

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

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Southeast Warren Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Kevin Smith	President	2003
Thomas Farley	Vice-President	2003
Greg Davis	Board Member	2003
Debbie Miller	Board Member	2004
John Burrell	Board Member	2005

**Board of Education
(After September 2003 Election)**

John Burrell	President	2005
Jennifer Birchette	Vice President	2005
Ron Miller	Board Member	2006
Chris Wadle	Board Member	2004
Chris Hardy	Board Member	2006

School Officials

John Della Vedova	Superintendent	2004
Julie Wilson	Board Secretary and Business Manager	2004
Jeff Krausman	Attorney	2004

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Southeast Warren Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Southeast Warren Community School District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, 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 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 that 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, business-type activities, each major fund, and the aggregate remaining fund information of the Southeast Warren Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with U.S. generally accepted accounting principles.

As described in Note 10 to the financial statements, during the year ended June 30, 2004, Southeast Warren Community School District adopted 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; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated October 22, 2004, on our consideration of the Southeast Warren Community School District's internal control over financial reporting and our tests of its compliance with certain

provisions of laws, regulations, contracts and grants. That report is 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.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 36 through 39 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Southeast Warren Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental 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.

Nolte, Cornman } Johnson EC

NOLTE, CORNMAN & JOHNSON, P.C.

October 22, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Southeast Warren 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, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$4,445,376 in fiscal 2003 to \$4,376,405 in fiscal 2004, while General Fund expenditures decreased from \$4,447,728 in fiscal 2003 to \$4,316,292 in fiscal 2004. This resulted in an increase in the District's General Fund balance from \$87,879 in fiscal 2003 to a balance of \$149,892 in fiscal 2004, a 71% increase from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in state and federal sources in fiscal 2004. The decrease in expenditures was due primarily to a decrease in the support services functional area.

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

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Southeast Warren Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Southeast Warren Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the 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.

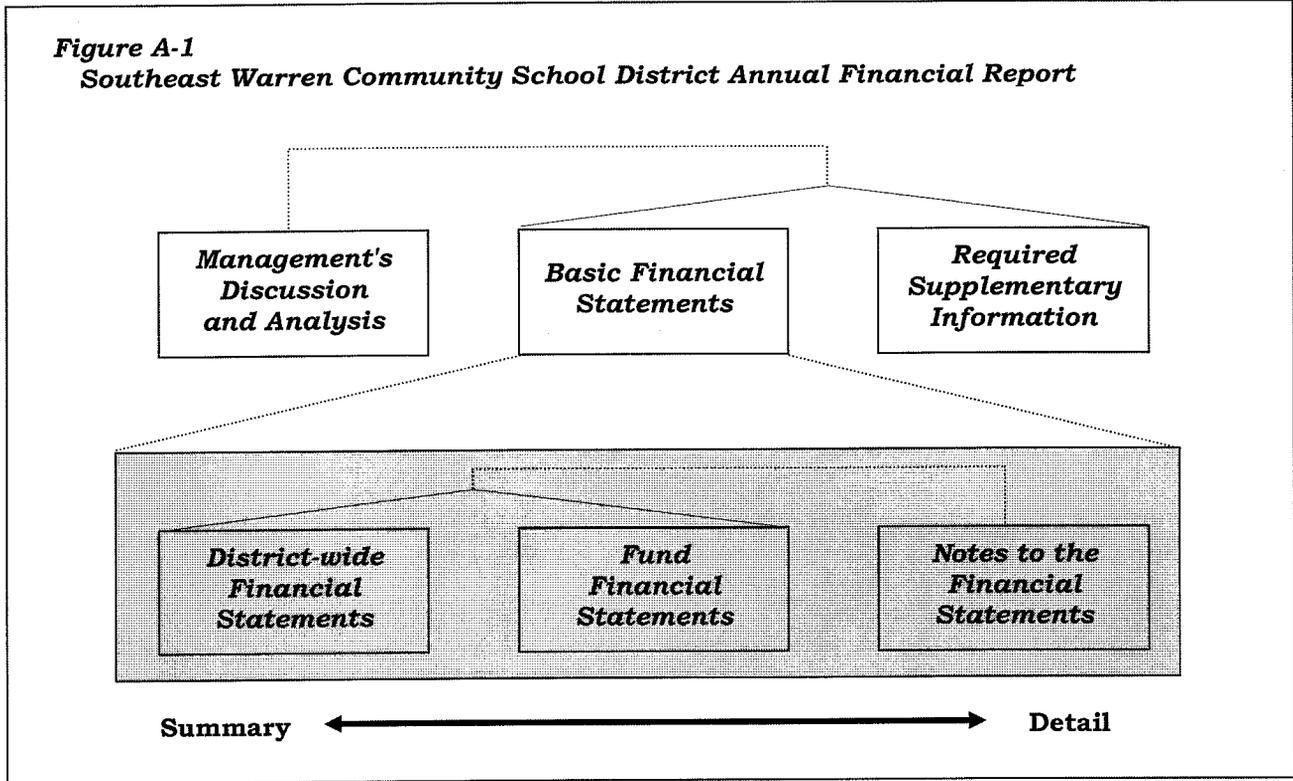


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	District-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • 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 net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
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, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

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

3) *Fiduciary fund*: The District is a trustee, or fiduciary, for assets that belong to others. These funds include the Agency Fund.

- Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other districts.

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

The required financial statements for fiduciary funds includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Current and other assets	\$ 3,846,158	90,659	3,936,817
Capital Assets	4,617,473	79,322	4,696,795
Total assets	<u>8,463,631</u>	<u>169,981</u>	<u>8,633,612</u>
Long-term obligations	3,417,215	0	3,417,215
Other liabilities	3,247,738	12,897	3,260,635
Total liabilities	<u>6,664,953</u>	<u>12,897</u>	<u>6,677,850</u>
Net assets:			
Invested in capital assets, net of related debt	1,191,488	79,322	1,270,810
Restricted	387,376	0	387,376
Unrestricted	219,814	77,762	297,576
Total net assets	<u>\$ 1,798,678</u>	<u>157,084</u>	<u>1,955,762</u>

Figure A-4 shows the changes in net assets for the year ended June 30, 2004.

Figure A-4
Changes of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Revenues:			
Program revenues:			
Charges for services	\$ 381,689	187,948	569,637
Operating grants and contributions and restricted interest	522,897	112,057	634,954
General revenues:			
Property tax	1,935,298	0	1,935,298
Unrestricted state grants	2,263,015	0	2,263,015
Unrestricted investment earnings	14,731	164	14,895
Other	1,900	0	1,900
Total revenues	<u>5,119,530</u>	<u>300,169</u>	<u>5,417,799</u>
Program expenses:			
Governmental activities:			
Instructional	3,098,888	0	3,098,888
Support services	1,372,046	0	1,372,046
Non-instructional programs	0	267,826	267,826
Other expenses	451,945	0	451,945
Total expenses	<u>4,922,879</u>	<u>267,826</u>	<u>5,190,705</u>
Change in net assets	<u>\$ 196,651</u>	<u>32,343</u>	<u>227,094</u>

Property tax and unrestricted state grants account for approximately 77% of the total revenue. The District's expenses primarily relate to instruction and support services which account for approximately 86% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$5,119,530 and expenses were \$4,922,879.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 3,098,888	2,362,076
Support services	1,372,046	1,369,848
Other expenses	451,945	286,369
Totals	<u>\$ 4,922,879</u>	<u>4,018,293</u>

-
- The cost financed by users of the District's programs was \$381,689.
 - Federal and state governments subsidized certain programs with grants and contributions totaling \$522,897.
 - The net cost of governmental activities was financed with \$1,935,298 in property and other taxes and \$2,263,015 in unrestricted state grants.

Business-Type Activities

Revenues of the District's business-type activities were \$300,169 and expenses were \$267,826. The District's business-type activities include the School Nutrition Fund and the Day Care Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Southeast Warren 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 combined fund balance of \$486,962, above last year's ending fund balances of a \$244,141.

Governmental Fund Highlights

- The District's improved General Fund financial position is the product of many factors. The decrease in revenues was more than offset by the District's decrease in General Fund expenditures.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$98,793 at June 30, 2003 to \$125,902 at June 30, 2004, representing an increase of approximately 27%. The Day Care Fund net assets increased from \$25,948 at June 30, 2003 to \$31,182 at June 30, 2004, representing an increase of 20%.

BUDGETARY HIGHLIGHTS

The District's receipts were \$287,336 less than budgeted receipts, a variance of 5.05%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$4,696,795, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$209,629.

The original cost of the District's capital assets was \$6,896,247. Governmental funds account for \$6,723,499 with the remainder of \$172,748 in the Proprietary Funds.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$945,987 at June 30, 2004, compared to \$944,288 reported at June 30, 2003.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Land	\$ 15,174	0	15,174
Buildings	4,414,043	0	4,414,043
Improvements other than buildings	26,389	0	26,389
Machinery and equipment	161,867	79,322	241,189
Total	<u>\$ 4,617,473</u>	<u>79,322</u>	<u>4,696,795</u>

Long-Term Debt

At June 30, 2004, the District had \$3,417,215 in general obligation and other long-term debt outstanding. This represents a decrease of 4% from last year. (See figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
General obligation bonds	\$ 3,405,000	3,560,000	-4.4%
Compensated absences	12,215	8,095	50.9%
Totals	<u>\$ 3,417,215</u>	<u>3,568,095</u>	<u>-4.2%</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- A 2.5% across-the-board state cut did reduce revenues the District received during the 2003-2004 school year. This was due to a downward estimate in state revenues.
- The upcoming Iowa legislative session could again prove to be most challenging in respect to the state budget. The impact of state reductions to education is an unknown that we must be ready to address and compensate.

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 Julie Wilson, Business Manager, Southeast Warren Community School District, 16331 Tyler Street, Liberty Center, Iowa, 50145.

BASIC FINANCIAL STATEMENTS

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents:			
ISCAP(Note 4)	\$ 949,220	0	949,220
Other	889,010	85,527	974,537
Receivables			
Property tax:			
Delinquent	42,502	0	42,502
Succeeding year	1,767,979	0	1,767,979
Income surtax	139,285	0	139,285
Accounts	1,043	2,542	3,585
Accrued ISCAP interest (Note 4)	1,885	0	1,885
Due from other governments	55,234	0	55,234
Inventories	0	2,590	2,590
Capital assets, net of accumulated depreciation (Note 5)	4,617,473	79,322	4,696,795
TOTAL ASSETS	8,463,631	169,981	8,633,612
LIABILITIES			
Accounts payable	11,285	1,639	12,924
Salaries and benefits payable	481,291	11,258	492,549
Due to other governments	2,681	0	2,681
Accrued interest payable	27,827	0	27,827
ISCAP warrants payable (Note 4)	953,000	0	953,000
ISCAP accrued interest payable (Note 4)	2,325	0	2,325
ISCAP unamortized premium	1,350	0	1,350
Deferred revenue:			
Succeeding year property tax	1,767,979	0	1,767,979
Long-term liabilities (Note 6):			
Portion due within one year:			
General obligation bonds	160,000	0	160,000
Compensated absences	12,215	0	12,215
Portion due after one year:			
General obligation bonds	3,245,000	0	3,245,000
TOTAL LIABILITIES	6,664,953	12,897	6,677,850
NET ASSETS			
Investment in capital assets, net of related debt	1,191,488	79,322	1,270,810
Restricted for:			
Teacher Compensation	693	0	693
Talented and Gifted	18,844	0	18,844
Early Intervention	37,611	0	37,611
Capital projects	179	0	179
Management levy	192,293	0	192,293
Physical plant and equipment levy	72,144	0	72,144
Other special revenue purposes	65,612	0	65,612
Unrestricted	219,814	77,762	297,576
TOTAL NET ASSETS	\$ 1,798,678	157,084	1,955,762

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Governmental activities:			
Instruction:			
Regular instruction	\$ 1,901,823	350,098	334,981
Special instruction	751,279	30,157	21,576
Other instruction	445,786	0	0
	<u>3,098,888</u>	<u>380,255</u>	<u>356,557</u>
Support services:			
Student services	89,499	0	0
Instructional staff services	158,093	0	0
Administration services	444,013	0	0
Operation and maintenance of plant services	410,738	0	0
Transportation services	269,703	1,434	764
	<u>1,372,046</u>	<u>1,434</u>	<u>764</u>
Other expenditures:			
Facilities acquisitions	6,069	0	0
Long-term debt interest	166,056	0	0
AEA flowthrough	165,576	0	165,576
Depreciation(unallocated) *	114,244	0	0
	<u>451,945</u>	<u>0</u>	<u>165,576</u>
Total governmental activities	4,922,879	381,689	522,897
Business-Type activities:			
Non-instructional programs:			
Nutrition services	209,507	138,489	98,127
Day Care	58,319	49,459	13,930
Total business-type activities	<u>267,826</u>	<u>187,948</u>	<u>112,057</u>
Total	<u>\$ 5,190,705</u>	<u>569,637</u>	<u>634,954</u>

General Revenues:

Property tax levied for:
General purposes
Debt service
Capital outlay
Unrestricted state grants
Unrestricted investment earnings
Other
Total general revenues

Changes in net assets

Net assets beginning of year, as restated(Note 10)

Net assets end of year

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(1,216,744)	0	(1,216,744)
(699,546)	0	(699,546)
(445,786)	0	(445,786)
<u>(2,362,076)</u>	<u>0</u>	<u>(2,362,076)</u>
(89,499)	0	(89,499)
(158,093)	0	(158,093)
(444,013)	0	(444,013)
(410,738)	0	(410,738)
(267,505)	0	(267,505)
<u>(1,369,848)</u>	<u>0</u>	<u>(1,369,848)</u>
(6,069)	0	(6,069)
(166,056)	0	(166,056)
0	0	0
(114,244)	0	(114,244)
<u>(286,369)</u>	<u>0</u>	<u>(286,369)</u>
(4,018,293)	0	(4,018,293)
0	27,109	27,109
0	5,070	5,070
0	32,179	32,179
<u>(4,018,293)</u>	<u>32,179</u>	<u>(3,986,114)</u>
\$ 1,571,538	0	1,571,538
330,511	0	330,511
33,249	0	33,249
2,263,015	0	2,263,015
14,731	164	14,895
1,900	0	1,900
<u>4,214,944</u>	<u>164</u>	<u>4,215,108</u>
196,651	32,343	228,994
<u>1,602,027</u>	<u>124,741</u>	<u>1,726,768</u>
<u>\$ 1,798,678</u>	<u>157,084</u>	<u>1,955,762</u>

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Other Nonmajor Governmental Funds	Total
ASSETS			
Cash and pooled investments:			
ISCAP (Note 4)	\$ 949,220	0	949,220
Other	564,567	324,443	889,010
Receivables:			
Property tax:			
Delinquent	29,230	13,272	42,502
Succeeding year	1,330,704	437,275	1,767,979
Income surtax	139,285	0	139,285
Accounts	179	864	1,043
Accrued ISCAP interest (Note 4)	1,885	0	1,885
Due from other governments	55,234	0	55,234
TOTAL ASSETS	\$ 3,070,304	775,854	3,846,158
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 9,776	1,509	11,285
Salaries and benefits payable	481,291	0	481,291
Due to other governments	2,681	0	2,681
ISCAP warrants payable (Note 4)	953,000	0	953,000
ISCAP accrued interest payable (Note 4)	2,325	0	2,325
ISCAP unamortized premium	1,350	0	1,350
Deferred revenue:			
Succeeding year property tax	1,330,704	437,275	1,767,979
Income surtax	139,285	0	139,285
Total liabilities	<u>2,920,412</u>	<u>438,784</u>	<u>3,359,196</u>
Fund balances:			
Reserved for:			
Teacher Compensation	693	0	693
Talented and Gifted	18,844	0	18,844
Early Intervention	37,611	0	37,611
Unreserved:			
Undesignated	92,744	337,070	429,814
Total fund balances	<u>149,892</u>	<u>337,070</u>	<u>486,962</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,070,304	775,854	3,846,158

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2004

Total fund balances of governmental funds (page 17) \$ 486,962

*Amounts reported for governmental activities in the
 statement of net assets are different because:*

Capital assets used in governmental activities are not
 financial resources and, therefore, are not reported as
 assets in in the governmental funds. 4,617,473

Accrued interest payable in the long-term liabilities is
 not due and payable in the current period and, therefore,
 is not reported as a liability in the governmental funds. (27,827)

Accounts receivable income surtax, is not yet available
 to finance expenditures of the current fiscal period. 139,285

Long-term liabilities, including bonds payable, and
 compensated absences are not due and payable in the
 current period and, therefore, are not reported in
 the funds. (3,417,215)

Net assets of governmental activites (page 14) \$ 1,798,678

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

	General	Other Nonmajor Governmental Funds	Total
REVENUES:			
Local sources:			
Local tax	\$ 1,367,717	567,581	1,935,298
Tuition	150,073	0	150,073
Other	73,245	173,102	246,347
Intermediate Sources	0	0	0
State sources	2,605,120	542	2,605,662
Federal sources	180,250	0	180,250
Total revenues	<u>4,376,405</u>	<u>741,225</u>	<u>5,117,630</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	1,872,004	24,486	1,896,490
Special instruction	751,279	0	751,279
Other instruction	289,594	152,559	442,153
	<u>2,912,877</u>	<u>177,045</u>	<u>3,089,922</u>
Support services:			
Student services	89,499	0	89,499
Instructional staff services	143,206	0	143,206
Administration services	435,482	5,990	441,472
Operation and maintenance of plant services	372,013	31,721	403,734
Transportation services	197,639	17,327	214,966
	<u>1,237,839</u>	<u>55,038</u>	<u>1,292,877</u>
Other expenditures:			
Facilities acquisitions	0	6,069	6,069
Long-term debt:			
Principal	0	155,000	155,000
Interest and fiscal charges	0	167,265	167,265
AEA flowthrough	165,576	0	165,576
	<u>165,576</u>	<u>328,334</u>	<u>493,910</u>
Total expenditures	<u>4,316,292</u>	<u>560,417</u>	<u>4,876,709</u>
Excess of revenues over expenditures	60,113	180,808	240,921
Other financing sources:			
Sale of equipment	40	0	40
Compensation for loss of fixed assets	1,860	0	1,860
Transfers in	0	4,900	4,900
Transfers out	0	(4,900)	(4,900)
Total other financing sources	<u>1,900</u>	<u>0</u>	<u>1,900</u>
Net change in fund balances	62,013	180,808	242,821
Fund balance beginning of year	87,879	156,262	244,141
Fund balance end of year	<u>\$ 149,892</u>	<u>337,070</u>	<u>486,962</u>

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2004

Net change in fund balances - total governmental funds(page 19) \$ 242,821

*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 reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 1,699	
Depreciation expense	(199,958)	(198,259)

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. Current year repayments were as follows:

Repaid	155,000
--------	---------

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.

1,209

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

Compensated absences	(4,120)
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Changes in net assets of governmental activities(page 16) \$ 196,651

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2004

	School Nutrition	Day Care	Total
ASSETS			
Cash and pooled investments	\$ 59,068	26,459	85,527
Accounts receivable	731	1,811	2,542
Inventories	2,590	0	2,590
Capital assets, net of accumulated depreciation	74,771	4,551	79,322
Total assets	<u>137,160</u>	<u>32,821</u>	<u>169,981</u>
LIABILITIES			
Accounts payable	0	1,639	1,639
Salaries and benefits payable	11,258	0	11,258
Total liabilities	<u>11,258</u>	<u>1,639</u>	<u>12,897</u>
NET ASSETS			
Invested in capital assets, net of related debt	74,771	4,551	79,322
Unrestricted	<u>51,131</u>	<u>26,631</u>	<u>77,762</u>
Total net assets	<u>\$ 125,902</u>	<u>31,182</u>	<u>157,084</u>

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	School Nutrition	Day Care	Total
Operating revenues:			
Local sources:			
Charges for services	\$ 138,489	49,459	187,948
Operating expenses:			
Non-instructional programs:			
Salaries	66,242	41,910	108,152
Benefits	18,294	6,517	24,811
Services	5,985	22	6,007
Supplies	110,260	8,738	118,998
Other	187	0	187
Depreciation	8,539	1,132	9,671
Total operating expenses	209,507	58,319	267,826
Operating loss	(71,018)	(8,860)	(79,878)
Non-operating revenues:			
State sources	3,421	0	3,421
Federal sources	94,706	13,930	108,636
Interest on investments	0	164	164
Total non-operating revenues	98,127	14,094	112,221
Change in net assets	27,109	5,234	32,343
Net assets beginning of year	98,793	25,948	124,741
Net assets end of year	\$ 125,902	31,182	157,084

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	School Nutrition	Day Care	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 134,540	0	134,540
Cash received from miscellaneous operating activities	3,218	47,648	50,866
Cash payments to employees for services	(92,960)	(48,427)	(141,387)
Cash payments to suppliers for goods or services	(97,021)	(7,271)	(104,292)
Net cash used in operating activities	(52,223)	(8,050)	(60,273)
Cash flows from non-capital financing activities:			
State grants received	3,421	0	3,421
Federal grants received	75,794	13,930	89,724
Net cash provided by non-capital financing activities	79,215	13,930	93,145
Cash flows from capital and related financing activities:			
Purchase of capital assets	(7,265)	(1,354)	(8,619)
Net cash used in capital and related financing activities	(7,265)	(1,354)	(8,619)
Cash flows from investing activities:			
Interest on investments	0	164	164
Net cash provided by investing activities	0	164	164
Net increase in cash and cash equivalents	19,727	4,690	24,417
Cash and cash equivalents at beginning of year	39,341	21,769	61,110
Cash and cash equivalents at end of year	\$ 59,068	26,459	85,527
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	\$ (71,018)	(8,860)	(79,878)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Commodities consumed	18,912	0	18,912
Depreciation	8,539	1,132	9,671
Decrease in inventories	499	0	499
Increase in accounts receivable	(731)	(1,811)	(2,542)
Increase in accounts payable	0	1,489	1,489
Decrease in salaries and benefits payable	(8,424)	0	(8,424)
Net cash used in operating activities	\$ (52,223)	(8,050)	(60,273)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and pooled investments	\$ 59,068	26,459	85,527
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
During the year ended June 30, 2004, the District received Federal commodities valued at \$18,912.			
SEE NOTES TO FINANCIAL STATEMENTS.			

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2004

	<u>Agency</u>
Assets	
Cash and pooled investments	\$ 1,285
Total assets	<u>1,285</u>
Liabilities	
Due to other groups	1,285
Total liabilities	<u>\$ 1,285</u>

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

(1) **Summary of Significant Accounting Policies**

The Southeast Warren 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 predominate agricultural territory in Warren and Lucas counties. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Southeast Warren 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 Southeast Warren 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 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 the Warren and Lucas Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues,

are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

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

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that 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 that are 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 and proprietary 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 other 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 receipts 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 expenses, including instructional, support and other costs.

The District reports the following proprietary fund:

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

The District reports the following fiduciary fund:

The District's fiduciary fund is the Agency Fund. 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 do not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements and the proprietary financial statements are reported using the "economic resources measurement focus". The Government-wide and proprietary fund financial statements are reported using 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 government considers revenues to be available if they are collected within 60 days after year end.

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and 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 terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and

delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, Liabilities and Fund Equity

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

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

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

Property Tax Receivable - Property tax in the governmental funds are 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. 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, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

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, machinery, 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 repairs 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	\$ 1,500
Buildings	1,500
Improvements other than buildings	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

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

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is 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 represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on 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.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2004 were entirely covered by Federal depository insurance, collateralized with securities or letters of credit held by the District or the District's agent in the District's name, or by multiple financial institution collateral pool 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 and the Treasurer of the State of Iowa; 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's investment in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$827,553 pursuant to Rule 2a-7 under 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 investments in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

(3) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
Capital Projects	PPEL	4,900
Total		<u>\$ 4,900</u>

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

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2004 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2003-04B	1/30/04	1/28/05	\$ 281,907	1,885	280,000	2,325
2004-05A	6/30/04	6/30/05	667,313	0	673,000	0
			<u>\$ 949,220</u>	<u>1,885</u>	<u>953,000</u>	<u>2,325</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2004 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2003-04A	\$ 0	595,000	595,000	0

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
2003-04A	2.000%	1.050%
2003-04B	2.000%	1.310%
2004-05A	3.000%	2.463%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year, as restated (Note 10)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 15,174	0	0	15,174
Total capital assets not being depreciated	15,174	0	0	15,174
Capital assets being depreciated:				
Buildings	5,714,856	0	0	5,714,856
Improvements other than buildings	47,482	0	0	47,482
Machinery and equipment	944,288	1,699	0	945,987
Total capital assets being depreciated	6,706,626	1,699	0	6,708,325
Less accumulated depreciation for:				
Buildings	1,187,734	113,079	0	1,300,813
Improvements other than buildings	19,928	1,165	0	21,093
Machinery and equipment	698,406	85,714	0	784,120
Total accumulated depreciation	1,906,068	199,958	0	2,106,026
Total capital assets being depreciated, net	4,800,558	(198,259)	0	4,602,299
Governmental activities capital assets, net	\$ 4,815,732	(198,259)	0	4,617,473
Business-type activities:				
Machinery and equipment	\$ 164,129	8,619	0	172,748
Less accumulated depreciation	83,755	9,671	0	93,426
Business-type activities capital assets, net	\$ 80,374	(1,052)	0	79,322

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 1,213
Other		3,633
Support services:		
Instructional Staff		16,586
Administration		2,541
Operation and maintenance of plant		7,004
Transportation		54,737
		85,714
Unallocated depreciation		114,244
Total governmental activities depreciation expense		\$ 199,958
Business-type activities:		
Food services		\$ 8,539
Day Care		1,132
Total business-type activities depreciation expense		\$ 9,671

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2004 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 3,560,000	0	155,000	3,405,000	160,000
Compensated absences	8,095	4,120	0	12,215	12,215
Total	\$ 3,568,095	4,120	155,000	3,417,215	172,215

Bonded Debt

Details of the District's June 30, 2004 revenue bond indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2005	5.00	160,000	159,215	319,215
2006	5.00	170,000	151,215	321,215
2007	5.00	180,000	142,715	322,715
2008	5.00	190,000	133,715	323,715
2009	1.30	195,000	124,215	319,215
2010	4.30	205,000	115,830	320,830
2011	4.38	215,000	107,015	322,015
2012	4.40	220,000	97,609	317,609
2013	4.50	230,000	87,929	317,929
2014	4.50	245,000	77,579	322,579
2015	4.63	255,000	66,554	321,554
2016	4.70	265,000	54,760	319,760
2017	4.80	280,000	42,305	322,305
2018	4.80	290,000	28,865	318,865
2019	4.90	305,000	14,944	319,944
Total		\$ 3,405,000	1,404,465	4,809,465

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$151,747, \$150,925, \$142,972, respectively, equal to the required contributions for each year.

(8) Risk Management

Southeast Warren 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.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$165,576 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Accounting Change and Restatements

Governmental Accounting Standards Board(GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absences and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board(GASB) Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement Number 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments; Omnibus, Statement Number 38, Certain Financial Statement Note Disclosures, and Statement Number 41, Budgetary Comparison Schedule - Perspective Differences; were implemented during the year ended June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include Government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

Beginning capital assets for governmental activities of \$7,045,439 were restated to \$6,721,800. The restatement primarily removed assets below the District's capitalizations threshold.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Fund		
	General	Other Nonmajor Governmental Funds	Total
Net assets, June 30, 2003, as previously reported	\$ 87,879	156,262	244,141
GASB Interpretation 6 adjustments	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	<u>\$ 87,879</u>	<u>156,262</u>	<u>244,141</u>
GASB 34 adjustments:			
Capital assets, net of accumulated depreciation of \$1,906,068			4,815,732
Long-term liabilities:			
Bonds		3,560,000	
Compensated absences		8,095	(3,568,095)
Accrued interest payable			(29,036)
Income surtax			<u>139,285</u>
Net assets, July 1, 2003, as restated			<u>\$ 1,602,027</u>

REQUIRED SUPPLEMENTAL INFORMATION

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 2,317,606	185,570
State sources	2,603,617	3,421
Federal sources	186,214	108,636
Total revenues	<u>5,107,437</u>	<u>297,627</u>
Disbursements:		
Instruction	3,087,948	0
Support services	1,283,488	0
Non-instructional programs	0	273,210
Other expenditures	493,910	0
Total expenditures	<u>4,865,346</u>	<u>273,210</u>
Excess(deficiency) of receipts over(under) disbursements	242,091	24,417
Other financing sources, net	<u>1,900</u>	<u>0</u>
Excess(deficiency) of receipts over(under) disbursements	243,991	24,417
Balance beginning of year	<u>645,019</u>	<u>61,110</u>
Balance end of year	<u>\$ 889,010</u>	<u>85,527</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
2,503,176	2,600,652	2,600,652	(97,476)
2,607,038	2,704,884	2,704,884	(97,846)
294,850	386,864	386,864	(92,014)
<u>5,405,064</u>	<u>5,692,400</u>	<u>5,692,400</u>	<u>(287,336)</u>
3,087,948	3,675,064	3,675,064	587,116
1,283,488	1,617,564	1,617,564	334,076
273,210	380,215	380,215	107,005
493,910	697,126	697,126	203,216
<u>5,138,556</u>	<u>6,369,969</u>	<u>6,369,969</u>	<u>1,231,413</u>
266,508	(677,569)	(677,569)	(944,077)
<u>1,900</u>	<u>0</u>	<u>0</u>	<u>(1,900)</u>
268,408	(677,569)	(677,569)	(945,977)
706,129	702,659	702,659	3,470
<u>974,537</u>	<u>25,090</u>	<u>25,090</u>	<u>949,447</u>

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 5,107,437	10,193	5,117,630
Expenditures	4,865,346	11,363	4,876,709
Net	242,091	(1,170)	240,921
Other financing sources, net	1,900	0	1,900
Beginning fund balances	645,019	(400,878)	244,141
Ending fund balances	\$ 889,010	(402,048)	486,962

	Proprietary Fund Enterprise		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 297,627	2,542	300,169
Expenditures	273,210	(5,384)	267,826
Net	24,417	7,926	32,343
Other financing sources, net	0	0	0
Beginning fund balances	61,110	63,631	124,741
Ending fund balances	\$ 85,527	71,557	157,084

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on 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 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 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.

OTHER SUPPLEMENTAL INFORMATION

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2004

	Special Revenue Funds				Debt Service	Capital Projects	Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue			
ASSETS							
Cash and pooled investments	\$ 187,560	66,257	71,363	325,180	0	179	325,359
Receivables:							
Property tax:							
Current year delinquent	4,733	0	781	5,514	7,758	0	13,272
Succeeding year	85,000	0	32,760	117,760	319,515	0	437,275
Accounts	0	864	0	864	0	0	864
TOTAL ASSETS	\$ 277,293	67,121	104,904	449,318	327,273	179	776,770
LIABILITIES AND FUND EQUITY							
Liabilities:							
Excess of warrants issued over bank balance	\$ 0	0	0	0	916	0	916
Accounts payable	0	1,509	0	1,509	0	0	1,509
Deferred revenue:							
Succeeding year property tax	85,000	0	32,760	117,760	319,515	0	437,275
Total Liabilities	85,000	1,509	32,760	119,269	320,431	0	439,700
Fund equity:							
Fund balances:							
Unreserved:							
Undesignated	192,293	65,612	72,144	330,049	6,842	179	337,070
Total fund balances	192,293	65,612	72,144	330,049	6,842	179	337,070
TOTAL LIABILITIES AND FUND EQUITY	\$ 277,293	67,121	104,904	449,318	327,273	179	776,770

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2004

	Special Revenue Funds						Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	Capital Projects	
REVENUES:							
Local sources:							
Local tax	\$ 203,821	0	33,249	237,070	330,511	0	567,581
Other	4,632	167,882	330	172,844	258	0	173,102
State sources	196	0	32	228	314	0	542
TOTAL REVENUES	208,649	167,882	33,611	410,142	331,083	0	741,225
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	24,486	0	0	24,486	0	0	24,486
Other instruction	0	152,559	0	152,559	0	0	152,559
Support services:							
Administration services	5,990	0	0	5,990	0	0	5,990
Operation and maintenance of plant services	31,721	0	0	31,721	0	0	31,721
Student transportation	12,975	0	4,352	17,327	0	0	17,327
Other expenditures:							
Facilities acquisitions	0	0	1,169	1,169	0	4,900	6,069
Long-term debt:							
Principal	0	0	0	0	155,000	0	155,000
Interest and fiscal charges	0	0	0	0	167,265	0	167,265
TOTAL EXPENDITURES	75,172	152,559	5,521	233,252	322,265	4,900	560,417
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	133,477	15,323	28,090	176,890	8,818	(4,900)	180,808
OTHER FINANCING SOURCES:							
Transfers in	0	0	0	0	0	4,900	4,900
Transfers out	0	0	(4,900)	(4,900)	0	0	(4,900)
Total other financing sources (uses)	0	0	(4,900)	(4,900)	0	4,900	0
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	133,477	15,323	23,190	171,990	8,818	0	180,808
FUND BALANCE BEGINNING OF YEAR	58,816	50,289	48,954	158,059	(1,976)	179	156,262
FUND BALANCE END OF YEAR	\$ 192,293	65,612	72,144	330,049	6,842	179	337,070

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2004

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Academic Bowl	\$ 17	147	120	44
Art Club	(69)	3,680	3,481	130
Art Club-JR High	0	2,132	1,963	169
Athletic Boosters	932	657	933	656
Baseball	(793)	8,010	6,239	978
Basketball-Boys	860	3,604	2,472	1,992
Basketball-Girls	986	3,344	3,384	946
Cheerleaders	208	1,489	737	960
Class of 03	0	26	0	26
Class of 04	276	25	30	271
Class of 05	1,043	6,397	6,475	965
Class of 06	1,040	53	2	1,091
Class of 07	50	27	22	55
Class of 08	25	0	0	25
Cross Country	489	250	334	405
Dance Team	650	10,938	9,709	1,879
Dance Team-JH	26	1,839	2,105	(240)
Drama	(231)	2,837	2,240	366
Elem Pictures	493	284	0	777
Elem Pictures INT	647	266	159	754
Elem Yearbook	681	1,068	999	750
ELP Trips	534	482	539	477
Est. Comm. Pride	100	3,457	2,245	1,312
FBLA	252	999	1,072	179
FCCLA	239	2,099	2,417	(79)
FFA	6,359	15,008	17,293	4,074
Football	3,669	7,484	5,833	5,320
General Athletics	(1,874)	7,406	6,097	(565)
Golf	(382)	2,475	1,301	792
HS Pictures	67	0	32	35
Instrumental Music	(34)	4,203	3,605	564
I-Music Flags	177	371	304	244
Interest Income	143	34	39	138
Intermed. Activities	156	2,382	1,991	547
Activity Support	23,000	0	0	23,000
JR High Sports	81	1,233	1,265	49
JH Student Council	1,118	0	35	1,083
JR-SR High Activities	118	114	0	232
Model Legislature	98	0	0	98
Nat. Honor Society	193	1,127	444	876
Primary Activities	872	558	770	660
Softball	(768)	9,834	6,354	2,712
Spanish Club	3,196	2,365	4,087	1,474
Speech	25	0	0	25
SH Student Council	1,246	1,533	1,135	1,644
Tournaments	293	1,993	121	2,165
Track	(864)	1,951	1,087	0
Utility	208	1,913	2,319	(198)
Vocal Music	156	863	1,053	(34)
Vocal-NY Trip	844	35,265	37,756	(1,647)
Volleyball	217	2,474	1,980	711
Wrestling	605	3,548	3,392	761
Yearbook	2,915	9,638	6,589	5,964
Total	\$ 50,289	167,882	152,559	65,612

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 YEAR ENDED JUNE 30, 2004

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash and pooled investments	\$ 2,225	56,682	57,622	1,285
Total assets	<u>\$ 2,225</u>	<u>56,682</u>	<u>57,622</u>	<u>1,285</u>
Liabilities				
Due to other groups	\$ 2,225	56,682	57,622	1,285
Total liabilities	<u>\$ 2,225</u>	<u>56,682</u>	<u>57,622</u>	<u>1,285</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 1,935,298	1,860,042	1,736,373	1,585,488
Tuition	150,073	118,681	57,848	81,419
Other	246,347	172,538	299,123	330,122
State sources	2,605,662	2,606,882	2,481,055	2,638,883
Federal sources	180,250	238,415	123,662	97,211
Total	<u>\$ 5,117,630</u>	<u>4,996,558</u>	<u>4,698,061</u>	<u>4,733,123</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 1,896,490	1,944,708	1,874,236	1,770,730
Special instruction	751,279	721,634	630,281	639,211
Other instruction	442,153	364,831	375,455	364,197
Support services:				
Student services	89,499	84,660	72,842	67,011
Instructional staff services	143,206	147,385	162,099	136,140
Administration services	441,472	563,480	502,213	428,949
Operation and maintenance of plant services	403,734	419,086	422,226	461,410
Transportation services	214,966	193,180	357,286	194,184
Non-instructional programs	0	0	38	3,327
Other expenditures:				
Facilities acquisitions	6,069	87,771	398,887	2,286,419
Long-term debt:				
Principal	155,000	200,771	190,177	177,764
Interest and other charges	167,265	177,092	184,048	192,812
AEA flow-through	165,576	173,712	170,073	178,760
Total	<u>\$ 4,876,709</u>	<u>5,078,310</u>	<u>5,339,861</u>	<u>6,900,914</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

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

To the Board of Education of the
Southeast Warren Community School District:

We have audited the financial statements of Southeast Warren Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated October 22, 2004. 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 Southeast Warren 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 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 the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 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. Prior year statutory comments have all been resolved.

Internal Control Over Financial Reporting

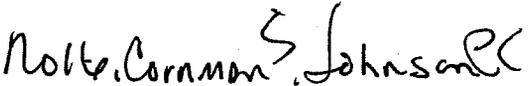
In planning and performing our audit, we considered Southeast Warren Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control 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 the accompanying Schedule of Findings.

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 I-A-04 is a material weakness. Prior year reportable conditions have all been resolved except for item I-A-04.

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


NOLTE, CORNMAN & JOHNSON, P.C.

October 22, 2004

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

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

REPORTABLE CONDITIONS:

I-A-04 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. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared 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 procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

I-B-04 Student Activity Fund – We noted during the audit that the Student Activity Fund had accounts with deficit balances at June 30, 2004. We also noted that the Fund included a class of 2003 and a class of 2004 account.

Recommendation – The District should review procedures to bring the negative accounts to a sound financial position. The class accounts are inactive accounts as the classes have graduated and therefore are no longer legitimate accounts. These balances may be transferred to another student activity account in accordance with the Uniform Accounting Procedure Manual.

Response – We have closed the class accounts and we will review the negative accounts to try and bring them to a sound financial position.

Conclusion – Response accepted.

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part II: Other Findings Related to Statutory Reporting

- II-A-04 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- II-B-04 Certified Budget - District disbursements for the year ended June 30, 2004 did not exceed the amount budgeted.
- II-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-D-04 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.
- II-E-04 Business Transactions – Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Tina Schneider, Teacher Spouse of owner of construction company	Services	\$ 100

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions do not appear to represent a conflict of interest.

- II-F-04 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.
- II-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-H-04 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-I-04 Deposits and Investments - We noted 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.
- II-J-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.