SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT
CALMAR, IOWA

FINANCIAL REPORT

JUNE 30, 2004

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SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT

BOARD OF EDUCATION AND SCHOOL OFFICIALS

Name	Title	Address	Term Expires
Board of Education (Before September 2003 Election)			
Roger Koenig	President	Castalia, Iowa	Sept. 2004
Marty Tieskoetter	Member	Ossian, Iowa	Sept. 2004
John Berger	Member	Calmar, Iowa	Sept. 2005
Pat Tekippe	Member	Fort Atkinson, Iowa	Sept. 2003
Alan Schmitt	Member	Ossian, Iowa	Sept. 2005
Board of Education (After September 2003 Election)			
Roger Koenig	President	Castalia, Iowa	Sept. 2004
Marty Tieskoetter	Member	Ossian, Iowa	Sept. 2004
John Berger	Member	Calmar, Iowa	Sept. 2005
Pat Tekippe	Member	Fort Atkinson, Iowa	Sept. 2006
Alan Schmitt	Member	Ossian, Iowa	Sept. 2005

School Officials

Richard Wede - Superintendent
Kay Donlan - District Secretary/Treasurer

HACKER, NELSON & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS
and BUSINESS CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT ON THE
THE FINANCIAL STATEMENTS

To the Board of Education
South Winneshiek Community School District
Calmar, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of South Winneshiek 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 South Winneshiek Community School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

We were unable to audit the capital assets and depreciation expense because management has not calculated depreciation on capital assets or gathered the appropriate information needed for determining historical costs of capital assets. U.S. generally accepted accounting principles require that capital assets be recorded at historical cost and depreciated, which would affect the assets, net assets, and expenses of the governmental activities. The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

Because we were unable to audit the capital assets and depreciation expense, and we were unable to apply other auditing procedures regarding the valuation of capital assets as discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the governmental activities.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the South Winneshiek Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 17 the District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* as of June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2004 on our consideration of South Winneshiek Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on page 4 and pages 27 through 29 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
September 23, 2004

SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT
CALMAR, IOWA

Management's Discussion and Analysis
For the Fiscal Year Ending June 30, 2004

Management of South Winneshiek Community School District provides this Management's Discussion and Analysis of South Winneshiek Community School District's annual 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.

The Management's Discussion and Analysis (MD&A) is a new element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued in June 1999. Because South Winneshiek Community School District is implementing new reporting standard for the fiscal year ending June 30, 2004, much of the information contained within this report 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.

FINANCIAL HIGHLIGHTS

In total, net assets increased by $808,167. Net assets of governmental activities increased by $820,096, which represented 14.9% increase from fiscal year 2003. Property taxes increased approximately $21,352 and local option sales tax increased approximately by $52,039. District program expenses were 10% or approximately $644,822 less in 2004 than in 2003.

General Fund revenues accounted for $5,048,640 in revenue or 81.2% of all revenues. General Fund expenditures accounted for $5,039,676 in expenditures or 85.1% of all expenditures.

The District's Financial Solvency ratio, as defined by the participants in the Iowa School Cash Anticipation Program, is at a target solvency position of 7.6% at June 30, 2004 which is down from 8.8% for fiscal year 2003. This ratio states that the District is able to meet unforeseen financing requirements and presents a sound risk for the timely repayment of short-term debt. The target solvency position range is from 5% to 10%.

USING THE BASIC FINANCIAL STATEMENTS

The annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand South Winneshiek Community School District as a financial whole, or as an entire operating entity.

The statement of net assets and statement of activities provide information about the activities of South Winneshiek Community School District as a whole and present an overall view of the District's finances and a longer-term view of those 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 South Winneshiek Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds with all other non-major funds presented in total in a single column. For South Winneshiek Community School District, the General Fund, Physical Plant and Equipment Levy-Special Revenue Fund and Capital Projects Fund are the more significant funds. The remaining statements provide financial information about activities for which South Winneshiek Community School District acts solely as an agent or custodian for the benefit of those outside of the government.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required supplementary information that 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 special revenue.

Reporting the District as a Whole

The Statement of Net Assets and the Statement of Activities

The government-wide financial statements report information about the District as a whole using accounting methods similar to the accounting used by most 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 statement of net assets presents all of the District's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the District's net assets may serve as a useful indicator of whether the financial position of the District 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.

The statement of activities present information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the event or change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

In the statement of net assets and statement of activities, the District is divided into two distinct kinds of activities:

Governmental Activities: Most of the District's programs and services are reported here, including instruction, co-curricular activities, support services, (nursing, guidance, media, administration), building and grounds operation and maintenance, and pupil transportation. Property tax and state aid finance most of these activities.

Business-Type Activities: These services are provided on a charge for goods or services basis to recover all of the expenses for the goods or services provided. The District's school nutrition program is included here.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Fund financial reports provide more detailed information about the District's major funds. The District uses different funds in accordance with the Uniform Financial Accounting for Iowa LEA's, as required by the Iowa Department of Education, to record its financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General Fund, Physical Plant and Equipment Levy-Special Revenue Fund and Capital Projects Fund.

Governmental Funds

Governmental funds account for most of the District's basis services. These focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed, short-term view of the District's general governmental operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spend in the near future to finance the District's programs.

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

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

Proprietary Funds

Services for which the district charges a fee are generally reported in the proprietary funds. Proprietary funds are reported in the same way as the governmental-wide financial statements.

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

A summary reconciliation between the government-wide financial statements and the fund financial statements follows the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The following is a summary perspective of the statement of net assets of the District as a whole. The South Winneshiek Community School District's net assets at the end of fiscal year 2004 totaled $5,465,726.

	Condensed Statement of Net Assets		
	Governmental Activities	Business-type Activities	Total
Current and other assets	$ 4,539,690	$ 9,179	$ 4,548,869
Capital assets	5,279,208	35,934	5,315,142
Total assets	9,818,898	45,113	9,864,011
Long-term debt outstanding	1,036,946	-	1,036,946
Other liabilities	3,344,727	16,612	3,361,339
Total liabilities	4,381,673	16,612	4,398,285
Net assets			
Invested in capital assets, net of related debt	4,094,208	35,934	4,130,142
Restricted	30,381	-	30,381
Unrestricted	1,312,636	(7,433)	1,305,203
Total net assets	$ 5,437,225	$ 28,501	$ 5,465,726

The following analysis shows the change in net assets for the year ending June 30, 2004:

	Changes in Net Assets of Governmental Activities		
	Governmental Activities	Business-type Activities	Total
Revenues:			
Program revenue			
Charges for service	$ 354,513	$ 135,607	$ 490,120
Operating grants	809,227	102,269	911,496
General revenue			
Property taxes	2,197,966	-	2,197,966
Sales tax and surtax	540,375	-	540,375
Unrestricted state grants	2,303,490	-	2,303,490
Unrestricted investment earnings	9,981	61	10,042
Gain (loss) on the sale of capital assets	1,380	(5)	1,375
Other revenue	3,470	-	3,470
Total revenues	6,220,402	237,932	6,458,334
Program expenses:			
Instruction	3,786,571	-	3,786,571
Student support	1,224,907	-	1,224,907
Non-instructional programs	5,360	-	5,360
Other expenses	383,468	249,861	633,329
Total expenses	5,400,306	249,861	5,650,167
Increase in net assets	820,096	(11,929)	808,167
Net assets Beginning of Year	4,617,129	40,430	4,657,559
Net assets End of Year	$ 5,437,225	$ 28,501	$ 5,465,726

INDIVIDUAL FUND ANALYSIS

As the District completed the year, its governmental funds reported a combined fund balance of $1,488,676, a $299,891 increase of the 2003 fiscal year end balance of $1,188,785. The District spent $144,617 less than from the prior fiscal year.

- The General Fund received less revenue during fiscal year 2004 through property taxes. The General Fund expenditures increased moderately over all areas. The ending fund balance showed a modest increase from the prior year of $386,975 to $395,939.

- The Physical Plant and Equipment Levy (PPEL) Fund balance increased $103,633 during fiscal year 2004. While revenues decreased from prior year, the District substantially reduced spending from the PPEL Fund in order to improve the financial condition of the fund.

- The Capital Projects Fund balance increased due to the collection of the local option sales tax. The District will be using these funds to capital projects in the next fiscal year.

BUDGETARY HIGHLIGHTS

The District's Board of Education annually adopts a budget as required by Iowa law. Proper public notice and a required public hearing are held before final approval of the budget. State statute required approval of the budget on or before April 15th of each year. The budget document presents functional disbursements by fund and the legal level of control is at the expense level by total Instruction, total Support Services, total Non-Instructional Programs, total Other Expenditures and Total Expenditures. The District amends the budget, as allowed by Iowa law, generally once per year to reflect the additional revenues and expenditures that may occur during the school year.

The amendment made during the 2004 fiscal year should have no impact on the 2005 fiscal year's budget.

The following chart shows the original and amended budget for fiscal 2004 as well as the actual revenue and expenditures for the year:

	Budgetary Comparison Schedule			
	Actual	Budget Amounts		
	Basis	Original	Final	Variance
Receipts				
Local sources	$ 3,265,171	$ 3,131,933	$ 3,131,933	$ 133,238
Intermediate sources	635	6,500	6,500	(5,865)
State sources	2,854,445	2,998,340	2,998,340	(143,895)
Federal sources	269,104	157,500	157,500	111,604
Total receipts	$ 6,389,355	$ 6,294,273	$ 6,294,273	$ 95,082
Disbursements				
Instruction	$ 3,987,696	$ 3,733,000	$ 4,100,000	$ (112,304)
Student support	1,305,465	1,637,800	1,537,800	(232,335)
Non-instructional programs	241,694	266,500	266,500	(24,806)
Other expenses	755,519	1,076,409	806,409	(50,890)
Total disbursements	$ 6,290,374	$ 6,713,709	$ 6,710,709	$ (420,335)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2004, South Winneshiek Community School District had $5,279,208 invested in a broad range of capital assets, including buildings, land and equipment for the governmental activities. For the enterprise funds, the District had $35,934 invested in equipment in the school nutrition fund. The District is still in process of recording all Capital Assets.

The District is still working on setting up the policy to calculate depreciation expense for the governmental activities. The District had depreciation expense of $5,952 for fiscal year 2004 and total accumulated depreciation of $71,424 as of June 30, 2004 for the business-type activities. More detailed information about the District's capital assets is presented in Note 4 to the financial statements.

Debt

At year-end, the District had approximately $1,330,740 in bonds and other debt compared to approximately $1,558,919 last year. More detail is presented in Note 5 to the financial statements.

The Constitution of the State of Iowa limits the amount of general obligation debt that districts can issue to 5 percent of the assessed valued of all taxable property within the District's corporate limits. The District's outstanding general obligation debt is significantly below this $8,461,694 limit.

Other obligations include accrued vacation pay. More detailed information about the District's long-term liabilities is presented in Note 5 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

- Revenue received by the Local Option Sales Tax should increase with the opening of a Super Wal-Mart in Decorah, Iowa, in January 2004.
- The District has experienced a slight increase in enrollment which brought an increase in the allowable growth.
- The District is planning some major capital projects throughout the District. These projects are going to be paid with the local option sales tax that the District is reporting in the Capital Projects fund and money received in the Physical Plant and Equipment Levy fund.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of South Winneshiek Community School District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Office, South Winneshiek Community School District, 304 S Webster St, Calmar, IA 52132.

SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
June 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments			
Other	$ 1,954,784		$ 1,954,784
ISCAP	323,245		323,245
Receivables			
Property tax			
Delinquent	37,115		37,115
Succeeding year	2,079,446		2,079,446
Accounts	10,902		10,902
Due from other governments	134,198		134,198
Inventories		$ 9,179	9,179
Land	66,462		66,462
Capital assets, net of accumulated depreciation	5,212,746	35,934	5,248,680
Total assets	$ 9,818,898	$ 45,113	$ 9,864,011
LIABILITIES			
Accounts payable	$ 126,285		$ 126,285
Excess outstanding checks over bank balance		$ 10,069	10,069
Salaries and benefits payable	404,398	6,543	410,941
Payroll deductions and withholdings	109,748		109,748
Accrued interest payable	5,056		5,056
Deferred revenue			
Succeeding year property tax	2,079,446		2,079,446
ISCAP warrants payable	326,000		326,000
Long-term liabilities			
Portion due within one year			
Bonds payable	180,000		180,000
Early retirement	113,794		113,794
Portion due after one year			
Bonds payable	1,005,000		1,005,000
Early retirement	31,946		31,946
Total liabilities	4,381,673	16,612	4,398,285
NET ASSETS			
Invested in capital assets, net of related debt	4,094,208	35,934	4,130,142
Restricted for			
Debt service	15,983		15,983
Other purposes	14,398		14,398
Unrestricted	1,312,636	(7,433)	1,305,203
Total net assets	5,437,225	28,501	5,465,726
Total liabilities and net assets	$ 9,818,898	$ 45,113	$ 9,864,011

See Notes to Financial Statements.

SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

Functions and Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-Type Activities	Net (Expense) Revenue and Changes in Net Assets: Total
Governmental activities						
Instruction						
Regular instruction	$ 2,540,184	$ 92,140	$ 165,668	$ (2,282,376)		$ (2,282,376)
Special instruction	986,675	11,399	137,564	(837,712)		(837,712)
Other instruction	259,712	15,979	107,541	(136,192)		(136,192)
	3,786,571	119,518	410,773	(3,256,280)		(3,256,280)
Support services						
Student services	185,279	224,994		39,715		39,715
Instructional staff services	56,296			(56,296)		(56,296)
Administration services	453,030			(453,030)		(453,030)
Operation and maintenance plant services	321,882			(321,882)		(321,882)
Transportation services	208,420	397	127,173	(80,850)		(80,850)
	1,224,907	225,391	127,173	(872,343)		(872,343)
Non-instructional	5,360			(5,360)		(5,360)
Other						
Long-term debt interest	66,665			(66,665)		(66,665)
Facilities acquisition	86,774	9,604	41,252	(35,918)		(35,918)
AEA flowthrough	230,029		230,029			-
Depreciation (unallocated)						-
	383,468	9,604	271,281	(102,583)		(102,583)
Total governmental activities	5,400,306	354,513	809,227	(4,236,566)		(4,236,566)
Business-type activities						
Non-instructional programs						
Nutrition services	249,861	135,607	102,269		$ (11,985)	(11,985)
Total	$ 5,650,167	$ 490,120	$ 911,496	(4,236,566)	(11,985)	(4,248,551)
General revenues						
Property taxes levied for						
General purposes				1,757,650		1,757,650
Management				247,397		247,397
PPEL				111,807		111,807
Debt service				81,112		81,112
Local option sales tax and surtax				540,375		540,375
Unrestricted state grants				2,303,490		2,303,490
Unrestricted investment earnings				9,981	61	10,042
Gain (loss) on the sale of capital assets				1,380	(5)	1,375
Other				3,470		3,470
Total general revenues				5,056,662	56	5,056,718
Change in net assets				820,096	(11,929)	808,167
Net assets, beginning of year, restated				4,617,129	40,430	4,657,559
Net assets end of year				$ 5,437,225	$ 28,501	$ 5,465,726

See Notes to Financial Statements.

EXHIBIT C

SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

	General	Physical Plant and Equipment Levy	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and pooled investments					
Other	$ 867,589	$ 312,898	$ 462,669	$ 291,628	$ 1,934,784
ISCAP	323,245				323,245
Receivables					
Property tax					
Delinquent	29,690	1,872		5,553	37,115
Succeeding year	1,659,951	98,360		321,135	2,079,446
Accounts	5,475			5,427	10,902
Due from other funds	20,000	52,510			72,510
Due from other governments	72,618		61,580		134,198
Total assets	$ 2,978,568	$ 465,640	$ 524,249	$ 623,743	$ 4,592,200
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	$ 82,532	$ 2,764	$ 40,527	$ 462	$ 126,285
Salaries and benefits payable	404,398				404,398
Payroll deductions and withholdings	109,748				109,748
Interest payable				137	137
Due to other funds			52,510		52,510
ISCAP warrants payable	326,000				326,000
Deferred revenue					
Succeeding year property tax	1,659,951	98,360		321,135	2,079,446
Bonds payable				5,000	5,000
Total liabilities	2,582,629	101,124	93,037	326,734	3,103,524
Fund balances					
Reserved for					
Debt service				15,902	15,902
Other purposes	14,398				14,398
Unreserved, reported in					
General fund	381,541				381,541
Special revenue funds		364,516	431,212	281,107	1,076,835
Total fund balances	395,939	364,516	431,212	297,009	1,488,676
Total liabilities and fund balances	$ 2,978,568	$ 465,640	$ 524,249	$ 623,743	$ 4,592,200

See Notes to Financial Statements.

SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO NET ASSETS	
Total governmental fund balances	$ 1,488,676
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds, net of accumulated depreciation of $ None	5,279,208
Other liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported as liabilities in the funds	
Bonds payable	(1,180,000)
Accrued interest	(4,919)
Early retirement	(145,740)
Net assets of governmental activities per Exhibit A	$ 5,437,225
Cash and pooled investments of governmental activities include the following reclassifications:	
Due from business-type activities	$ 20,000

The amounts from business-type activities were subtracted from their cash and pooled investments.

See Notes to Financial Statements.

SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

	General	Physical Plant and Equipment Levy	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Local sources					
Local property tax	$ 1,757,650	$ 111,807	$ 426,991	$ 328,509	$ 2,624,957
Tuition	72,205				72,205
Other	111,042	60,613	12,908	230,800	415,363
Intermediate sources	635				635
State sources	2,895,292	77		57	2,895,426
Federal sources	211,816				211,816
Total revenues	5,048,640	172,497	439,899	559,366	6,220,402
EXPENDITURES					
Current					
Instruction					
Regular instruction	2,254,585			132,460	2,387,045
Special instruction	986,675				986,675
Other instruction	325,184			237,988	563,172
	3,566,444			370,448	3,936,892
Support services					
Student services	182,987			2,292	185,279
Instructional staff services	50,642			5,654	56,296
Administration services	448,446			4,584	453,030
Operation and maintenance plant services	317,873			4,009	321,882
Transportation services	243,255			15,791	259,046
	1,243,203			32,330	1,275,533
Non-instructional				5,360	5,360
Other					
Long-term debt					
Principal				165,000	165,000
Interest and fiscal charges				67,332	67,332
Facilities acquisition		68,864	171,501		240,365
AEA flowthrough	230,029				230,029
	230,029	68,864	171,501	232,332	702,726
Total expenditures	5,039,676	68,864	171,501	640,470	5,920,511
EXCESS OF REVENUES OVER EXPENDITURES	8,964	103,633	268,398	(81,104)	299,891
OTHER FINANCING SOURCES (USES)					
Transfers in				150,000	150,000
Transfers (out)			(150,000)		(150,000)
	-	-	(150,000)	150,000	-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND FINANCING USES	8,964	103,633	118,398	68,896	299,891
FUND BALANCE, beginning of year, restated	386,975	260,883	312,814	228,113	1,188,785
FUND BALANCE, end of year	$ 395,939	$ 364,516	$ 431,212	$ 297,009	$ 1,488,676

See Notes to Financial Statements.

SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES		
Net change in fund balances - total governmental funds		$ 299,891
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, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceeds depreciation in the period.		
Depreciation	$ -	
Capital outlays	291,359	291,359
Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.		165,000
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, however, interest expense is recognized as the interest accrues, regardless of when it is due.		667
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 governmental funds.		
Early retirement		63,179
Change in net assets of governmental activities per Exhibit B		$ 820,096

See Notes to Financial Statements.

EXHIBIT E

SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2004

	School Nutrition Fund
ASSETS	
CURRENT ASSETS	
Cash	$ 9,931
Inventories	9,179
Total current assets	19,110
NONCURRENT ASSETS	
Furniture and equipment	107,358
Less accumulated depreciation	(71,424)
Total noncurrent assets	35,934
Total assets	$ 55,044
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Due to other funds	$ 20,000
Salaries and benefits payable	6,543
Total liabilities	26,543
NET ASSETS	
Invested in capital assets, net of related debt	35,934
Unrestricted	(7,433)
Total net assets	28,501
Total liabilities and net assets	$ 55,044

See Notes to Financial Statements.

EXHIBIT F

SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUND
For the Year Ended June 30, 2004

	School Nutrition Fund
OPERATING REVENUES	
Local sources	
Charges for services	$ 135,607
State sources	3,943
Federal sources	98,326
Total operating income	237,876
OPERATING EXPENSES	
Non-instructional programs	
Food service operations	
Salaries and benefits	136,262
Purchased services	101,128
Supplies	6,519
Depreciation	5,952
Total operating expenses	249,861
Operating income	(11,985)
NONOPERATING REVENUES (EXPENSES)	
Interest on investments	61
Loss on sale of capital assets	(5)
Total nonoperating revenues (expenses)	56
Change in net assets	(11,929)
Net assets, beginning of year	40,430
Net assets, end of year	$ 28,501

See Notes to Financial Statements.

EXHIBIT G

SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2004

	School Nutrition Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from sale of lunches and breakfasts	$ 135,607
State grants and federal grants received	78,751
Cash payments to employees for services	(138,381)
Cash payments to suppliers for goods and services	(85,587)
Net cash used in operating activities	(9,610)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from short-term borrowing from other funds	25,000
Payment on short-term borrowing from other funds	(5,000)
Net cash provided by nonoperating financing activities	20,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of equipment	(7,360)
Loss on disposal of capital assets	(5)
Net cash used in capital and related financing activities	(7,365)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	61
Net increase in cash and cash equivalents	3,086
CASH, beginning of year	6,845
CASH, end of year	$ 9,931
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	$ (11,985)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	5,952
Increase in inventories	(1,458)
Decrease in accounts payable	-
Decrease in salaries and benefits payable	(2,119)
Net cash used in operating activities	$ (9,610)

Non-cash, non-capital financing activities:
During the year ended June 30, 2004, the District received commodities valued at $23,518.

See Notes to Financial Statements.

1. Nature of Operations and Significant Accounting Policies

a. Nature of Operations

The South Winneshiek Community School District is a political subdivision of the State of Iowa. The District's primary purpose is to provide education from grades kindergarten through twelve, including special education and pre-kindergarten. The geographic area served includes the Cities of Calmar, Ossian, and Spillville, Iowa, and the predominately agricultural territory in the area. It is supported financially by local property taxes, state aid and state and federal grants for special projects. The District is governed by a five-member Board of Education whose members are elected on a non-partisan basis. The District has taxing authority and fund raising capabilities of its own. Final approval of the District's annual program and budget plans rests with the local Board of Education.

b. Significant Accounting Policies

Scope of Reporting Entity

For financial reporting purposes, South Winneshiek 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; or the organization is fiscally dependent on the primary government. Also, any other organizations that due to the nature or significance of their relationship with the District should be included in the financial statements as component units. The 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 Winneshiek County Assessor's Conference Board.

District-wide Financial Statements

The statement of net assets and the statement of activities report information on all non-fiduciary activities of the District. 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. For the most part, the effect of interfund activity has been removed from these statements.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

District-wide Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are 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. Major individual governmental funds are reported as separate columns in the fund financial statements. The general fund, physical, plant and equipment levy-special revenue fund, and the capital projects fund are the major governmental funds for the District. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The funds of the financial reporting entity are described below:

Governmental

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.

Physical Plant and Equipment Levy-Special Revenue Fund

The physical plant and equipment levy-special revenue fund is used to account for revenues derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

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 District's proprietary fund is the school nutrition fund. This fund is used to account for the food service operations of the District.

Measurement Focus

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements.

On the District-wide statement of net assets and the statement of activities, both governmental and business-type activities are presented using the "economic resources" measurement focus as defined below in item b.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Measurement Focus (Continued)

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

a. All governmental fund financial statements are accounted for on current financial resources 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 fund balances. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

b. The proprietary funds are accounted for on economic resources measurement focus. This means that all assets and all liabilities, whether current or non-current, associated with their activity are included on their balance sheets. In reporting the financial activity on the proprietary fund statements, the District applies all applicable GASB pronouncements. As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the District has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

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.

The District-wide and proprietary fund is accounted for using the accrual basis of accounting. The revenues are recognized when they are earned and the expenses are recognized when they are incurred. Property tax is recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied. This differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the District-wide statements and the statements for governmental funds.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

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

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 collectible within the current period or soon enough thereafter to be used 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. 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.

Revenues susceptible to accrual under the modified accrual basis of accounting are property tax, intergovernmental revenue (shared revenues, grants and reimbursements from other governments) and interest revenue. Revenues from miscellaneous sources are generally recognized when they are received in cash as they are generally not measurable until actually received (tuition, fees and sale of services).

The District maintains its financial records on the modified cash basis (also referred to as cash basis or cash transactions). The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

Assets, Liabilities and Equity

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

Cash and Investments

The District maintains one primary demand deposit account for each fund through which the cash resources are processed. All investment activity is carried on by the District in each individual fund. Investments are stated at fair value, except for non-negotiable certificates of deposits, which are stated at cost.

Property Tax Receivable

Property taxes in the governmental fund are accounted for using the modified accrual basis of accounting.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Equity (Continued)

Property Tax Receivable (Continued)

Property tax receivable is recognized in these funds on the levy date, which is the date that the tax asking is certified by the Board of Education to the County Board of Supervisors. Current year delinquent property taxes receivable represents unpaid taxes from the current year. 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 1 1/2% per month penalty for delinquent payments; is based on January 1, 2001 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 stated at cost using the first-in, first-out method for purchased items and contributed value for governmental commodities. The costs of inventory items are expenses in the proprietary fund type when used.

Capital Assets

Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the District-wide statement of net assets. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Capital assets in the proprietary fund are capitalized in the fund in which they are utilized. 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 $2,500 for governmental funds and $500 for the school nutrition-proprietary fund. Management has not accumulated the information necessary to verify the historical cost of capital assets or determined the method or the estimated useful lives that the capital assets will be depreciated.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Equity (Continued)

Excess of Outstanding Checks Over Bank Balance

Excess of outstanding checks over bank balance represents a technical overdraft created by the amount of checks issued exceeding the balances on deposit recorded in the records of the District.

Salaries and Benefits Payable

Payroll and related expenditures or expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities. Also, wages for hourly employees earned in June and paid in July have been accrued as liabilities. The rate in effect at June 30, 2004 was used to calculate the salaries payable.

Deferred Revenue

In the fund financial statements certain revenues are measurable, they are not available. 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 the succeeding year property tax receivable. 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.

Long-term Obligation

In the District-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. Early retirement liability has been paid primarily by the non-major governmental management fund.

Compensated Absences

District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. In addition, employees are allowed to take early retirement if they meet certain qualifications set by the Board of Education. In accordance with Interpretation No. 6 of the GASB-Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, a liability is recorded when incurred in the District-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities has been paid primarily by the general fund.

Encumbrances

The District does not utilize the encumbrance system but uses purchase orders to keep record of obligations. The District has not summarized its outstanding purchase orders and, accordingly, that portion of the fund balance representing outstanding encumbrances has not been restricted.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Equity (Continued)

Fund Balance

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. Reserved fund balances are used first when expenditure is incurred for purposes for both reserved and unreserved fund balances.

Net Assets

Invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets consists of net assets with constraints placed on the use either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted net assets are used first when an expense is incurred for purposes for both restricted and unrestricted net assets.

Budgets and Budgetary Accounting

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

2. Deposits and Investments

The District's deposits in banks at June 30, 2004 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; and certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had securities in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of $150,000 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement Number 3 requires securities to be categorized to give an indication of the level of risk assumed by the District at year end. The District's securities, in the Iowa Schools Joint Investment Trust are not subject to risk categorization.

3. Due from Other Governments

Due from other governments consist of the following at June 30, 2004:

Governmental	
General fund	
Non-public transportation	$ 45,770
Title I	22,019
Other	4,829
	72,618
Capital projects	
Local option sales tax	61,580
	$ 134,198

4. Capital Assets

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

	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004
Governmental activities				
Land	$ 66,462			$ 66,462
Capital assets being depreciated				
Land improvements	$ 85,115			$ 85,115
Buildings	3,669,955	$ 148,861		3,818,816
Furniture and equipment	1,166,317	142,498		1,308,815
Governmental activities Capital assets	$4,921,387	$ 291,359	$ None	$5,212,746
Business-type activities				
Furniture and equipment	$ 99,998	$ 7,360		$ 107,358
Less accumulated depreciation	65,472	5,952		71,424
Business-type activities Capital assets, net	$ 34,526	$ 1,408	$ None	$ 35,934

Depreciation expense was charged to the governmental functions of the District as follows:

Business-type activities	
Food services	$ 5,952

5. Long-term Debt Obligations

Long-term liability activity for the year ended June 30, 2004 was as follows:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Amounts Due Within One Year
Governmental activities					
Bonds					
General obligation	$1,350,000		$ 165,000	$1,185,000	$ 180,000
Other liabilities					
Early retirement	208,919	$ 34,172	97,351	145,740	113,794
Governmental activities Long-term liabilities	$1,558,919	$ 34,172	$ 262,351	$1,330,740	$ 293,794

a. Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must meet the rule of 88 (the sum of the person's age and the total number of years of public school employment must equal at least 88 years). Employees must send a letter requesting early retirement to the Superintendent, who takes it to the Board of Education. The early retirement incentive for each eligible employee is 80% of the employee's base salary. The District is obligated to pay $100 per month of health insurance for three years. In addition, the District pays $30 per day of accumulated sick leave towards health insurance. The maximum number of days of sick leave that can be accumulated is 120. Early retirement benefits paid during the year ended June 30, 2004 totaled $97,351.

b. Bonded Indebtedness

$5,000 1959 General Obligation Serial Bonds, due November 1, 1966. The bonds and interest are included in the debt service fund liabilities since the bonds have matured.

$1,180,000 1997A General Obligation Crossover Refunding Serial Bonds, due annually in varying installments June 1, 2005 through June 1, 2010 plus interest annually with interest rates of the bonds varying from 4.85% to 5.2%. Bonds maturing after June 1, 2007 are callable June 1, 2008 or at any interest payment date thereafter at par.

Interest costs incurred and charged to expenses was $66,665 for the year ended June 30, 2004.

A summary of the bond principal and interest maturities is as follows:

Year ending June 30,	Principal	Interest
2005	$ 180,000	$ 59,032
2006	180,000	50,544
2007	190,000	41,814
2008	200,000	32,410
2009	210,000	22,410
2010	225,000	11,700
	$1,185,000	$ 217,910

5. Long-term Debt Obligations (Continued)

b. Bonded Indebtedness (Continued)

At June 30, 2004, the debt issued by the District did not exceed its legal debt margin compiled as follows:

Total assessed valuation	$169,233,879
Debt limit - 5% of total assessed valuation	$ 8,461,694
Debt applicable to debt limit	
General obligation bonded debt outstanding	(1,185,000)
Legal debt margin	$ 7,276,694

6. Iowa School 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 semi-annual 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 semi-annual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2004 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Warrants Payable
2004-05A	6/20/04	6/18/05	$ 323,245	$ 326,000

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	Beginning Balance	Advances Received	Advances Repaid	Ending Balance
2003-04A	$ None	$ 250,000	$ 250,000	$ None

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

Series	Interest Rates on Warrants	Interest Rates on Investments
2003-04A	2.00%	2.603%

7. Due to/from Other Funds

As of June 30, 2004, interfund receivables and payables that resulted from various interfund transactions were as follows:

	Due from Other Funds	Due to Other Funds
General fund	$ 20,000	
Special revenue funds		
Physical plant and equipment levy	52,510	
Capital projects fund		$ 52,510
Enterprise funds		
School nutrition		20,000
	$ 72,510	$ 72,510

The capital projects fund is repaying the physical plant and equipment levy fund for property tax incorrectly recorded in the prior year. The balance will be repaid by June 30, 2005. The school nutrition fund is repaying the general fund for funds received throughout the year. The balance will be repaid by June 30, 2005.

8. Interfund Transfers

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

	Transfers In	Transfers Out
Capital projects fund		$ 150,000
Nonmajor governmental	$ 150,000	None
Total	$ 150,000	$ 150,000

Transfers are to move resources from the capital projects fund to the debt service fund to help pay bond obligations. Due to the referendum voted by the public, the proceeds from the local option sales tax will help pay bond obligations.

9. Net Assets

The amounts restricted for other purposes at June 30, 2004 are as follows:

General fund	
Phase III	$ 14,398

10. Leases

The District has entered into one operating lease for a copy machine. The lease is for five years with $200 monthly payments. The lease expires January 2006.

Future minimum lease payments under the copier lease are as follows:

Year ended June 30,	2005	$ 2,400
	2006	1,400
		$ 3,800

Total lease expense for the year ended June 30, 2004 was $2,400.

11. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003, and 2002. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were $172,980, $174,501, and $165,980, respectively, equal to the required contributions for each year.

12. Cafeteria Plan

The District sponsors a Section 125 cafeteria plan as a part of its contractual obligation with its employees. The benefits available under the plan are health insurance and annuities. Each participating employee must carry single health coverage and the balance of the contractual allotment is allocated to annuity payments. Additionally, participants may elect salary reduction to cover family health insurance, non-covered medical and dental expenses and day care. There were 65 participants in the plan for the plan year ended December 31, 2003.

13. Risk Management

South Winneshiek 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.

14. 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 $230,029 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.

15. Contingencies

The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2004 significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

16. Commitments

At June 30, 2004, the District has committed to the purchase of equipment totaling $87,104.

The District has entered into contracts totaling $33,733 for minor repairs to various school facilities. Of these commitments, $None will be funded by state and federal grants.

17. Accounting Change

Governmental Accounting Standards Board (GASB) Interpretation Number 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 absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board (GASB) 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; and Statement No. 41, Budgetary Comparison Schedule-Perspective Differences,* were implemented during the year ended June 30, 2004. The statements create new basic financial statements for reporting on the District's financial activities. The financial statements now include District-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 District-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.

Net assets, June 30, 2003, as previously reported		$1,188,785
GASB 34 adjustments		
Capital assets		4,987,849
Long-term liabilities		
Bonds payable	$1,345,000	
Early retirement	208,919	(1,553,919)
Accrued interest payable		(5,586)
Net assets, as restated at July 1, 2003		$4,617,129

18. Net Asset Balance Deficit

The school nutrition enterprise fund has a deficit net asset as of June 30, 2004. The district plans to eliminate this deficit through sales income.

SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCE -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND
For the Year Ended June 30, 2004

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budget Amounts Original	Budget Amounts Final	Final to Actual Variance-Positive (Negative)
RECEIPTS						
Local sources	$ 3,104,502	$ 160,669	$ 3,265,171	$ 3,131,933	$ 3,131,933	$ 133,238
Intermediate sources	635		635	6,500	6,500	(5,865)
State sources	2,850,502	3,943	2,854,445	2,998,340	2,998,340	(143,895)
Federal sources	194,296	74,808	269,104	157,500	157,500	111,604
Total receipts	6,149,935	239,420	6,389,355	6,294,273	6,294,273	95,082
DISBURSEMENTS						
Instruction	3,987,696		3,987,696	3,733,000	4,100,000	(112,304)
Support services	1,305,465		1,305,465	1,637,800	1,537,800	(232,335)
Non-instructional	5,360	236,334	241,694	266,500	266,500	(24,806)
Other	755,519		755,519	1,076,409	806,409	(50,890)
Total disbursements	6,054,040	236,334	6,290,374	6,713,709	6,710,709	(420,335)
EXCESS OF RECEIPTS OVER DISBURSEMENTS	95,895	3,086	98,981	(419,436)	(416,436)	515,417
FUND BALANCE, beginning of year	1,837,508	6,845	1,844,353	979,182	979,182	865,171
FUND BALANCE, end of year	$ 1,933,403	$ 9,931	$ 1,943,334	$ 559,746	$ 562,746	$ 1,380,588

See Notes to Required Supplementary Information.

SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
For the Year Ended June 30, 2004

	Governmental Fund Types		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
REVENUES	$ 6,149,935	$ 70,467	$ 6,220,402
EXPENDITURES	6,054,040	(133,529)	5,920,511
Net	95,895	203,996	299,891
FUND BALANCE, beginning of year	1,837,508	(648,723)	1,188,785
FUND BALANCE, end of year	$ 1,933,403	$ (444,727)	$ 1,488,676

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
REVENUES	$ 239,420	$ (1,483)	$ 237,937
EXPENSES	236,334	13,532	249,866
Net	3,086	(15,015)	(11,929)
FUND BALANCE, beginning of year	6,845	33,585	40,430
FUND BALANCE, end of year	$ 9,931	$ 18,570	$ 28,501

See Notes to Required Supplementary Information.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
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. 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 by fund. The Code of Iowa also provides that District expenditures in the general fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment on May 10, 2004.

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INDEPENDENT AUDITOR'S REPORT ON THE
SUPPLEMENTARY INFORMATION

To the Board of Education
South Winneshiek Community School District
Calmar, Iowa

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise South Winneshiek Community School District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis and is also not a required part of the basic financial statements of South Winneshiek Community School District. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effects on the information on the governmental activities of the limited scope on capital assets as explained in the third paragraph of our report on page 2, such information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of basic financial statements and, accordingly, we express no opinion on them.

We have previously audited, in accordance with U.S. generally accepted auditing standards, the general purpose financial statements of South Winneshiek Community School District as of and for the years ending June 30, 2003, 2002, and 2001, (none of which is presented herein). We expressed qualified opinions on the 2003, 2002, and 2001 general purpose financial statements due to the omission of the general fixed asset account group. In our opinion, the information set forth in the required supplementary information for each of the four years in the period ended June 30, 2004, appearing on page 37, is fairly stated, in all material respects in relation to the basic and general purpose financial statements from which it has been derived.

Hacker, Nelson + Co., P.C.

Decorah, Iowa
September 23, 2004

SCHEDULE 1

SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2004

	Special Revenue	Debt Service	Total Nonmajor Governmental Funds
ASSETS			
Cash and pooled investments	$ 271,958	$ 19,670	$ 291,628
Receivables			
Property tax			
Delinquent	4,184	1,369	5,553
Succeeding year	243,140	77,995	321,135
Accounts	5,427		5,427
Total assets	$ 524,709	$ 99,034	$ 623,743
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	$ 462		$ 462
Interest payable		$ 137	137
Deferred revenue			
Succeeding year property tax	243,140	77,995	321,135
Bonds payable		5,000	5,000
Total liabilities	243,602	83,132	326,734
Fund balances			
Reserved for			
Debt service		15,902	15,902
Unreserved	281,107		281,107
Total fund balances	281,107	15,902	297,009
Total liabilities and fund balances	$ 524,709	$ 99,034	$ 623,743

See Independent Auditor's Report on the Supplementary Information.

SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

	Special Revenue	Debt Service	Total Nonmajor Governmental Funds
REVENUES			
Local sources			
Local property tax	$ 247,397	$ 81,112	$ 328,509
Other	230,579	221	230,800
State sources		57	57
Total revenues	477,976	81,390	559,366
EXPENDITURES			
Current			
Instruction			
Regular instruction	132,460		132,460
Other instruction	237,988		237,988
Support services			
Student services	2,292		2,292
Instructional staff services	5,654		5,654
Administration services	4,584		4,584
Operation and maintenance plant services	4,009		4,009
Transportation services	15,791		15,791
Non-instructional	5,360		5,360
Other			
Long-term debt			
Principal		165,000	165,000
Interest and fiscal charges		67,332	67,332
Total expenditures	408,138	232,332	640,470
EXCESS OF REVENUES OVER EXPENDITURES	69,838	(150,942)	(81,104)
OTHER FINANCING SOURCES			
Transfers in		150,000	150,000
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	69,838	(942)	68,896
FUND BALANCE, beginning of year, restated	211,269	16,844	228,113
FUND BALANCE, end of year	$ 281,107	$ 15,902	$ 297,009

See Independent Auditor's Report on the Supplementary Information.

SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
June 30, 2004

	Management Levy	Student Activity	Total Nonmajor Special Revenue Funds
ASSETS			
Cash and pooled investments	$ 222,977	$ 48,981	$ 271,958
Receivables			
Property tax			
Delinquent	4,184		4,184
Succeeding year	243,140		243,140
Accounts		5,427	5,427
Total assets	$ 470,301	$ 54,408	$ 524,709
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	$ 462	$ -	$ 462
Deferred revenue			
Succeeding year property tax	243,140		243,140
Total liabilities	243,602	-	243,602
Fund balances			
Unreserved	226,699	54,408	281,107
Total liabilities and fund balances	$ 470,301	$ 54,408	$ 524,709

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 4

SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2004

	Management Levy	Student Activity	Total Nonmajor Special Revenue Funds
REVENUES			
Local sources			
Local property tax	$ 247,397		$ 247,397
Other	5,585	$ 224,994	230,579
Total revenues	252,982	224,994	477,976
EXPENDITURES			
Current			
Instruction			
Regular instruction	132,460		132,460
Other instruction		237,988	237,988
Support services			
Student services	2,292		2,292
Instructional staff services	5,654		5,654
Administration services	4,584		4,584
Operation and maintenance plant services	4,009		4,009
Transportation services	15,791		15,791
Non-instructional	5,360		5,360
Total expenditures	170,150	237,988	408,138
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	82,832	(12,994)	69,838
FUND BALANCE, beginning of year, restated	143,867	67,402	211,269
FUND BALANCE, end of year	$ 226,699	$ 54,408	$ 281,107

See Independent Auditor's Report on the Supplementary Information.

SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
For the Year Ended June 30, 2004

	Balance June 30, 2003	Revenues and Transfer In	Expenditures	Balance June 30, 2004
Spanish Club	$ 112	$ -	$ -	$ 112
May Term	-	70,345	68,936	1,409
German Club	271	11	-	282
Music, EI/MS	28	366	297	97
Music, Sr. High	(3,882)	128	139	(3,893)
National Honor Society	1	576	508	69
All Athletic	(1)	(4,413)	5,960	(10,374)
All Athletic II	19,940	12,501	11,506	20,935
Football	6,204	13,593	12,039	7,758
Cross Country	(809)	1,945	2,478	(1,342)
Volleyball	3,971	5,778	4,577	5,172
Boys' Basketball	5,424	7,175	8,331	4,268
Girls' Basketball	3,085	6,541	6,809	2,817
Wrestling	4,844	6,247	7,354	3,737
Boys' Track	(2,405)	1,115	2,391	(3,681)
Girls' Track	(5,451)	3,016	6,017	(8,452)
Boys' Golf	101	6	365	(258)
Girls' Golf	201	64	1,031	(766)
Baseball	(4,233)	1,303	4,895	(7,825)
Softball	(6,601)	2,673	5,308	(9,236)
Cheerleaders, Sr. High	11	3,597	3,397	211
All Fine Arts	-	705	65	640
Art Sr. High	554	549	727	376
Student Council, MS	2,113	485	63	2,535
Student Council, Sr. High	227	1,533	726	1,034
Yearbook	(127)	6,517	6,158	232
Band, Sr. High	-	983	2,641	(1,658)
Choir, Sr. High	(3,024)	-	1,143	(4,167)
Drama/Musical	3,683	5,254	3,934	5,003
Speech Activity and Debate	(5,922)	30	3,052	(8,944)
Drama Club	2,777	440	702	2,515
Activity Fee	5,152	5,408	-	10,560
Interest	2,510	415	713	2,212
Playground	7,368	-	551	6,817
Sub-totals	36,122	154,886	172,813	18,195

See Independent Auditor's Report on the Supplementary Information.

SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
For the Year Ended June 30, 2004

	Balance June 30, 2003	Revenues and Transfer In	Expenditures	Balance June 30, 2004
Sub-totals	$ 36,122	$ 154,886	$ 172,813	$ 18,195
Athletic Fee	3,712	23	-	3,735
National Honor Society - Certificate of Deposit	4,000	36	-	4,036
Elementary	2,638	10,577	6,472	6,743
Classroom Computers, Elem.	644	-	-	644
ECSP	-	200	425	(225)
Class of 2006	(45)	3,479	2,150	1,284
Class of 2007	-	-	46	(46)
Class of 2002	1	-	-	1
Class of 2003	356	-	-	356
Class of 2004	973	642	1,628	(13)
Class of 2005	1,322	5,206	5,747	781
Pictures, Sr. High	174	300	-	474
Resale	323	2,244	2,490	77
M.S. Activity	5,778	10,643	11,624	4,797
FFA	7,936	35,865	33,652	10,149
Industrial Arts	2,108	893	941	2,060
AAC Cub	1,360	-	-	1,360
	$ 67,402	$ 224,994	$ 237,988	$ 54,408

See Independent Auditor's Report on the Supplementary Information.

SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT

COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GOVERNMENTAL FUNDS
For the Years Ended June 30,

	Modified Accrual			
	2004	2003	2002	2001
REVENUES				
Local sources				
Local tax	$ 2,624,957	$ 2,551,566	$ 2,426,550	$ 2,037,321
Tuition	72,205	78,294	65,279	53,569
Other	415,363	479,521	405,283	347,430
Intermediate sources	635	479	-	23,314
State sources	2,895,426	2,857,239	3,046,438	3,006,993
Federal sources	211,816	245,345	211,067	192,074
Total revenues	$ 6,220,402	$ 6,212,444	$ 6,154,617	$ 5,660,701
EXPENDITURES				
Current				
Instruction				
Regular instruction	$ 2,387,045	$ 2,364,247	$ 2,208,737	$ 2,142,018
Special instruction	986,675	939,739	946,891	834,218
Other instruction	563,172	496,111	511,122	484,807
Support services				
Student services	185,279	175,818	156,603	164,343
Instructional staff services	56,296	72,804	87,847	118,648
Administration services	453,030	470,238	471,726	455,264
Operation and maintenance plant services	321,882	309,575	320,701	336,652
Transportation services	259,046	349,731	269,225	290,765
Non-instructional	5,360	2,494	2,367	670
Other				
Facilities acquisition	240,365	407,827	152,253	86,458
Long-term debt				
Principal	165,000	155,000	150,000	150,000
Interest and fiscal charges	67,332	74,856	82,128	89,403
AEA flowthrough	230,029	246,688	247,603	249,937
Total expenditures	$ 5,920,511	$ 6,065,128	$ 5,607,203	$ 5,403,183

See Independent Auditor's Report on the Supplementary Information.

SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2004

Grantor/Program Title	Federal CFDA Number	Grant Number	Expenditures
Indirect			
Department of Agriculture			
Passed Through Iowa Department of Education			
School Breakfast Program	10.553	FY04	$ 13,080
National School Lunch Program	10.555	FY04	61,729
Food Distribution Program (non-cash)	10.550	FY04	23,518
Total Department of Agriculture			98,327
Department of Education			
Passed Through Iowa Department of Education			
Title I Grants to Local Educational Agencies	84.010	6100-G-5	122,248
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY04	4,273
Tech-Prep Education	84.243A	FY04	447
Innovative Education Program Strategies (Title V Program)	84.298	FY04	17,841
Title IIA - Federal Teacher Quality Program	84.367	FY04	34,454
Special Education - Grants to States	84.027	FY04	32,553
Total Department of Education			211,816
			$ 310,143

See Independent Auditor's Report on the Supplementary Information.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Education
South Winneshiek Community School District
Decorah, Iowa

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of South Winneshiek Community School District as of and for the year ended June 30, 2004, which collectively comprise South Winneshiek Community School District's basic financial statements and have issued our report thereon dated September 23, 2004. We did not express an opinion on the governmental activities because we were unable to audit the historical cost of capital assets and depreciation expense. Except as discussed in the preceding sentence, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Overlapping Duties

The District's offices are not large enough to permit an adequate segregation of duties for effective internal controls. The concentration of closely related duties and responsibilities such as the recording and processing of cash receipts, preparing grant expenditure reports, preparing financial information for posting and analyzing financial information by a small staff makes it impossible to establish an adequate system of automatic internal checks on the accuracy and reliability of the accounting records. While we do recognize that the District is not large enough to permit a segregation of duties for effective internal controls, we believe that it is important that the Board be aware that this condition does exist.

Response

Management is cognizant of this limitation.

Conclusion

Response acknowledged.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements cause by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control over financial reporting that we have reported to management of South Winneshiek Community School District in a separate letter dated September 23, 2004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Winneshiek Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain additional matters that we have reported to management of South Winneshiek Community School District in a separate letter dated September 23, 2004.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
September 23, 2004

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MANAGEMENT LETTER

To the Board of Education
South Winneshiek Community School District
Decorah, Iowa

In planning and performing our audit of the financial statements of the South Winneshiek Community School District for the year ended June 30, 2004, we considered the District's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal controls.

In accordance with Chapter 11 of the Code of Iowa, we are required to report on the District's compliance with certain sections of the Iowa Code, Attorney General's Opinions and other matters. Items 1 - 10 below are compliance comments required by the Iowa Auditor of State. A separate report dated September 23, 2004 contains our report on reportable conditions in the District's internal control. This letter does not affect our report dated September 23, 2004, on the financial statements of the South Winneshiek Community School District. Comment numbers 11 and 12 are repeat comments from the prior year. All other prior year comments have been resolved. These comments are not intended to and do not constitute legal opinions.

1. Official Depositories
   A resolution naming official depository banks has been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

2. Certified Budget
   Disbursements for the year ended June 30, 2004, did not exceed the amounts budgeted.

3. Questionable Disbursements
   We noted no disbursements that may not meet the requirements of public purpose as defined in the Attorney General's Opinion dated April 25, 1979.

4. Travel Expense
   No expenditures of District money for travel expenses of spouses of District officials and/or employees were noted. No travel advances to District officials or employees were noted.

5. Business Transactions
   We noted no business transactions between the District and District officials and/or employees for the year ended June 30, 2004.

6. 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.

7. Board Minutes

We noted during our audit that there were two transfers between the general fund and nutrition enterprise fund that were not authorized in the Board minutes. We noted no minutes and bills that had not been published as required.

Recommendation

We recommend that the Board approve all transfers between funds and document approval in the meeting minutes.

Response and Corrective Action Planned

We will have the Board approve transfers before the transfers are made.

Conclusion

Response accepted.

8. Certified Enrollment

We noted no variances in the basic enrollment data certified to the Department of Education.

9. Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

10. Certified Annual Report

The Certified Annual Report (CAR) was timely filed with the Department of Education and we noted no material deficiencies in the amounts reported effecting spending authority.

11. Student Activity Funds

As of June 30, 2004, several individual student activity accounts have negative account balances. Some of these accounts historically have had operating deficits.

Recommendation

We recommend that a plan be established to eliminate the deficit accounts including but not limited to the reallocation of funds among the accounts.

Response and Corrective Action Planned

Our objective is to report what the activities true picture are at June 30 and make transfers if appropriate on July 1.

Conclusion

Response accepted.

12. Property and Equipment Records

A partial record of the District's fixed assets is maintained on individual property journals. Property journal totals have not been reconciled to balance additions and deletions to the general ledger. We recommend that this procedure be implemented. In addition, to facilitate the proper insurance, maintenance and safeguarding of these assets, an inventory of all property and equipment should be taken at least once each year and checked against the capital assets records. The District also needs to calculate depreciation expense on the appropriate capital assets.

12. Property and Equipment Records (Continued)

Recommendation

We recommend that management summarize its property records and record the results in the governmental activities.

Response and Corrective Action Planned

We are in the process of compiling the information.

Conclusion

Response accepted.

13. Disbursements

During our audit, we noticed various items that were not in compliance with District procedures. There was one time card that only had the signature of the employee, there was no signature documenting that someone reviewed and authorized the time card. There were two checks that did not appear to have the appropriate signatures. One check was signed by the middle school principal who is not an authorized signer and the other check was a reimbursement check that only had one signature and that signature was the person who was getting reimbursed. The student activity fund check numbers were off from the pre-printed check numbers. We also noticed that a student activity bill fund was paid twice.

Recommendation

We recommend that the appropriate or designated person(s) review and authorize all invoices, supporting documents, as well as sign checks. The District personnel need to verify that the computer check numbers are the same as on the pre-printed check numbers.

Response and Corrective Action Planned

We are cognizant of our responsibilities to follow District procedures and consider these findings to be isolated events. We have reviewed your recommendation and will make every attempt to implement.

Conclusion

Response accepted.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of South Winneshiek 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.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
September 23, 2004