures was due primarily to increased expenditures for supplies and equipment, increased expenditures in the areas of ELL, At-Risk, Title I, Staff Development, District Safety expenses, plant and equipment repair and maintenance, natural gas, electricity and Open Enrollment.
- The General Fund balance decrease is primarily due to District funding of the increased expenditures in the educational programs of the District, coupled with the use of General Fund monies for the repair and maintenance of the District's facilities and equipment, due to limited funding with no Voter Approved Property, Plant and Equipment Levy.

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.

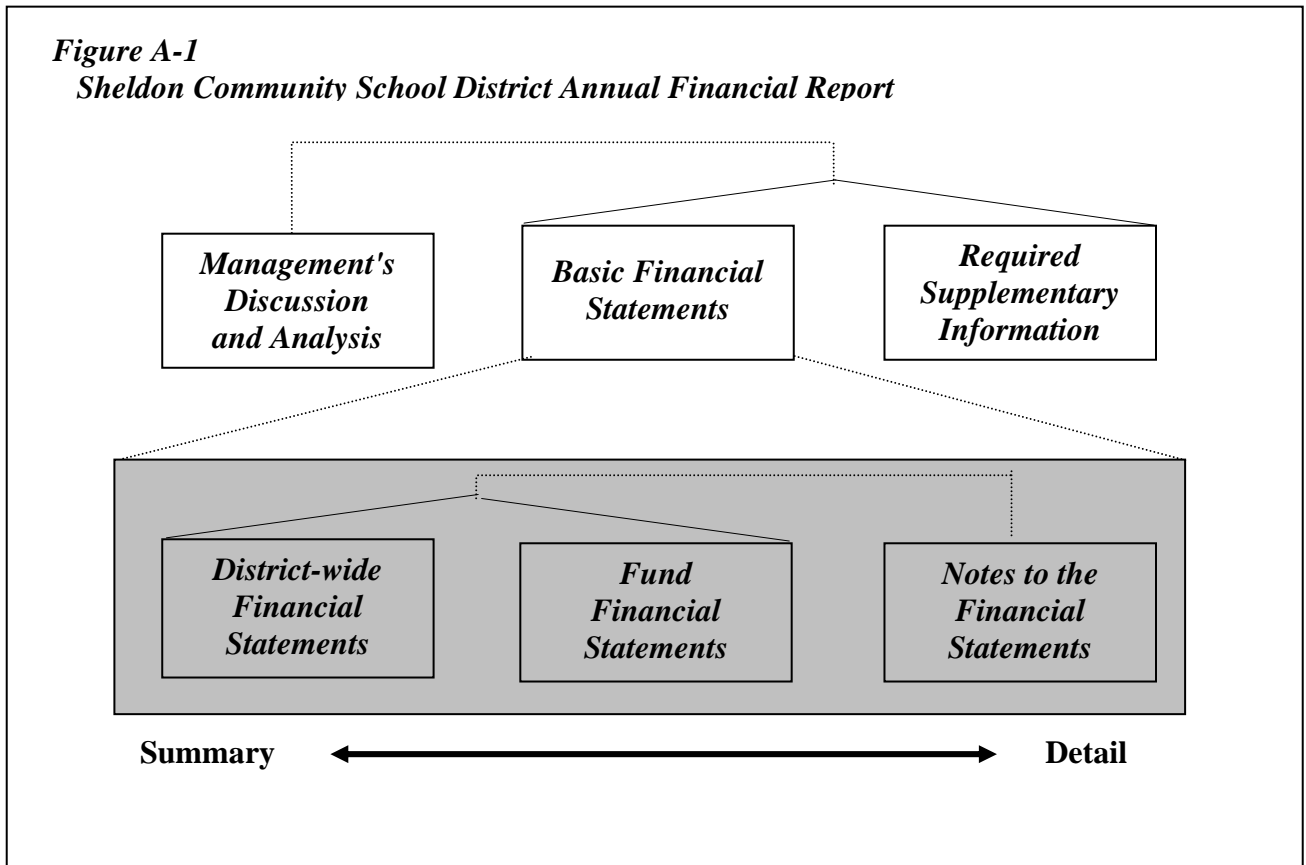


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Fund, one type of proprietary fund, is the same as its business type activities, but provides more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

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

- 3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Agency Funds. Agency Funds 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 statement for the District's fiduciary fund is a statement of 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, 2006 compared to June 30, 2005.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
Current and other assets	\$ 6,930	6,462	18	1	6,948	6,463	7.5%
Capital assets	8,778	9,273	24	28	8,802	9,301	-5.4%
Total assets	<u>15,708</u>	<u>15,735</u>	<u>42</u>	<u>29</u>	<u>15,750</u>	<u>15,764</u>	<u>-0.1%</u>
Long-term liabilities	6,193	6,180	-	-	6,193	6,180	0.2%
Other liabilities	4,191	3,889	4	5	4,195	3,894	7.7%
Total liabilities	<u>10,384</u>	<u>10,069</u>	<u>4</u>	<u>5</u>	<u>10,388</u>	<u>10,074</u>	<u>3.1%</u>
Net assets:							
Invested in capital assets, net of related debt	2,848	3,093	-	28	2,848	3,121	-8.7%
Restricted	1,617	1,481	-	-	1,617	1,481	9.2%
Unrestricted	859	1,092	38	(4)	897	1,088	-17.6%
Total net assets	<u>\$ 5,324</u>	<u>5,666</u>	<u>38</u>	<u>24</u>	<u>5,362</u>	<u>5,690</u>	<u>-5.8%</u>

The District's combined net assets decreased by 5.8%, or approximately \$328,000, from the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$136,000, or 9.2%, 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 \$191,000, or 17.6%. 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, 2006 and 2005.

Figure A-4						
Changes in Net Assts of Governmental and Business Type Activities						
(Expressed in Thousands)						
	Governmental		Business Type		Total	
	Activities		Activities		District	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for service	\$ 585	667	260	237	845	904
Operating grants, contributions and restricted interest	950	893	162	138	1,112	1,031
Capital grants, contributions and restricted interest	-	11	-	-	-	11
General revenues:						
Property tax	2,939	2,973	-	-	2,939	2,973
Instructional support surtax	238	209	-	-	238	209
Local option sales and services tax	631	525	-	-	631	525
Unrestricted state grants and contributions	3,677	3,541	-	-	3,677	3,541
Unrestricted investment earnings	112	34	2	-	114	34
Gain on disposal of capital assets	-	81	-	-	-	81
Other	28	29	-	-	28	29
Total revenues	<u>9,160</u>	<u>8,963</u>	<u>424</u>	<u>375</u>	<u>9,584</u>	<u>9,338</u>
Program expenses:						
Instruction	5,725	5,572	-	-	5,725	5,572
Support services	2,515	1,861	-	-	2,515	1,861
Non-instructional programs	50	22	410	395	460	417
Other expenses	1,212	1,168	-	-	1,212	1,168
Total expenses	<u>9,502</u>	<u>8,623</u>	<u>410</u>	<u>395</u>	<u>9,912</u>	<u>9,018</u>
Increase (decrease) in net assets	(342)	340	14	(20)	(328)	320
Net assets beginning of year	<u>5,666</u>	<u>5,326</u>	<u>24</u>	<u>44</u>	<u>5,690</u>	<u>5,370</u>
Net assets end of year	<u>\$ 5,324</u>	<u>5,666</u>	<u>38</u>	<u>24</u>	<u>5,362</u>	<u>5,690</u>

Property tax and unrestricted state grants account for 72% of the total governmental activities revenue. The District's expenses primarily relate to instruction and support services, which account for 87% of the total governmental activities expenses.

Governmental Activities

Revenues for governmental activities were \$9,160,284 and expenses were \$9,501,979. In a difficult budget year, the District used carryover net assets to offset the amount of expenses which exceeded revenues.

The following table presents the total and net cost of the District's major governmental activities for fiscal 2006: instruction, support services, non-instructional programs and other expenses.

Figure A-5		
Total and Net Cost of Governmental Activities		
(Expressed in Thousands)		
	Total Cost of Services	Net Cost of Services
Instruction	\$ 5,725	4,585
Support services	2,515	2,464
Non-instructional programs	50	45
Other expenses	1,212	872
Total	<u>\$ 9,502</u>	<u>7,966</u>

- The cost financed by users of the District's programs was \$585,554.
- Federal and state governments subsidized certain programs with grants, contributions and restricted interest totaling \$950,146.
- The net cost of governmental activities was financed with \$3,807,952 in property and other tax, including local option sales and services tax, and \$3,676,724 in unrestricted state grants and contributions.

Business Type Activities

Revenues for business type activities were \$423,737 and expenses were \$409,823. 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 \$2,505,327, above last year's ending fund balance of \$2,409,231.

Governmental Fund Highlights

- The General Fund balance decreased from \$908,542 to \$606,509, due in part to the increase in expenditures for supplies and equipment, and increased expenditures in the areas of ELL, At-Risk, Title I, Staff Development, District Safety expenses, plant and equipment repair and maintenance, natural gas, electricity, and Open Enrollment. The General Fund balance decrease is coupled with the use of General Fund monies for the repair and maintenance of the District's facilities and equipment, due to limited funding with no Voter Approved Property, Plant and Equipment Levy.
- 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 \$551,346 to \$928,817 due to the collection of local option sales and services tax.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$24,069 at June 30, 2005 to \$37,983 at June 30, 2006, representing an increase of approximately 58%, due primarily to the District loaning or advancing only \$10,000 in the fiscal year ended June 30, 2006 versus \$16,000 in the fiscal year ended June 30, 2005.

BUDGETARY HIGHLIGHTS

Over the course of the year, Sheldon Community School District amended its annual budget one time to reflect additional expenditures associated with the middle school building capital project activity.

The District's receipts were \$368,577 greater than budgeted receipts, a variance of 4.1%.

Total disbursements were \$362,023 less than budgeted disbursements, 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 instruction function due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested, 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 6 to the financial statements. Depreciation expense for the year was \$504,018 for both 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,
	2006	2005	2006	2005	2006	2005	2005-2006
Land	\$ 83	284	-	-	83	284	-70.8%
Buildings	7,491	7,696	-	-	7,491	7,696	-2.7%
Improvements other than buildings	764	925	-	-	764	925	-17.4%
Furniture and equipment	416	343	24	28	440	371	18.6%
Infrastructure	24	25	-	-	24	25	100.0%
Total	\$ 8,778	9,273	24	28	8,802	9,301	-5.4%

The original cost of the District's capital assets was \$13.4 million. Governmental funds account for \$13.3 million, with the remaining \$0.1 million accounted for in the Proprietary, School Nutrition Fund.

Long-Term Debt

At June 30, 2006, the District had \$5,930,000 in general obligation debt outstanding. This represents a decrease of approximately 4.0% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

	Total District		Total Change
	June 30, 2006	2005	June 30, 2006-2005
General obligation bonds	\$ 5,930	6,180	-4.0%
Early retirement	263	-	100.0%
Total	\$ 6,193	6,180	0.2%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The wage settlement for fiscal 2006 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 2007 is an increase of 4.95%. 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 Physical Plant and Equipment Levy (PPEL) Fund balance decreased from \$499,007 in fiscal 2005 to \$265,808 in fiscal 2006. The revenues decreased substantially due to the District's voters not approving the Physical Plant and Equipment Levy for the year ended June 30, 2006. Expenditures also decreased substantially due to completion of the new middle school and the elementary school renovations during the year. The District voters did approve a Physical Plant and Equipment Levy for five (5) years beginning on July 1, 2006. The rate of the levy is not to exceed fifty cents (\$0.50) per One Thousand Dollars (\$1,000) of the assessed valuation of the taxable property within the school district.
- The District voters also approved the continuance of the Instructional Support Levy for a period of five (5) years beginning on July 1, 2006. The rate of the levy is not to exceed six percent (6%) of the total regular program district costs for the budget year and monies received under Section 257.14, as a budget adjustment in the budget year. The amount will be authorized annually in combination, as determined by the board, of both property taxes and income surtax.

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

Exhibit A

Sheldon Community School District

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents:			
ISCAP	\$ 769,928	-	769,928
Other	2,987,375	13,553	3,000,928
Receivables:			
Property tax:			
Delinquent	35,066	-	35,066
Succeeding year	2,602,000	-	2,602,000
Accounts	997	-	997
Accrued interest:			
ISCAP	239	-	239
Other	17,120	103	17,223
Due from other governments	507,303	-	507,303
Advances to/from other funds	10,000	(10,000)	-
Inventories	-	14,992	14,992
Capital assets, net of accumulated depreciation	8,777,752	23,781	8,801,533
Total assets	15,707,780	42,429	15,750,209
Liabilities			
Accounts payable	133,554	31	133,585
Salaries and benefits payable	594,114	-	594,114
Due to other governments	63,342	-	63,342
Accrued interest payable	20,413	-	20,413
Deferred revenue:			
Succeeding year property tax	2,602,000	-	2,602,000
Other	-	4,415	4,415
ISCAP warrants payable	771,000	-	771,000
ISCAP accrued interest payable	190	-	190
ISCAP unamortized premium	5,867	-	5,867
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	255,000	-	255,000
Early retirement payable	246,654	-	246,654
Portion due after one year:			
General obligation bonds payable	5,675,000	-	5,675,000
Early retirement payable	16,353	-	16,353
Total liabilities	10,383,487	4,446	10,387,933

Sheldon Community School District

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
Net assets			
Invested in capital assets, net of related debt	2,847,752	23,781	2,871,533
Restricted for:			
Management levy	132,097	-	132,097
Physical plant and equipment levy	265,808	-	265,808
Other special revenue purposes	190,457	-	190,457
Debt service	98,219	-	98,219
Capital projects	928,817	-	928,817
DHS Medicaid retainer	1,758	-	1,758
Unrestricted	859,385	14,202	873,587
Total net assets	\$ 5,324,293	37,983	5,362,276

See notes to financial statements.

Exhibit B

Sheldon Community School District

Statement of Activities

Year ended June 30, 2006

	Expenses	Program Revenues	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 3,999,349	205,636	452,105
Special instruction	888,024	-	79,419
Other instruction	837,581	375,596	27,198
	<u>5,724,954</u>	<u>581,232</u>	<u>558,722</u>
Support services:			
Student services	94,290	-	14,243
Instructional staff services	140,701	-	-
Administration services	1,171,878	-	34
Operation and maintenance of plant services	773,470	-	-
Transportation services	334,229	-	36,199
Central support services	123	-	-
	<u>2,514,691</u>	<u>-</u>	<u>50,476</u>
Non-instructional programs	49,654	4,322	-
Other expenditures:			
Facilities acquisition	321,504	-	-
Long-term debt interest	252,226	-	6,007
AEA flowthrough	334,941	-	334,941
Depreciation (unallocated)*	304,009	-	-
	<u>1,212,680</u>	<u>-</u>	<u>340,948</u>
Total governmental activities	9,501,979	585,554	950,146
Business type activities:			
Non-instructional programs:			
Food service operations	409,823	259,717	162,006
Total	<u>\$ 9,911,802</u>	<u>845,271</u>	<u>1,112,152</u>
General Revenues:			
Property tax levied for:			
General purposes			
Debt service			
Instructional support surtax			
Local option sales and services tax			
Unrestricted state grants and contributions			
Unrestricted investment earnings			
Other			
Total general revenues			
Change in net assets			
Net assets beginning of year			
Net assets end of year			

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

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(3,341,608)	-	(3,341,608)
(808,605)	-	(808,605)
(434,787)	-	(434,787)
(4,585,000)	-	(4,585,000)
(80,047)	-	(80,047)
(140,701)	-	(140,701)
(1,171,844)	-	(1,171,844)
(773,470)	-	(773,470)
(298,030)	-	(298,030)
(123)	-	(123)
(2,464,215)	-	(2,464,215)
(45,332)	-	(45,332)
(321,504)	-	(321,504)
(246,219)	-	(246,219)
-	-	-
(304,009)	-	(304,009)
(871,732)	-	(871,732)
(7,966,279)	-	(7,966,279)
-	11,900	11,900
(7,966,279)	11,900	(7,954,379)
\$ 2,885,036	-	2,885,036
53,682	-	53,682
238,227	-	238,227
631,007	-	631,007
3,676,724	-	3,676,724
112,022	2,014	114,036
27,886	-	27,886
7,624,584	2,014	7,626,598
(341,695)	13,914	(327,781)
5,665,988	24,069	5,690,057
\$ 5,324,293	37,983	5,362,276

Exhibit C

Sheldon Community School District

Balance Sheet
Governmental Funds

June 30, 2006

	Capital			Total
	General	Projects	Nonmajor	
Assets				
Cash and pooled investments:				
ISCAP	\$ 769,928	-	-	769,928
Other	1,216,200	810,454	960,721	2,987,375
Receivables:				
Property tax:				
Delinquent	29,014	-	6,052	35,066
Succeeding year	2,168,000	-	434,000	2,602,000
Accounts	997	-	-	997
Accrued interest:				
ISCAP	239	-	-	239
Other	7,909	5,983	3,228	17,120
Due from other governments	384,323	122,980	-	507,303
Advance to other funds	10,000	-	-	10,000
Total assets	\$ 4,586,610	939,417	1,404,001	6,930,028
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 122,954	10,600	-	133,554
Salaries and benefits payable	594,114	-	-	594,114
Due to other governments	63,342	-	-	63,342
ISCAP warrants payable	771,000	-	-	771,000
ISCAP accrued interest payable	190	-	-	190
ISCAP unamortized premium	5,867	-	-	5,867
Deferred revenue:				
Succeeding year property tax	2,168,000	-	434,000	2,602,000
Other	254,634	-	-	254,634
Total liabilities	3,980,101	10,600	434,000	4,424,701
Fund balances:				
Reserved for:				
DHS Medicaid retainer	1,758	-	-	1,758
Debt service	-	-	118,632	118,632
Advances to other funds	10,000	-	-	10,000
Unreserved, reported in:				
General fund	594,751	-	-	594,751
Special revenue funds	-	-	851,369	851,369
Capital projects fund	-	928,817	-	928,817
Total fund balances	606,509	928,817	970,001	2,505,327
Total liabilities and fund balances	\$ 4,586,610	939,417	1,404,001	6,930,028

See notes to financial statements.

Sheldon Community School District

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

June 30, 2006

Total fund balances of governmental funds (page 22)	\$ 2,505,327
 <i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	8,777,752
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	254,634
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.	(20,413)
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 funds.	<u>(6,193,007)</u>
Net assets of governmental activities (page 19)	<u><u>\$ 5,324,293</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, 2006

	General	Capital Projects	Nonmajor	Total
Revenues:				
Local sources:				
Local tax	\$ 2,633,310	631,007	514,626	3,778,943
Tuition	205,636	-	-	205,636
Other	76,065	33,704	416,098	525,867
State sources	4,348,503	-	453	4,348,956
Federal sources	231,222	-	-	231,222
Total revenues	7,494,736	664,711	931,177	9,090,624
Expenditures:				
Current:				
Instruction:				
Regular instruction	3,965,895	-	-	3,965,895
Special instruction	963,874	-	-	963,874
Other instruction	457,402	-	380,179	837,581
	5,387,171	-	380,179	5,767,350
Support services:				
Student services	94,290	-	-	94,290
Instructional staff services	131,141	-	-	131,141
Administration services	777,081	-	131,790	908,871
Operation and maintenance of plant services	770,570	-	-	770,570
Transportation services	301,381	-	-	301,381
Central support services	123	-	-	123
	2,074,586	-	131,790	2,206,376
Non-instructional programs	71	-	-	71
Other expenditures:				
Facilities acquisition	-	115,676	142,263	257,939
Long-term debt:				
Principal	-	-	250,000	250,000
Interest and fiscal charges	-	-	252,851	252,851
AEA flowthrough	334,941	-	-	334,941
	334,941	115,676	645,114	1,095,731
Total expenditures	7,796,769	115,676	1,157,083	9,069,528
Excess (deficiency) of revenues over (under) expenditures	(302,033)	549,035	(225,906)	21,096
Other financing sources (uses):				
Sale of real property	-	-	75,000	75,000
Operating transfers in	-	278,436	450,000	728,436
Operating transfers out	-	(450,000)	(278,436)	(728,436)
Total other financing sources (uses)	-	(171,564)	246,564	75,000
Net change in fund balances	(302,033)	377,471	20,658	96,096
Fund balances beginning of year	908,542	551,346	949,343	2,409,231
Fund balances end of year	\$ 606,509	928,817	970,001	2,505,327

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, 2006

Net change in fund balances - total governmental funds (page 24) \$ 96,096

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. Depreciation expense exceeded capital outlay expenditures in the current year, as follows:

Expenditures for capital assets	\$ 205,784	
Depreciation expense	(499,636)	(293,852)

Certain revenues not collected for several months after year end are not considered available revenue and are deferred in the governmental funds. 69,660

In the Statement of Activities, the gain on the disposal of capital assets is reported whereas the governmental funds report the proceeds from the sale as an increase in financial resources. (201,217)

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. 250,000

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. 625

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. (263,007)

Change in net assets of governmental activities (page 21) \$ (341,695)

See notes to financial statements.

Sheldon Community School District

Statement of Net Assets
Proprietary Fund

June 30, 2006

	<u>School</u> <u>Nutrition-Nonmajor</u>
Assets	
Cash and cash equivalents	\$ 13,553
Accrued interest receivable	103
Inventories	14,992
Capital assets, net of accumulated depreciation	23,781
Total assets	<u>52,429</u>
Liabilities	
Accounts payable	31
Deferred revenue	4,415
Advances from other funds	10,000
Total liabilities	<u>14,446</u>
Net Assets	
Invested in capital assets	23,781
Unrestricted	14,202
Total net assets	<u>\$ 37,983</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, 2006

	School Nutrition-Nonmajor
Operating revenues:	
Local sources:	
Charges for service	\$ 259,717
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries and benefits	188,433
Purchased services	5,921
Supplies	211,087
Depreciation	4,382
Total operating expenses	409,823
Operating loss	(150,106)
Non-operating revenues:	
State sources	5,550
Federal sources	156,456
Interest income	2,014
Total non-operating revenues	164,020
Net income	13,914
Net assets beginning of year	24,069
Net assets end of year	\$ 37,983

See notes to financial statements.

Exhibit I

Sheldon Community School District

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2006

	<u>School</u> <u>Nutrition-Nonmajor</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 259,187
Cash paid to employees for services	(188,433)
Cash paid to suppliers for goods or services	(184,072)
Net cash used by operating activities	<u>(113,318)</u>
Cash flows from non-capital financing activities:	
State grants received	5,550
Federal grants received	123,274
Operating transfer (out)	(6,000)
Net cash provided by non-capital financing activities	<u>122,824</u>
Cash flows from investing activities:	
Interest on investments	1,917
Net increase in cash and cash equivalents	11,423
Cash and cash equivalents beginning of year	2,130
Cash and cash equivalents end of year	<u>\$ 13,553</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (150,106)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	33,182
Depreciation	4,382
(Increase) in inventories	(62)
Decrease in accounts receivable	11
(Decrease) in accounts payable	(184)
(Decrease) in deferred revenue	(541)
Net cash used by operating activities	<u>\$ (113,318)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received \$33,182 of federal commodities.

See notes to financial statements.

Sheldon Community School District

Statement of Fiduciary Net Assets
Agency Fund

June 30, 2006

Assets	
Cash and pooled investments	\$ 4,777
Accounts receivable	146
Due from other governments	<u>8,972</u>
Total assets	13,895
Liabilities	
Due to other governments	<u>13,895</u>
Net assets	<u><u>\$ -</u></u>

See notes to financial statements.

Sheldon Community School District

Notes to Financial Statements

June 30, 2006

(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 a fiduciary fund which focuses on net assets and changes in net assets. The District's fiduciary fund is as follows:

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, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

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

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of 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, 2006, disbursements in the instruction function exceeded the amount budgeted.

(2) Cash and Pooled Investments

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

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>
Repurchase Agreement	<u>\$ 396,956</u>	Monthly

In addition, the District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$1,708,606 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 \$396,956 investment in a repurchase agreement is held in the name of the District and the underlying securities (totaling \$396,956) 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.

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 18.85% of the District's total investments.

(3) Interfund Transfers

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

Transfer to	Transfer from	Amount
Capital Projects	Special Revenue: Physical Plant and Equipment Levy	\$ 278,436
Debt Service	Capital Projects	450,000
Total		<u>\$ 728,436</u>

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

(4) Interfund Assets/Liabilities

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

Receivable Fund	Payable Fund	Amount
General	Enterprise: School Nutrition	<u>\$ 10,000</u>

This represents a loan from the General Fund to the School Nutrition Fund for operations.

(5) 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, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07A	6/28/06	6/28/07	\$ 769,928	239	771,000	190

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, 2006 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2005-06A	\$ -	285,000	285,000	-

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
2005-06A	4.000%	3.903%
2006-07A	4.500%	5.676%

(6) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 283,976	-	200,673	83,303
Total capital assets not being depreciated	283,976	-	200,673	83,303
Capital assets being depreciated:				
Buildings	9,859,068	-	-	9,859,068
Improvements other than buildings	1,936,955	-	-	1,936,955
Furniture and equipment	1,368,803	209,384	56,398	1,521,789
Infrastructure	25,963	-	-	25,963
Total capital assets being depreciated	13,190,789	209,384	56,398	13,343,775
Less accumulated depreciation for:				
Buildings	2,163,343	204,634	-	2,367,977
Improvements other than buildings	1,011,650	161,386	-	1,173,036
Furniture and equipment	1,026,086	132,751	52,254	1,106,583
Infrastructure	865	865	-	1,730
Total accumulated depreciation	4,201,944	499,636	52,254	4,649,326
Total capital assets being depreciated, net	8,988,845	(290,252)	4,144	8,694,449
Governmental activities capital assets, net	\$ 9,272,821	(290,252)	204,817	8,777,752
Business type activities:				
Furniture and equipment	\$ 137,287	-	-	137,287
Less accumulated depreciation	109,124	4,382	-	113,506
Business type activities capital assets, net	\$ 28,163	(4,382)	-	23,781
Depreciation expense was charged to the following functions:				
Governmental activities:				
Instruction:				
Regular				\$ 66,634
Special				21,802
Support services:				
Instructional staff				9,560
Operation and maintenance of plant				9,665
Transportation				49,583
Non-instructional				38,383
				195,627
Unallocated				304,009
Total depreciation expense - governmental activities				\$ 499,636
Business type activities:				
Food service operations				\$ 4,382

(7) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 6,180,000	-	250,000	5,930,000	255,000
Early retirement	-	263,007	-	263,007	246,654
Total	\$ 6,180,000	263,007	250,000	6,193,007	501,654

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed fifteen years of service to the District. Employees must complete an application which is 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, is 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.

No early retirement benefits were paid during the year ended June 30, 2006.

Bonded Debt

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

Year Ending June 30,	Bond Issue of Sep 1, 2002			
	Interest Rates	Principal	Interest	Total
2007	3.25%	\$ 255,000	244,951	499,951
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
2012-2016	4.00-4.20	1,795,000	841,920	2,636,920
2017-2021	4.30-4.60	2,225,000	427,267	2,652,267
2022	4.70	510,000	23,970	533,970
Total		\$ 5,930,000	2,428,425	8,358,425

(8) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$263,320, \$245,155 and \$254,805, respectively, equal to the required contributions for each year.

(9) Risk Management

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

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$334,941 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

Required Supplementary Information

Sheldon Community School District

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual
Receipts:			
Local sources	\$ 4,393,031	261,104	4,654,135
State sources	4,342,893	5,550	4,348,443
Federal sources	278,998	123,273	402,271
Total receipts	<u>9,014,922</u>	<u>389,927</u>	<u>9,404,849</u>
Disbursements:			
Instruction	5,768,488	-	5,768,488
Support services	2,140,410	-	2,140,410
Non-instructional programs	-	372,504	372,504
Other expenditures	1,170,075	-	1,170,075
Total disbursements	<u>9,078,973</u>	<u>372,504</u>	<u>9,451,477</u>
Excess (deficiency) of receipts over (under) disbursements	(64,051)	17,423	(46,628)
Other financing sources (uses), net	81,000	(6,000)	75,000
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	16,949	11,423	28,372
Balances beginning of year	<u>2,970,426</u>	<u>2,130</u>	<u>2,972,556</u>
Balances end of year	<u>\$ 2,987,375</u>	<u>13,553</u>	<u>3,000,928</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Actual
		Variance
4,329,087	4,329,087	325,048
4,342,685	4,342,685	5,758
364,500	364,500	37,771
9,036,272	9,036,272	368,577
5,481,241	5,481,241	(287,247)
2,264,412	2,264,412	124,002
360,260	400,260	27,756
1,389,151	1,667,587	497,512
9,495,064	9,813,500	362,023
(458,792)	(777,228)	730,600
-	-	75,000
(458,792)	(777,228)	805,600
2,503,021	2,503,021	469,535
2,044,229	1,725,793	1,275,135

Sheldon Community School District
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation
 Required Supplementary Information
 Year ended June 30, 2006

	Governmental Funds		
	Cash	Accrual	Modified
	Basis	Adjust- ments	Accrual Basis
Revenues	\$ 9,014,922	75,702	9,090,624
Expenditures	9,078,973	(9,445)	9,069,528
Net	(64,051)	85,147	21,096
Other financing sources (uses)	81,000	(6,000)	75,000
Beginning fund balances	2,970,426	(561,195)	2,409,231
Ending fund balances	\$ 2,987,375	(482,048)	2,505,327

	Proprietary Fund		
	Enterprise		
	Cash	Accrual	Accrual
	Basis	Adjust- ments	Basis
Revenues	\$ 389,927	33,810	423,737
Expenses	372,504	37,319	409,823
Net	17,423	(3,509)	13,914
Other financing sources (uses)	(6,000)	6,000	-
Beginning fund balances	2,130	21,939	24,069
Ending fund balances	\$ 13,553	24,430	37,983

See accompanying independent auditor's report.

Sheldon Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting 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 the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. 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 \$318,436.

During the year ended June 30, 2006, disbursements in the instruction function exceeded the amount budgeted.

Sheldon Community School District

Other Supplementary Information

Schedule 1

Sheldon Community School District

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2006

	Special Revenue				Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	
Assets					
Cash and pooled investments	\$ 389,387	189,818	263,920	117,596	960,721
Receivables:					
Property tax:					
Delinquent	4,430	-	1,009	613	6,052
Succeeding year	218,000	-	216,000	-	434,000
Accrued interest	1,287	639	879	423	3,228
Total assets	\$ 613,104	190,457	481,808	118,632	1,404,001
Liabilities and Fund Equity					
Liabilities:					
Deferred revenue:					
Succeeding year property tax	\$ 218,000	-	216,000	-	434,000
Fund equity:					
Fund balances:					
Reserved for debt service	-	-	-	118,632	118,632
Unreserved, reported in:					
Special revenue funds	395,104	190,457	265,808	-	851,369
Total fund equity	395,104	190,457	265,808	118,632	970,001
Total liabilities and fund equity	\$ 613,104	190,457	481,808	118,632	1,404,001

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, 2006

	Special Revenue				Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	
Revenues:					
Local sources:					
Local tax	\$ 370,074	-	90,914	53,638	514,626
Other	7,497	381,082	21,512	6,007	416,098
State sources	335	-	74	44	453
Total revenues	377,906	381,082	112,500	59,689	931,177
Expenditures:					
Current:					
Instruction:					
Other instruction	-	380,179	-	-	380,179
Support services:					
Administration services	131,790	-	-	-	131,790
Other expenditures:					
Facilities acquisition	-	-	142,263	-	142,263
Long-term debt:					
Principal	-	-	-	250,000	250,000
Interest and fiscal charges	-	-	-	252,851	252,851
Total expenditures	131,790	380,179	142,263	502,851	1,157,083
Excess (deficiency) of revenues over (under) expenditures	246,116	903	(29,763)	(443,162)	(225,906)
Other financing sources (uses):					
Sale of real property	-	-	75,000	-	75,000
Operating transfers in	-	-	-	450,000	450,000
Operating transfers out	-	-	(278,436)	-	(278,436)
Total other financing sources (uses)	-	-	(203,436)	450,000	246,564
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	246,116	903	(233,199)	6,838	20,658
Fund balances beginning of year	148,988	189,554	499,007	111,794	949,343
Fund balances end of year	\$ 395,104	190,457	265,808	118,632	970,001

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, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Boys Basketball	\$ 1,000	2,172	2,172	1,000
Cross Country	500	1,649	1,649	500
Football	6,500	10,077	10,077	6,500
Boys Golf	700	1,454	1,454	700
Boys Track	1,000	2,461	2,461	1,000
Baseball	1,000	2,644	2,644	1,000
Wrestling	1,400	3,694	4,094	1,000
Girls Basketball	1,000	2,028	2,028	1,000
Girls Softball	1,400	2,610	2,428	1,582
Girls Track	1,000	2,141	2,141	1,000
Girls Volleyball	1,000	2,028	2,028	1,000
Girls Golf	900	1,188	1,388	700
Weightlifting	610	-	103	507
Dance Team	6,056	6,994	7,738	5,312
Cheerleaders	17,415	15,334	17,695	15,054
Activity Tickets	-	13,050	13,050	-
Concession - High School	417	46,202	44,158	2,461
Concession - Middle School	3,319	7,304	6,703	3,920
Reserved Seat Tickets	349	-	-	349
Activity Passes	-	2,988	2,988	-
All Sports	12,924	31,325	16,001	28,248
Athletic Uniforms	4,500	2,116	2,116	4,500
Flags	1,015	-	132	883
Spanish Club	17,905	7,801	8,122	17,584
Art Club	5,837	1,164	2,620	4,381
Science Club	2,302	582	676	2,208
Speech Club	1,047	10,399	7,602	3,844
Family Career & Community Leaders of America (FCCLA)	462	3,594	2,993	1,063
Fellowship of Christian Athletes (FCA)	1,200	1,745	1,200	1,745
Future Business Leaders	1,287	490	349	1,428
Future Farmers of America	6,010	15,637	19,106	2,541
College Farm	297	27,663	40,586	(12,626)
Middle School:				
SOAR	2,283	6,994	6,696	2,581
Band	774	7,772	7,679	867
Vocal Music	1,151	679	-	1,830
Student Council	9,163	8,402	14,278	3,287
Magazine Sales	-	37,831	37,831	-
Playground Equipment	1,785	-	-	1,785

Sheldon Community School District
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts
 Year ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
High School:				
Student Council	1,998	9,820	8,291	3,527
National Honor Society	15	1,525	1,522	18
Leadership Group	201	-	-	201
Band Uniform Rent	5,813	-	1,060	4,753
Musical	2,621	3,799	5,124	1,296
Annual	9,352	3,966	4,698	8,620
Band	2,219	17,138	17,823	1,534
Jazz Band	56	-	33	23
Vocal Music	4,835	7,421	2,334	9,922
Choir Robes	16	-	-	16
Choir Trip	127	-	-	127
Swing Choir	3,669	4,620	5,563	2,726
Summer Theater	7,462	9,140	11,996	4,606
Music Department Trip	2,011	-	-	2,011
Band Trip	7,001	200	-	7,201
Science Department	100	-	-	100
Elementary Boxtop	3,960	19,724	22,015	1,669
District Hospitality	197	-	-	197
Student Vending Machines	98	2,707	-	2,805
Investments	1,320	5,886	170	7,036
Community Musical	5,821	310	576	5,555
Class of:				
2000/2010	55	3,500	-	3,555
2004/2014	1,046	-	-	1,046
2005/2015	1,631	-	1,031	600
2006/2016	2,055	805	1,196	1,664
2007/2017	3,367	309	1,761	1,915
2008/2018	3,500	-	-	3,500
2009/2019	3,500	-	-	3,500
Total	\$ 189,554	381,082	380,179	190,457

See accompanying independent auditor's report.

Schedule 4

Sheldon Community School District

Schedule of Changes in Fiduciary Assets and Liabilities -
Agency Fund

Year ended June 30, 2006

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash and pooled investments	\$ 4,460	9,973	9,656	4,777
Receivables:				
Accounts	122	146	122	146
Accrued interest	9	-	9	-
Due from other governments	8,975	8,972	8,975	8,972
Total assets	\$ 13,566	19,091	18,762	13,895
Liabilities				
Due to other governments	\$ 13,566	19,091	18,762	13,895

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 Six Years

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

See accompanying independent auditor's report.

Sheldon Community School District



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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

To the Board of Education of
Sheldon Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Sheldon Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 15, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

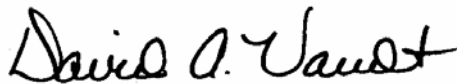
As part of obtaining reasonable assurance about whether Sheldon Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a 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, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of 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

September 15, 2006

Sheldon Community School District

Schedule of Findings

Year ended June 30, 2006

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The investing, bank wire transferring and data processing functions were performed by the same person.

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

Response – The District will continue to review its control procedures, so as to maximize the internal control with the limited number of employees in the accounting department.

Conclusion – Response acknowledged. The District should consider utilizing other employees to provide independent review of investment transactions.

- (B) 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:

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 has implemented the changing of the network password for the accounting computer every 90 days and will develop a written policy reflecting this change. The District will work on a written disaster recovery plan for the computer based financial system.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Sheldon Community School District

Schedule of Findings

Year ended June 30, 2006

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements for the year ended June 30, 2006 exceeded the amended budget amount in the instruction 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 monitor the budgeted expenditures and amend the budget as needed.

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.

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

- (10) Student Activity Fund – One account had a deficit balance at June 30, 2006.

Recommendation – The District should continue to monitor this Student Activity Fund account and investigate alternatives to eliminate the deficit.

Response – The District is addressing an alternative to remove the deficit in the one Student Activity Fund account.

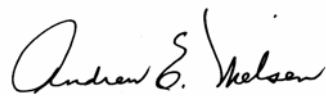
Conclusion – Response accepted.

Sheldon Community School District

Staff

This audit was performed by:

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