



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

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NEWS RELEASE

FOR RELEASE November 3, 2003

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

Vaudt reported that the District's revenues and bond proceeds totaled \$14,861,041 for the year ended June 30, 2003, an 85 percent increase from 2002. The increase was due primarily to receipt of general obligation bond proceeds totaling \$6,424,076. General Fund revenues included \$2,679,372 in local tax, \$3,916,702 from state sources, \$253,416 from federal sources and \$29,149 in interest on investments

General Fund expenditures for the year totaled \$6,628,832, a 3 percent decrease from the prior year, and included \$4,511,900 for instruction, \$1,750,392 for support services and \$366,540 for other expenditures.

This report contained recommendations to the Board of Education and District officials. For example, the District should strengthen internal controls over investing and information systems functions by further segregating certain duties. The District has responded that corrective action will be taken.

A copy of the audit report is available for review in the Office of Auditor of State and the District Secretary's office.

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SHELDON COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2003

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		5-6
General Purpose Financial Statements:	<u>Exhibit</u>	
Combined Balance Sheet – All Fund Types and Account Groups	A	8-11
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Types	B	12-13
Statement of Revenues, Expenses and Changes in Retained Earnings – Proprietary Fund Type	C	14
Statement of Cash Flows – Proprietary Fund Type	D	15
Comparison of Receipts, Disbursements and Changes in Balances – Actual to Budget (Cash Basis) – All Governmental Fund Types and Proprietary Fund Type	E	16-17
Notes to Financial Statements		18-27
Supplemental Information:	<u>Schedule</u>	
General Fund:		
Statement of Revenues, Expenditures and Changes in Fund Balance	1	30-33
Special Revenue Funds:		
Combining Balance Sheet	2	34
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	3	35-36
Debt Service Fund:		
Statement of Revenues, Expenditures and Changes in Fund Balance	4	37
Capital Projects Fund:		
Statement of Revenues, Expenditures and Changes in Fund Balance	5	38
Enterprise Fund:		
Statement of Revenues, Expenses and Changes in Retained Earnings	6	39
Agency Fund:		
Statement of Changes in Assets and Liabilities	7	40
Schedule of Changes in Individual Student Activity Accounts	8	41-42
Comparison of Taxes and Intergovernmental Revenues	9	43
Schedule of Expenditures of Federal Awards	10	44
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		47-48
Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control Over Compliance		51-52
Schedule of Findings and Questioned Costs		53-57
Staff		58

Sheldon Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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Board of Education

(Before September 2002 Election)

Dan Van Gorp	President	2002
Tom Whorley	Board Member	2002
Linda Porter	Board Member	2003
Kecia Hickman	Board Member	2004
Gary Ihnen	Board Member	2004

Board of Education

(After September 2002 Election)

Dan Van Gorp	President	2005
Linda Porter	Board Member	2003
Kecia Hickman	Board Member	2004
Gary Ihnen	Board Member	2004
Carl Rolf	Board Member	2005

School Officials

Robin Spears	Superintendent	2003
Bill Borchers	District Secretary/Treasurer and Business Manager	2003
Tom Whorley	Attorney	2003

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 general purpose financial statements, listed as exhibits in the table of contents of this report, of Sheldon Community School District as of and for the year ended June 30, 2003. These general purpose financial statements are the responsibility of District officials. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose 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 general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements present fairly, in all material respects, the financial position of Sheldon Community School District at June 30, 2003 and the results of its operations and cash flows of its proprietary fund type for the year then ended in conformity with U.S. generally accepted accounting principles. Also, the Comparison of Receipts, Disbursements and Changes in Balances - Actual to Budget (Cash Basis) presents fairly, in all material respects, the cash transactions and the legally adopted budget of the governmental fund types and proprietary fund type of Sheldon Community School District for the year ended June 30, 2003.

As discussed in Note 10, Sheldon Community School District intends to implement Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures, for the fiscal year ending June 30, 2004. The effects of these statements are expected to significantly impact the presentation of the District's financial statements and related notes in the year of implementation. The revised requirements include the use of the economic resources measurement focus and full accrual accounting, as well as an analytical overview of the District's financial activities in the Management's Discussion and Analysis introduction to the financial statements.

In accordance with Government Auditing Standards, we have also issued our reports dated September 5, 2003 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 grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the general purpose financial statements for the three years ended June 30, 2002 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 10, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Warren Jenkins". The signature is fluid and cursive, with a large loop at the end of the last name.

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 5, 2003

Financial Statements

Sheldon Community School District

Combined Balance Sheet

All Fund Types and Account Groups

June 30, 2003

	Governmental Fund Types		
	General	Special Revenue	Debt Service
Assets and Other Debits			
Cash and pooled investments	\$ 1,725,985	552,306	2
Receivables:			
Property tax:			
Delinquent	25,836	4,944	-
Succeeding year	2,460,000	629,000	507,000
Accounts	8,051	-	-
Accrued interest	747	257	10
Due from other governments	60,929	190,677	-
Inventories	-	-	-
Restricted ISCAP assets (note 3):			
Investments	652,027	-	-
Accrued interest receivable	188	-	-
Property and equipment (note 4):			
Construction in progress	-	-	-
Land, buildings and improvements	-	-	-
Machinery and equipment	-	-	-
Accumulated depreciation	-	-	-
Amount available in Debt Service Fund	-	-	-
Amount to be provided for retirement of general long-term debt	-	-	-
Total assets and other debits	\$ 4,933,763	1,377,184	507,012

Capital Projects	Proprietary Fund Type Enterprise	Fiduciary Fund Type Agency	Account Groups		Total (Memorandum Only)
			General Fixed Assets	General Long-Term Debt	
4,961,821	22,629	2,913	-	-	7,265,656
-	-	-	-	-	30,780
-	-	-	-	-	3,596,000
-	57	210	-	-	8,318
11,148	16	1	-	-	12,179
326,866	-	8,794	-	-	587,266
-	10,855	-	-	-	10,855
-	-	-	-	-	652,027
-	-	-	-	-	188
-	-	-	2,285,468	-	2,285,468
-	-	-	4,484,578	-	4,484,578
-	82,769	-	4,249,553	-	4,332,322
-	(52,598)	-	-	-	(52,598)
-	-	-	-	12	12
-	-	-	-	6,632,093	6,632,093
<u>5,299,835</u>	<u>63,728</u>	<u>11,918</u>	<u>11,019,599</u>	<u>6,632,105</u>	<u>29,845,144</u>

Sheldon Community School District

Combined Balance Sheet

All Fund Types and Account Groups

June 30, 2003

	Governmental Fund Types		
	General	Special Revenue	Debt Service
Liabilities, Fund Equity and Other Credits			
Liabilities:			
Accounts payable	\$ 46,760	175,768	-
Salaries and benefits payable	599,914	-	-
Early retirement payable (note 5)	-	12,105	-
Due to other governments	29,515	-	-
Trusts payable	-	-	-
ISCAP warrants payable (note 3)	646,000	-	-
ISCAP unamortized premium	7,326	-	-
ISCAP accrued interest payable (note 3)	361	-	-
Deferred revenue:			
Succeeding year property tax	2,460,000	629,000	507,000
Other	1,214	190,677	-
Notes payable (note 5)	-	-	-
Bonds payable (note 5)	-	-	-
Total liabilities	<u>3,791,090</u>	<u>1,007,550</u>	<u>507,000</u>
Fund equity and other credits:			
Investment in general fixed assets	-	-	-
Unreserved retained earnings	-	-	-
Fund balance:			
Reserved for DHS Medicaid retainer	1,588	-	-
Unreserved, undesignated	1,141,085	369,634	12
Total fund equity and other credits	<u>1,142,673</u>	<u>369,634</u>	<u>12</u>
Total liabilities, fund equity and other credits	<u>\$ 4,933,763</u>	<u>1,377,184</u>	<u>507,012</u>

See notes to financial statements.

Capital Projects	Proprietary Fund Type Enterprise	Fiduciary Fund Type Agency	Account Groups		Total (Memorandum Only)
			General Fixed Assets	General Long-Term Debt	
551,544	115	69	-	-	774,256
-	-	-	-	-	599,914
-	-	-	-	12,105	24,210
-	-	-	-	-	29,515
-	-	11,849	-	-	11,849
-	-	-	-	-	646,000
-	-	-	-	-	7,326
-	-	-	-	-	361
-	-	-	-	-	3,596,000
326,866	-	-	-	-	518,757
-	-	-	-	150,000	150,000
-	-	-	-	6,470,000	6,470,000
878,410	115	11,918	-	6,632,105	12,828,188
-	-	-	11,019,599	-	11,019,599
-	63,613	-	-	-	63,613
-	-	-	-	-	1,588
4,421,425	-	-	-	-	5,932,156
4,421,425	63,613	-	11,019,599	-	17,016,956
5,299,835	63,728	11,918	11,019,599	6,632,105	29,845,144

Sheldon Community School District

Combined Statement of Revenues, Expenditures and Changes in Fund Balances

All Governmental Fund Types

Year ended June 30, 2003

	Governmental Fund Types		
	General	Special Revenue	Debt Service
Revenues:			
Local sources	\$ 2,872,603	910,518	18,251
State sources	3,916,702	470	-
Federal sources	253,416	25,000	-
Total revenues	<u>7,042,721</u>	<u>935,988</u>	<u>18,251</u>
Expenditures:			
Instruction	4,511,900	#REF!	-
Support services	1,750,392	98,216	-
Other expenditures	366,540	532,944	354,444
Total expenditures	<u>6,628,832</u>	<u>#REF!</u>	<u>354,444</u>
Excess (deficiency) of revenues over (under) expenditures	<u>413,889</u>	<u>#REF!</u>	<u>(336,193)</u>
Other financing sources:			
Operating transfers in	-	-	336,205
Operating transfers out	-	(158,430)	-
Sale of equipment	545	-	-
Sale of property	-	13,000	-
General obligation bond proceeds (net of \$45,924 discount)	-	-	-
	<u>545</u>	<u>(145,430)</u>	<u>336,205</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	414,434	#REF!	12
Fund balances beginning of year	<u>728,239</u>	<u>533,056</u>	<u>-</u>
Fund balances end of year	<u>\$ 1,142,673</u>	<u>#REF!</u>	<u>12</u>

See notes to financial statements.

Capital Projects	Total (Memorandum Only)
98,740	3,900,112
-	3,917,172
-	278,416
98,740	8,095,700
-	#REF!
-	1,848,608
1,923,616	3,177,544
1,923,616	#REF!
(1,824,876)	#REF!
-	336,205
(177,775)	(336,205)
-	545
-	13,000
6,424,076	6,424,076
6,246,301	6,437,621
4,421,425	#REF!
-	1,261,295
4,421,425	#REF!

Exhibit C

Sheldon Community School District
Statement of Revenues, Expenses and Changes in Retained Earnings
Proprietary Fund Type
Year ended June 30, 2003

	<u>Enterprise Fund</u>
Operating revenue:	
Local sources	<u>\$ 190,557</u>
Operating expenses:	
Non-instructional programs:	
Depreciation	6,761
Other	<u>329,954</u>
Total operating expenses	<u>336,715</u>
Operating loss	<u>(146,158)</u>
Non-operating revenues:	
Local sources	294
State sources	5,689
Federal sources	<u>131,180</u>
Total non-operating revenues	<u>137,163</u>
Net loss	(8,995)
Retained earnings beginning of year	<u>72,608</u>
Retained earnings end of year	<u>\$ 63,613</u>

See notes to financial statements.

Sheldon Community School District

Statement of Cash Flows

Proprietary Fund Type

Year ended June 30, 2003

	<u>Enterprise Fund</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 189,469
Cash received from miscellaneous operating activities	1,030
Cash payments to employees for services	(173,026)
Cash payments to suppliers for goods or services	<u>(133,738)</u>
Net cash used in operating activities	<u>(116,265)</u>
Cash flows from non-capital financing activities:	
State grants received	5,689
Federal grants received	<u>107,202</u>
Net cash provided by non-capital financing activities	<u>112,891</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(3,280)</u>
Cash flows from investing activities:	
Interest on investments	<u>315</u>
Net increase in cash and cash equivalents	(6,339)
Cash and cash equivalents at beginning of year	<u>28,968</u>
Cash and cash equivalents at end of year	<u>\$ 22,629</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (146,158)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities used	23,978
Depreciation	6,761
(Increase) in accounts receivable	(58)
Decrease in inventories	1,351
(Decrease) in accounts payable	(521)
(Decrease) in salaries and benefits payable	(563)
(Decrease) in due to other governments	<u>(1,055)</u>
Net cash used in operating activities	<u>\$ (116,265)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2003, the District received federal commodities valued at \$23,978.

See notes to financial statements.

Sheldon Community School District

Comparison of Revenues, Expenditures and Changes in Balances -
Actual to Budget (Cash Basis) -

All Governmental Fund Types and Proprietary Fund Type

Year ended June 30, 2003

	Governmental Fund Types - Actual	Proprietary Fund Type - Actual
Receipts:		
Local sources	\$ 3,881,187	190,814
State sources	3,581,855	5,689
Federal sources	278,167	107,202
Total receipts	7,741,209	303,705
Disbursements:		
Instruction	4,824,163	-
Support services	1,850,231	-
Non-instructional programs	5,000	310,044
Other expenditures	2,097,070	-
Total disbursements	8,776,464	310,044
Deficiency of receipts under disbursements	(1,035,255)	(6,339)
Other financing sources, net	6,437,621	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	5,402,366	(6,339)
Balance beginning of year	1,837,748	28,968
Balance end of year	\$ 7,240,114	22,629

See notes to financial statements.

AEA Flow-through - Actual	Total	Amended Budget	Variance - Favorable (Unfavorable)	Total as % of Amended Budget
-	4,072,001	4,027,676	44,325	101%
366,540	3,954,084	3,947,658	6,426	100%
-	385,369	300,787	84,582	128%
366,540	8,411,454	8,276,121	135,333	102%
-	4,824,163	5,304,512	480,349	91%
-	1,850,231	2,469,199	618,968	75%
-	315,044	416,518	101,474	76%
366,540	2,463,610	5,119,406	2,655,796	48%
366,540	9,453,048	13,309,635	3,856,587	71%
-	(1,041,594)	(5,033,514)		
-	6,437,621	4,292,999		
-	5,396,027	(740,515)		
-	1,866,716	1,262,255		
-	7,262,743	521,740		

Sheldon Community School District

Notes to Financial Statements

June 30, 2003

(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. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Sheldon, Iowa, the predominate agricultural territory in O'Brien County and portions of Osceola County, Sioux County and Lyon County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

A. Reporting Entity

For financial reporting purposes, Sheldon Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The Sheldon Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the O'Brien County Assessor's Conference Board.

B. Fund Accounting

The accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, fund balance, revenues and expenditures or expenses. The various funds and account groups and their designated purposes are as follows:

Governmental Funds

General Fund – The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures and fixed charges that are not paid from other funds.

Special Revenue Funds – The Special Revenue Funds are used to account for revenues derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

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

Capital Projects Fund – The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

Proprietary Fund

Enterprise Fund – The Enterprise Fund is utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

Fiduciary Funds

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

Account Groups

General Fixed Assets – This account group is established to account for property and equipment of the District not accounted for in proprietary funds.

General Long-Term Debt – This account group is established to account for the general long-term debt and certain other liabilities that are not specific liabilities of proprietary funds of the District.

C. Measurement Focus

Governmental Funds are accounted for on a spending or “financial flow” measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance is considered a measure of “available spendable resources.” Governmental Fund operating statements present increases, revenues and other financing sources, and decreases, expenditures and other financing uses in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

The Proprietary Fund is accounted for on a cost of services or “capital maintenance” measurement focus. This means that all assets and all liabilities, whether current or non-current, associated with its activity is included on its balance sheet. The reported fund equity, net total assets, is reported as retained earnings. Proprietary Fund type operating statements present increases (revenue) and decreases (expenses) in net total assets.

In reporting the financial activity of its Proprietary Fund, 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.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All Governmental Funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when they become both measurable and 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. Expenditures are recorded when the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due. Disbursements for the purchase of assets providing future benefits are recorded as expenditures at time of purchase.

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

The Proprietary Fund is accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

The assets and liabilities of the Agency Fund are accounted for using the modified accrual basis of accounting.

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

E. Assets, Liabilities and Fund Equity

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

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

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

Property Tax Receivable - Property tax in Governmental Funds 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 that the tax asking is certified by the Board of Education to the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes from 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 Board of Education is required to certify its budget to the County Auditor by April 15 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 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, 2001 assessed property valuations; is for the tax accrual period July 1, 2002 through June 30, 2003 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2002.

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.

Property and Equipment:

General Fixed Assets - General fixed assets are recorded as expenditures in the Governmental Funds and are capitalized (recorded and accounted or) in the General Fixed Assets Account Group. Assets in this account group are recorded at historical cost. Assets acquired by gift are accounted for at fair market value at the date of the gift. The General Fixed Assets Account Group excludes public domain or "infrastructure" general fixed assets such as roads, bridges, curbs, gutters, streets, sidewalks and similar assets that are immovable and of value only to the government.

In accordance with standards set forth by the Governmental Accounting Standards Board, depreciation is not recorded on the balance sheet for general fixed assets. At the time an asset is removed from service, the cost is removed from the General Fixed Assets Account Group. Maintenance and repair are recorded as expenditures in the Governmental Funds as incurred and are not capitalized.

During the year ended June 30, 2003, no interest costs were capitalized since the District's policy is not to capitalize interest costs on assets constructed or acquired with tax-exempt debt paid for from annual debt service tax levies.

Proprietary Fund – Proprietary Fund property and equipment is accounted for at historical cost. Contributed assets are recorded at estimated fair market value at the date received.

Accumulated depreciation is reported on the Proprietary Fund balance sheet. Depreciation has been provided over the estimated useful life using the straight-line method. The estimated useful life for machinery and equipment is 12 years.

During the year ended June 30, 2003, no interest costs were capitalized since there were no qualifying assets.

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 collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue 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, the succeeding year property tax receivable, as well as delinquent property tax receivable and other receivables not collected within sixty days after year end.

F. Budgets, Budgetary Accounting and Budgetary Commitments

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 pertain to commitments related to unperformed contracts for goods or services. Used in budgeting, encumbrances are not expenditures or liabilities. Encumbrances represent the estimated amount of expenditures which may result if the unperformed contracts in process are completed. The District is not required to use encumbrance accounting and, accordingly, commitments related to unperformed contracts for goods or services have not been recorded by the District.

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

Exhibit E is a comparison of cash basis revenues, expenditures or expenses and changes in balances with the cash basis budget, which is legally controlled by functional area, not fund type. Operations and ending fund balances on the cash and modified accrual or accrual basis have been reconciled as follows:

	Governmental Fund Types					
	General			Special Revenue		
	Cash Basis	Accrual Adjust-ments	Modified Accrual Basis	Cash Basis	Accrual Adjust-ments	Modified Accrual Basis
Revenues	\$ 6,697,849	344,872	7,042,721	937,527	(1,539)	935,988
Expenditures	6,260,194	368,638	6,628,832	789,754	164,226	953,980
Net	437,655	(23,766)	413,889	147,773	(165,765)	(17,992)
Other financing sources (uses)	545	-	545	(145,430)	-	(145,430)
Beginning fund balances	1,287,785	(559,546)	728,239	549,963	(16,907)	533,056
Ending fund balances	<u>\$ 1,725,985</u>	<u>(583,312)</u>	<u>1,142,673</u>	<u>552,306</u>	<u>(182,672)</u>	<u>369,634</u>

	Governmental Fund Types					
	Debt Service			Capital Projects		
	Cash Basis	Accrual Adjust-ments	Modified Accrual Basis	Cash Basis	Accrual Adjust-ments	Modified Accrual Basis
Revenues	\$ 18,241	10	18,251	87,592	11,148	98,740
Expenditures	354,444	-	354,444	1,372,072	551,544	1,923,616
Net	(336,203)	10	(336,193)	(1,284,480)	(540,396)	(1,824,876)
Other financing sources (uses)	336,205	-	336,205	6,246,301	-	6,246,301
Beginning fund balances	-	-	-	-	-	-
Ending fund balances	<u>\$ 2</u>	<u>10</u>	<u>12</u>	<u>4,961,821</u>	<u>(540,396)</u>	<u>4,421,425</u>

	Governmental Fund Types		
	Total		
	Cash Basis	Accrual Adjust-ments	Modified Accrual Basis
Revenues	7,741,209	354,491	8,095,700
Expenditures	8,776,464	1,084,408	9,860,872
Net	(1,035,255)	(729,917)	(1,765,172)
Other financing sources (uses)	6,437,621	-	6,437,621
Beginning fund balances	1,837,748	(576,453)	1,261,295
Ending fund balances	<u>7,240,114</u>	<u>(1,306,370)</u>	<u>5,933,744</u>

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Accrual Adjust-ments	Accrual Basis
Revenues	\$ 303,705	24,015	327,720
Expenses	310,044	26,671	336,715
Net	(6,339)	(2,656)	(8,995)
Beginning retained earnings	28,968	43,640	72,608
Ending retained earnings	<u>\$ 22,629</u>	<u>40,984</u>	<u>63,613</u>

G. Total (Memorandum Only)

The total columns of the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2003 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.

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$2,798,608 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

The District's other investment is categorized to give an indication of the level of risk assumed by the District at year end. The District's investment is a Category 2 which means that the investment is collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

The investment is stated at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

The District's investment at June 30, 2003 is as follows:

<u>Type</u>	<u>Fair Value</u>
Repurchase Agreement	<u>\$ 720,359</u>

(3) Iowa Schools Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each participating entity is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Wells Fargo Bank, Iowa N.A. is the trustee for the 2002-03 Series A and B programs. Bankers Trust Co. N.A. is the trustee for the 2003-04 Series A program. A summary of the District's participation in ISCAP as of June 30, 2003 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2002-03A	6/21/02	6/18/03	\$ -	-	-	-
2002-03B	1/30/03	1/30/04	-	-	-	-
2003-04A	6/20/03	6/18/04	652,027	188	646,000	361
Total			<u>\$ 652,027</u>	<u>188</u>	<u>646,000</u>	<u>361</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The District did not have any ISCAP advance activity in the General Fund for the year ended June 30, 2003.

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

Series	Interest Rates on Warrants	Interest Rates on Investments
2002-03A	2.750%	2.603%
2002-03B	2.250	1.392
2003-04A	2.000	1.050

(4) Property and Equipment

A summary of changes in property and equipment comprising general fixed assets for the year ended June 30, 2003 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Construction in progress	\$ -	2,285,468	-	2,285,468
Land, buildings and building improvements	4,245,993	238,585	-	4,484,578
Machinery and equipment	3,968,550	291,084	10,081	4,249,553
Total	<u>\$ 8,214,543</u>	<u>2,815,137</u>	<u>10,081</u>	<u>11,019,599</u>

(5) Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2003 is as follows:

	Early Retirement	Notes Payable	Bonds Payable	Total
Balance beginning of year	\$ 10,073	295,000	-	305,073
Additions	24,211	-	6,470,000	6,494,211
Reductions	22,179	145,000	-	167,179
Balance end of year	<u>\$ 12,105</u>	<u>150,000</u>	<u>6,470,000</u>	<u>6,632,105</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-nine and employees must have completed fifteen years of continuous 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 is calculated on a variable percentage based on the age of the employee from 55 to 65 and the difference between \$16,000 and the employee's total salary in the year preceding retirement.

Early retirement benefits paid during the year ended June 30, 2003, totaled \$22,179.

Notes Payable

Details of the District's June 30, 2003 capital loan notes payable are as follows:

Year Ending June 30,	Interest Rate	Principal	Interest	Total
2004	4.50%	\$ 150,000	6,750	156,750

Bonded Debt

During the year ended June 30, 2003, the District issued \$6,470,000 in general obligation bonds to construct a new middle school. Details of the District's June 30, 2003 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2004	3.000%	\$ 50,000	261,151	311,151
2005	3.000	240,000	259,651	499,651
2006	3.000	250,000	252,451	502,451
2007	3.250	255,000	244,951	499,951
2008	3.250	265,000	236,664	501,664
2009	3.500	275,000	228,051	503,051
2010	3.750	300,000	218,426	518,426
2011	3.750	305,000	207,176	512,176
2012	4.000	320,000	195,739	515,739
2013	4.000	345,000	182,939	527,939
2014	4.000	360,000	169,139	529,139
2015	4.100	375,000	154,739	529,739
2016	4.200	395,000	139,364	534,364
2017	4.300	410,000	122,774	532,774
2018	4.375	425,000	105,144	530,144
2019	4.400	450,000	86,550	536,550
2020	4.500	460,000	66,750	526,750
2021	4.600	480,000	46,050	526,050
2022	4.700	510,000	23,970	533,970
Total		\$ 6,470,000	3,201,679	9,671,679

(6) 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 salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2003, 2002, and 2001 were \$241,784, \$237,824, and \$221,137, respectively, equal to the required contributions for each year.

(7) Risk Management

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

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$366,540 for the year ended June 30, 2003 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(9) Construction Commitments

The District entered into various contracts totaling \$6,628,537 for a new middle school building and \$491,447 for renovations to the elementary school. At June 30, 2003, \$1,923,621 of the middle school contracts and \$361,847 of the elementary school contracts were completed. The remaining amounts of the contracts will be paid as work on the projects progresses.

(10) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures. These statements will be implemented for the fiscal year ending June 30, 2004. The effects are expected to significantly impact the presentation of governmental financial statements in the year of implementation. The revised requirements include using the economic resources measurement focus and full accrual accounting. Also, the revised minimum reporting requirements include Management's Discussion and Analysis to introduce the basic financial statements and to provide an analytical overview of the District's financial activities.

Sheldon Community School District

Supplemental Information

Schedule 1

Sheldon Community School District
Statement of Revenues, Expenditures and Changes in Fund Balance
General Fund
Year ended June 30, 2003

Revenues:

Local sources:

Local tax:

Property tax	\$ 2,420,946
Income surtax	185,253
Utility tax replacement excise tax	69,235
Mobile home tax	3,938
	<u>2,679,372</u>

Other local sources:

Interest on investments	28,833
Tuition from other districts	118,391
Insurance reimbursement	25,000
Iowa Schools Cash Anticipation Program interest	316
Miscellaneous	20,691
	<u>193,231</u>
	<u>2,872,603</u>

State sources:

State foundation aid	3,234,333
Evaluator training program	3,000
Instructional support state aid	22,618
Educational Excellence program:	
Phase I	13,184
Phase II	85,237
Phase III	21,179
Vocational education aid	11,601
Non-public transportation aid	31,575
Revenue in lieu of taxes - military credit	2,414
Salary improvement program	64,209
Iowa Early Intervention Block Grant	57,668
Textbook aid for nonpublic students	3,144
AEA flow-through	366,540
	<u>3,916,702</u>

Federal sources:

Title I Grants to Local Educational Agencies	133,692
Title IIA - Federal Teacher Quality program	43,177
Safe and Drug-Free Schools and Communities - States grants	3,959
Innovative Education Program Strategies (Title V program)	6,513
Vocational Education - Basic Grants to States	12,701
Eisenhower Professional Development State Grants	3,458
Special Education - Grants to States	39,082
Other	10,834
	<u>253,416</u>

Total revenues

7,042,721

Sheldon Community School District
Statement of Revenues, Expenditures and Changes in Fund Balance
General Fund
Year ended June 30, 2003

Expenditures:		
Instruction:		
Regular instruction:		
Salaries		2,266,655
Benefits		510,880
Services		317,513
Supplies		94,523
Property		128,123
Other		18,994
		<u>3,336,688</u>
Special education instruction:		
Salaries		475,272
Benefits		100,077
Services		106,618
Supplies		3,096
Property		1,020
Other		1,631
		<u>687,714</u>
Vocational instruction:		
Salaries		216,474
Benefits		50,208
Supplies		6,918
Property		18
		<u>273,618</u>
Co-curricular instruction:		
Salaries		189,557
Benefits		24,323
		<u>213,880</u>
Total instruction		<u>4,511,900</u>
Support services:		
Guidance services:		
Salaries		180,178
Benefits		30,664
Services		3,530
Supplies		68
Other		4,033
		<u>218,473</u>

Schedule 1

Sheldon Community School District
Statement of Revenues, Expenditures and Changes in Fund Balance
General Fund
Year ended June 30, 2003

Expenditures (continued):

Support services:

Health services:

Salaries	13,154
Benefits	5,672
Services	2,423
Supplies	1,305
	<u>22,554</u>

Educational media services:

Salaries	88,052
Benefits	15,881
Supplies	31,036
Property	667
	<u>135,636</u>

Board of Education services:

Salaries	10,393
Benefits	1,386
Services	42,524
Supplies	7,805
Other	12,039
	<u>74,147</u>

Executive administration services:

Salaries	109,150
Benefits	34,949
Services	4,515
Supplies	3,370
Other	2,419
	<u>154,403</u>

School administration:

Salaries	233,405
Benefits	63,251
Services	1,300
Other	1,145
	<u>299,101</u>

Business administration:

Salaries	39,000
Benefits	15,315
Services	24,088
Supplies	12,630
Iowa Schools Cash Anticipation Program:	
Interest	10,469
Issuance costs	1,298
	<u>102,800</u>

Sheldon Community School District

Statement of Revenues, Expenditures and Changes in Fund Balance

General Fund

Year ended June 30, 2003

Expenditures (continued):

Support services:

Plant operation and maintenance:

Salaries	185,995
Benefits	77,606
Services	53,439
Supplies	174,012
Property	6,961
Other	13,752
	<u>511,765</u>

Student transportation:

Salaries	106,527
Benefits	24,075
Services	40,312
Supplies	30,847
Property	8,500
Other	1,692
	<u>211,953</u>

Central services:

Salaries	595
Benefits	88
Services	3,562
Supplies	4,150
Other	6,165
	<u>14,560</u>

Community services:

Services	5,000
Total support services	<u>1,750,392</u>

Other expenditures:

AEA flow-through	366,540
Total expenditures	<u>6,628,832</u>

Excess of revenues over expenditures	413,889
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Other financing sources:

Sale of equipment	545
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Excess of revenues and other financing sources over expenditures	414,434
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Fund balance beginning of year	<u>728,239</u>
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Fund balance end of year	<u>\$ 1,142,673</u>
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See accompanying independent auditor's report.

Schedule 2

Sheldon Community School District

Combining Balance Sheet

Special Revenue Funds

June 30, 2003

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
Assets				
Cash and pooled investments	\$ 98,747	189,698	263,861	552,306
Receivables:				
Property tax:				
Current year delinquent	414	-	4,530	4,944
Succeeding year	150,000	-	479,000	629,000
Accrued interest	65	41	151	257
Due from other governments	-	-	190,677	190,677
Total assets	\$ 249,226	189,739	938,219	1,377,184
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	\$ -	-	175,768	175,768
Early retirement payable	12,105	-	-	12,105
Deferred revenue:				
Succeeding year property tax	150,000	-	479,000	629,000
Other	-	-	190,677	190,677
Total liabilities	162,105	-	845,445	1,007,550
Fund equity:				
Unreserved, undesignated fund balances	87,121	189,739	92,774	369,634
Total liabilities and fund equity	\$ 249,226	189,739	938,219	1,377,184

See accompanying independent auditor's report.

Sheldon Community School District

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Special Revenue Funds

Year ended June 30, 2003

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
Revenues:				
Local sources:				
Local tax:				
Property tax	\$ 38,794	-	454,763	493,557
Utility tax replacement excise tax	1,109	-	11,772	12,881
Mobile home tax	63	-	669	732
	<u>39,966</u>	<u>-</u>	<u>467,204</u>	<u>507,170</u>
Other local sources:				
Interest on investments	913	534	3,443	4,890
Student activities	-	398,248	-	398,248
Miscellaneous	-	-	210	210
	<u>913</u>	<u>398,782</u>	<u>3,653</u>	<u>403,348</u>
	40,879	398,782	470,857	910,518
State sources:				
Revenue in lieu of taxes - military credit	39	-	431	470
Federal sources:				
Fund for the Improvement of Education Grant	-	-	25,000	25,000
Total revenues	<u>40,918</u>	<u>398,782</u>	<u>496,288</u>	<u>935,988</u>
Expenditures:				
Instruction:				
Co-curricular program instruction: Supplies	-	322,820	-	322,820
Support services:				
Board of Education services:				
Benefits	1,576	-	-	1,576
Services	96,640	-	-	96,640
	<u>98,216</u>	<u>-</u>	<u>-</u>	<u>98,216</u>

Schedule 3

Sheldon Community School District

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Special Revenue Funds

Year ended June 30, 2003

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
Expenditures (continued):				
Other expenditures:				
Facilities acquisition:				
Construction services	-	-	532,694	532,694
Land and improvements	-	-	132	132
Equipment	-	-	118	118
Total other expenditures	-	-	532,944	532,944
Total expenditures	98,216	322,820	532,944	953,980
Excess (deficiency) of revenues over (under) expenditures	(57,298)	75,962	(36,656)	(17,992)
Other financing sources (uses):				
Operating transfers out:				
Debt Service	-	-	(158,430)	(158,430)
Sale of property	-	-	13,000	13,000
Total other financing sources (uses)	-	-	(145,430)	(145,430)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(57,298)	75,962	(182,086)	(163,422)
Fund balances beginning of year	144,419	113,777	274,860	533,056
Fund balances end of year	\$ 87,121	189,739	92,774	369,634

See accompanying independent auditor's report.

Sheldon Community School District
Statement of Revenues, Expenditures and Changes in Fund Balance
Debt Service Fund
Year ended June 30, 2003

Revenues:	
Local sources:	
Other local sources:	
Interest on investments	\$ 115
Accrued interest on sale of bonds	18,136
Total revenues	<u>18,251</u>
Expenditures:	
Other expenditures:	
Debt service:	
Services	450
Principal	145,000
Interest	208,994
Total expenditures	<u>354,444</u>
Deficiency of revenues under expenditures	<u>(336,193)</u>
Other financing sources:	
Operating transfers in:	
Special Revenue:	
Physical Plant and Equipment Levy	158,430
Capital Projects:	
Middle School Construction	<u>177,775</u>
Total other financing sources	<u>336,205</u>
Excess of revenues and other financing sources over expenditures	12
Fund balance beginning of year	<u>-</u>
Fund balance end of year	<u>\$ 12</u>

See accompanying independent auditor's report.

Schedule 5

Sheldon Community School District
Statement of Revenues, Expenditures
and Changes in Fund Balance
Capital Projects Fund
Year ended June 30, 2003

	<u>Middle School Construction</u>
Revenues:	
Local sources:	
Other local sources:	
Interest on investments	\$ 98,715
Miscellaneous	25
Total revenues	<u>98,740</u>
Expenditures:	
Other expenditures:	
Facilities acquisition and construction services:	
Construction services	<u>1,923,616</u>
Deficiency of revenues under expenditures	<u>(1,824,876)</u>
Other financing sources (uses):	
Operating transfers out:	
Debt Service	(177,775)
General obligation bond proceeds (net of \$45,924 bond discount)	<u>6,424,076</u>
Total other financing sources (uses)	<u>6,246,301</u>
Excess of revenues and other financing sources over expenditures and other financing uses	4,421,425
Fund balance beginning of year	<u>-</u>
Fund balance end of year	<u>\$ 4,421,425</u>

See accompanying independent auditor's report.

Sheldon Community School District
Statement of Revenues, Expenses and Changes in Retained Earnings
Enterprise Fund
Year ended June 30, 2003

	School Nutrition
Operating revenues:	
Local sources:	
Other local sources:	
Sale of lunches and breakfasts:	
Students	\$ 163,809
Adults	14,563
Extra milk	5,840
A la carte	160
Special functions	5,097
Miscellaneous	1,088
Total operating revenues	190,557
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	152,555
Benefits	19,907
Services	2,919
Supplies	154,473
Other	100
Depreciation	6,761
Total operating expenses	336,715
Operating loss	(146,158)
Non-operating revenues:	
Interest income	294
State lunch and breakfast program claims	5,689
National School Lunch Program	92,727
School Breakfast Program	14,475
Food donation	23,978
Total non-operating revenues	137,163
Net loss	(8,995)
Retained earnings beginning of year	72,608
Retained earnings end of year	\$ 63,613

See accompanying independent auditor's report.

Schedule 7

Sheldon Community School District
Schedule of Changes in Assets and Liabilities
Agency Fund
Year ended June 30, 2003

	<u>Balance</u>			<u>Balance</u>
	<u>Beginning</u>			<u>End</u>
	<u>of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>of Year</u>
Assets				
Cash and pooled investments	\$ 3,153	12,062	12,302	2,913
Receivables:				
Accounts	898	210	898	210
Accrued interest	-	1	-	1
Due from other governments	9,811	8,794	9,811	8,794
Total assets	<u>\$ 13,862</u>	<u>21,067</u>	<u>23,011</u>	<u>11,918</u>
Liabilities				
Accounts payable	\$ -	69	-	69
Trusts payable	13,862	20,998	23,011	11,849
Total liabilities	<u>\$ 13,862</u>	<u>21,067</u>	<u>23,011</u>	<u>11,918</u>

See accompanying independent auditor's report.

Sheldon Community School District
 Schedule of Changes in Individual Student Activity Accounts
 Year ended June 30, 2003

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Basketball	\$ 1,500	2,831	3,331	1,000
Cross Country	1,500	1,559	2,559	500
Football	9,500	2,973	5,973	6,500
Golf	1,000	215	515	700
Track	1,500	1,048	1,548	1,000
Baseball	1,500	416	916	1,000
Wrestling	1,500	969	1,469	1,000
Girls Basketball	1,500	2,172	2,672	1,000
Girls Softball	1,500	2,721	3,221	1,000
Girls Track	1,500	1,646	2,146	1,000
Girls Volleyball	1,500	24	524	1,000
Girls Golf	1,000	41	341	700
Weightlifting	-	370	-	370
Drill Team	4,021	6,042	3,220	6,843
Cheerleaders	7,709	10,879	8,901	9,687
Activity Tickets	-	11,160	11,160	-
Concession	(1,048)	43,829	42,538	243
Reserved Seat Tickets	(401)	75	-	(326)
Activity Passes	-	1,030	1,030	-
All Sports	3,156	22,544	4,832	20,868
Athletic Uniforms	-	5,248	748	4,500
Flags	613	543	344	812
Spanish Club	11,841	11,455	11,571	11,725
Art Club	1,858	1,110	50	2,918
Science Club	2,751	370	430	2,691
Speech Club	4,529	6,195	4,798	5,926
Fellowship of Christian Athletes	1,120	1,110	1,120	1,110
Future Business Leaders	1,109	752	960	901
Future Farmers of America	4,791	35,283	26,384	13,690
College Farm	(4,579)	37,338	27,297	5,462
Middle School:				
SOAR	1,021	6,500	6,646	875
Band	116	1,947	1,913	150
Vocal Music	-	1,208	756	452
Student Council	2,107	6,233	1,843	6,497
Magazine Sales	-	45,074	45,062	12

Schedule 8

Sheldon Community School District
Schedule of Changes in Individual Student Activity Accounts
Year ended June 30, 2003

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
High School:				
Student Council	1,521	5,436	4,445	2,512
National Honor Society	-	974	1,161	(187)
Leadership Group	201	-	-	201
Band Uniform Rent	-	13,727	8,588	5,139
Musical	3,766	3,239	3,400	3,605
Annual	268	7,313	4,443	3,138
Band	350	20,691	17,925	3,116
Jazz Band	-	-	47	(47)
Vocal Music	2,004	21,402	18,899	4,507
Choir Robes	2,876	-	-	2,876
Choir Trip	884	4,331	3,243	1,972
Swing Choir	1,521	13,387	12,816	2,092
Summer Theatre	10,338	12,456	8,312	14,482
Band Trip	3,555	13,013	6,537	10,031
Science Department	151	-	51	100
Elementary Boxtop	4,313	2,805	2,604	4,514
Student Vending Machines	-	2,277	29	2,248
Investments	4,128	534	229	4,433
Class of:				
2003	1,687	787	1,693	781
2004	3,500	-	1,550	1,950
2005	3,500	-	-	3,500
2006	3,500	-	30	3,470
2007	-	3,500	-	3,500
Total	\$ 113,777	398,782	322,820	189,739

See accompanying independent auditor's report.

Sheldon Community School District

Comparison of Taxes and Intergovernmental Revenues

	Years ended June 30.			
	2003	2002	2001	2000
Local sources:				
Local tax:				
Property tax	\$ 2,914,503	2,776,261	2,709,013	2,681,507
Income surtax	185,253	-	117,758	73,127
Utility tax replacement excise tax	82,116	80,259	81,978	-
Mobile home tax	4,670	4,116	4,485	4,165
	<u>3,186,542</u>	<u>2,860,636</u>	<u>2,913,234</u>	<u>2,758,799</u>
State sources:				
State foundation aid	3,234,333	3,155,746	3,099,321	3,179,015
School improvement technology funding	-	21,780	63,393	66,192
Instructional support state aid	22,618	24,793	-	19,182
Educational Excellence program:				
Phase I	13,184	13,184	13,184	13,948
Phase II	85,237	87,065	86,415	90,937
Phase III	21,179	49,754	48,147	50,295
Vocational education aid	11,601	12,085	17,854	7,173
Revenue in lieu of taxes - military credit	2,884	3,007	3,033	3,075
Iowa Early Intervention Block Grant	57,668	60,819	-	-
Lunch and breakfast program claims	5,689	5,690	6,521	6,736
Non-public transportation aid	31,575	49,065	61,040	86,489
Salary improvement program	64,209	62,831	-	-
Other state aid	3,144	12,515	53,927	46,286
AEA flow-through	366,540	349,094	355,112	356,626
	<u>3,919,861</u>	<u>3,907,428</u>	<u>3,807,947</u>	<u>3,925,954</u>
Federal sources:				
Title I Grants to Local Educational Agencies	133,692	137,848	137,959	155,828
Title IIA - Federal Teacher Quality program	43,177	-	-	-
Innovative Education Program				
Strategies (Title V Program)	6,513	5,877	-	12,309
Safe and Drug-Free Schools and				
and Communities - States Grants	3,959	5,139	3,960	3,693
Star Schools	-	35,000	-	10,000
Eisenhower Professional Development				
State Grants	3,458	2,334	2,663	2,269
Goals 2000 - State and Local Education				
Systematic Improvement Grants	-	24,222	-	15,823
National School Lunch Program	92,727	93,472	90,890	93,134
School Breakfast Program	14,475	13,607	13,257	14,990
Food Donation	23,978	26,930	25,673	25,424
Special Education - Grants to States	39,082	-	-	-
Vocational Education - Basic Grants to States	12,701	860	13,072	26,375
Fund for the Improvement of Education Grant	25,000	-	-	-
Class Size Reduction	-	26,336	21,761	20,421
Other federal aid	13,834	16,413	9,610	-
	<u>412,596</u>	<u>388,038</u>	<u>318,845</u>	<u>380,266</u>
Total	<u>\$ 7,518,999</u>	<u>7,156,102</u>	<u>7,040,026</u>	<u>7,065,019</u>

See accompanying independent auditor's report.

Schedule 10

Sheldon Community School District
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2003

Grantor/Program	CFDA Number	Grant Number	Expenditures
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
Food Donation (non-cash)	10.550	FY03	\$ 23,978
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY03	14,475
National School Lunch Program	10.555	FY03	92,727
			<u>107,202</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	3608A	12,551
Title I Grants to Local Educational Agencies	84.010	3609	121,141
			<u>133,692</u>
Title IIA - Federal Teacher Quality Program	84.367	FY03	<u>43,177</u>
Innovative Education Program Strategies (Title V Program)	84.298	FY03	<u>7,383</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY03	<u>3,959</u>
Fund for the Improvement of Education	84.215	FY 03	<u>13,582</u>
Vocational Education - Basic Grants to States	84.048	FY 03	<u>11,684</u>
School Renovation Grants	84.352	FY 03	<u>517,543</u>
Area Education Agency 4:			
Eisenhower Professional Development State Grants	84.281	FY03	<u>3,616</u>
Special Education - Grants to States	84.027	FY03	<u>39,082</u>
U.S. Department of Human Services:			
Iowa Department of Human Services:			
Medical Assistance Program	93.778	FY03	<u>5,232</u>
Total			<u>\$ 910,130</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Sheldon Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

See accompanying independent auditor's report.

**Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting**

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 Compliance
and on Internal Control over Financial Reporting

To the Board of Education of
Sheldon Community School District:

We have audited the general purpose financial statements of Sheldon Community School District as of and for the year ended June 30, 2003, and have issued our report thereon dated September 5, 2003. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Sheldon Community School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2003 are based exclusively on knowledge obtained from procedures performed during our audit of the general purpose financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved except for items IV-K-03 and IV-L-03.

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 opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a 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 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 II-A-03 is a material weakness. Prior year reportable conditions have all been resolved except for item II-A-03.

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.

A handwritten signature in cursive script that reads "Warren Jenkins".

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 5, 2003

**Independent Auditor's Report on Compliance with
Requirements Applicable to Each
Major Program and Internal Control over Compliance**

Sheldon Community School District



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

David A. Vaudt, CPA
Auditor of State

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

Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance

To the Board of Education of
Sheldon Community School District:

Compliance

We have audited the compliance of Sheldon Community School District with the types of compliance requirements described in U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2003. Sheldon Community School District's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Sheldon Community School District's management. Our responsibility is to express an opinion on Sheldon Community School District's compliance based on our audit.

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

In our opinion, Sheldon Community School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.


Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect Sheldon Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. A reportable condition is described as item III-A-03 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item III-A-03 is a material weakness.

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



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 5, 2003

Sheldon Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2003

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

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over a major program was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program is as follows:
 - CFDA Number 84.352 - School Renovation Grants
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Sheldon Community School District did not qualify as a low-risk auditee.

Sheldon Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2003

Part II: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-03 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. During the year, the District changed procedures to segregate duties for posting cash receipts to the cash receipts journal and reconciling. However, the investing and data processing functions were still performed by the same person.

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

Response - We will continue to utilize the service of the part-time employee, and research ways to use this employee to help in the segregation of duties.

Conclusion - Response accepted.

II-B-03 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 that 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 financial computer based systems were noted:

The District does not have written policies over the financial computer system for:

- Requiring password changes because software does not require the user to change log-ins/passwords periodically.
- Requiring backups be performed weekly, monthly and yearly rather than just daily.

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

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

Response - We will develop written policies to address the information system's security weaknesses, and work on developing a written disaster recovery plan.

Conclusion - Response accepted.

Sheldon Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2003

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITION:

CFDA Number 84.352: School Renovation Grants
Agency Numbers:
Federal Award Year: 2003
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-03 Davis-Bacon Wage Rate Compliance - A wage determination was requested and obtained from the U.S. Department of Labor, along with weekly payroll records from contractors for projects financed by Federal funds. However, the District did not have a monitoring plan in place to determine compliance with the wage rates. Information obtained during the audit was not always sufficient to enable testing compliance with these requirements. Accordingly, in some instances we were unable to determine compliance with the Davis-Bacon Act requirements.

Recommendation - A system should be in place to ensure that wages from the contractor weekly time sheets can be and are reviewed to demonstrate compliance with the Davis-Bacon Act requirements.

Response - There will be additional checks on all labor sheets furnished by the contractors subject to the Davis Bacon Wage Rate legislation.

Conclusion - Response accepted.

Sheldon Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2003

Part IV: Other Findings Related to Statutory Reporting:

- IV-A-03 Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2003.
- IV-B-03 Certified Budget - Disbursements for the year ended June 30, 2003 did not exceed the amounts budgeted.
- IV-C-03 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-D-03 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.
- IV-E-03 Business Transactions - No business transactions between the District and District officials or employees were noted.
- IV-F-03 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 insure that the coverage is adequate for current operations.
- IV-G-03 Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.
- IV-H-03 Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
- IV-I-03 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.
- IV-J-03 Certified Annual Report - The Certified Annual Report was filed with the Iowa Department of Education timely and we noted no significant deficiencies in the amounts reported.
- IV-K-03 Sale of Property - During the year ended June 30, 2003, the District sold used tires from the school buses and certain property at a public auction. The District did not publish notice of the sale of the used tires for two consecutive weeks as required by Chapter 297.22 of the Code of Iowa. Although the District notified the public of the auction with 2 publications, the notices were not published two consecutive weeks as required by Chapter 297.22 of the Code of Iowa.

Recommendation - The District should publish the required notices for sale of District property as required by Chapter 297.22 of the Code of Iowa.

Sheldon Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2003

Response - The District will publish the notice of sale for two consecutive weeks as required.

Conclusion - Response accepted.

IV-L-03 Student Activity Fund - Three accounts had deficit balances at June 30, 2003.

Recommendation - The District should continue to monitor these Student Activity Fund accounts and investigate alternatives to eliminate the deficits.

Response - The District will continue to monitor the individual balances in the Student Activity Fund, and will look at alternatives to eliminate the negative balances.

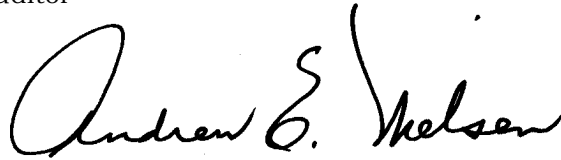
Conclusion - Response accepted.

Sheldon Community School District

Staff

This audit was performed by:

Susan D. Battani, CPA, Director
Nancy F. Curtis, CPA, Senior Auditor II
Nicholas A. Freymann, CGFM, Senior Auditor
Trevor Theulen, 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