SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

NOLTE, CORNMAN & JOHNSON P.C.

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NEWS RELEASE

Nolte, Cornman & Johnson P.C. today released an audit report on the Southeast Warren Community School District in Liberty Center, Iowa.

The District's revenues for governmental funds totaled $5,497,483 for the year ended June 30, 2005 and included $1,925,171 in local tax, $2,724,681 from the state, and $163,066 from federal sources and $36,029 from interest.

Governmental fund expenditures for the year totaled $5,203,687 and included $3,158,813 for instruction, $1,373,603 for support services and $671,271 for other expenditures.

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

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Southeast Warren Community School District

Officials

Name	Title	Term Expires
	Board of Education (Before September 2004 Election)	
John Burrell	President	2005
Jennifer Birchette	Vice President	2005
Ron Miller	Board Member	2006
Chris Wadle	Board Member	2004
Chris Hardy	Board Member	2006
	Board of Education (After September 2004 Election)	
Ron Miller	President	2006
John Burrell	Vice President	2005
Jennifer Birchette	Board Member	2005
Chris Wadle	Board Member	2007
Chris Hardy	Board Member	2006
	School Officials	
Carl Reno	Superintendent (Resigned)	2005
Harold Hulleman	Superintendent (Appointed)	2005
Julie Wilson	Board Secretary and Business Manager	2005
Jeff Krausman	Attorney	2005
Ahlers & Cooney Law Firm	Attorney	2005

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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Southeast Warren Community School District, Southeast Warren, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Southeast Warren Community School District at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 25, 2005 on our consideration of Southeast Warren Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 34 through 37 are not required parts of the basic financial statements, but are supplementary

information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Southeast Warren Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nolte, Cornman & Johnson P.C.

NOLTE, CORNMAN & JOHNSON, P.C.

October 25, 2005

Southeast Warren Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from $4,376,405 in fiscal 2004 to $4,636,469 in fiscal 2005, while General Fund expenditures increased from $4,316,292 in fiscal 2004 to $4,500,707 in fiscal 2005. This resulted in an increase in the District's General Fund balance from $149,892 in fiscal 2004 to a balance of $288,549 in fiscal 2005, a 92.5% increase from the prior year.

- The increase in General Fund revenues was attributable to an increase in local tax and state grant revenue in fiscal 2005. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.

- The September 2004 Certified Enrollment count resulted in a decrease of 7 students, representing a 1.2% decrease compared to the prior year.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Southeast Warren Community School District as a whole and present an overall view of the District's finances.

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

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

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

Figure A-1
Southeast Warren Community School District Annual Financial Report

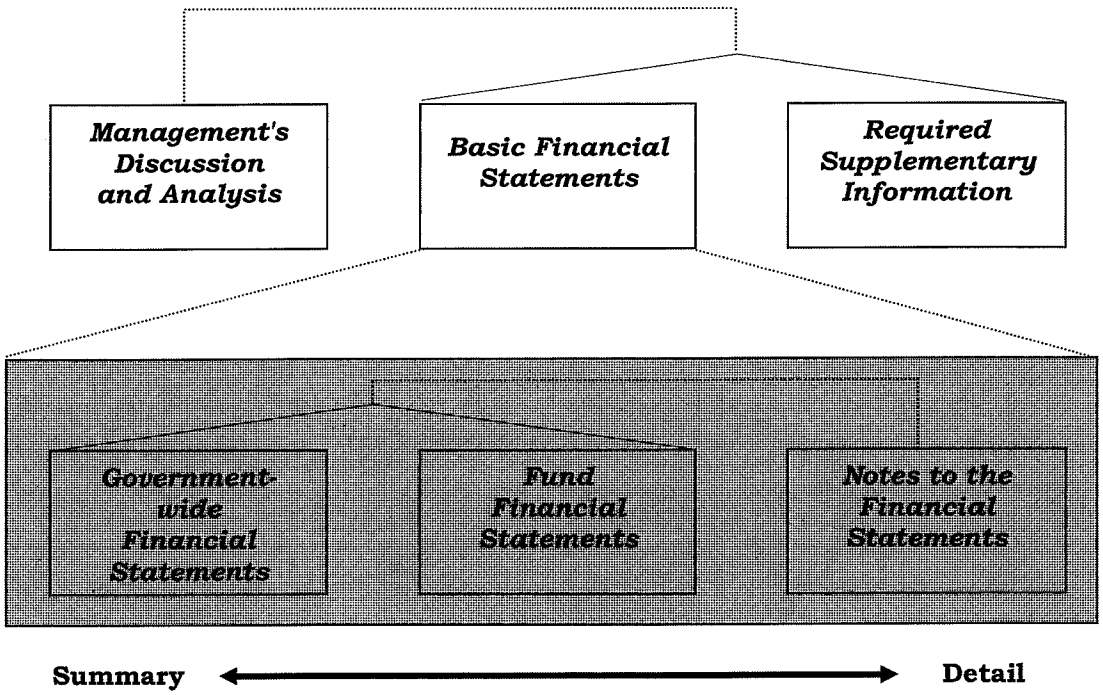

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2
Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	• Statement of net assets • Statement of activities	• Balance sheet • Statement of revenues, expenditures, and changes in fund balances	• Statement of revenues, expenses and changes in net assets • Statement of cash flows	• Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.

- *Business-type activities*: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

- Agency Fund – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2005 compared June 30, 2004.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Current and other assets	$ 3,968,888	3,846,158	140,051	90,659	4,108,939	3,936,817	4.37%
Capital assets	4,482,257	4,617,473	70,378	79,322	4,552,635	4,696,795	-3.07%
Total assets	8,451,145	8,463,631	210,429	169,981	8,661,574	8,633,612	0.32%
Long-term obligations	3,303,919	3,417,215	0	0	3,303,919	3,417,215	-3.32%
Other liabilities	3,030,921	3,247,738	14,873	12,897	3,045,794	3,260,635	-6.59%
Total liabilities	6,334,840	6,664,953	14,873	12,897	6,349,713	6,677,850	-4.91%
Net assets:							
Invested in capital assets, net of related debt	1,387,322	1,191,488	70,378	79,322	1,457,700	1,270,810	14.71%
Restricted	376,501	387,376	0	0	376,501	387,376	-2.81%
Unrestricted	352,482	219,814	125,178	77,762	477,660	297,576	60.52%
Total net assets	$ 2,116,305	1,798,678	195,556	157,084	2,311,861	1,955,762	18.21%

The District's combined net assets increased by 18.21% or $356,099 compared to the prior year. The largest portion of the District's net assets is the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets decreased $10,875 or 2.81% over the prior year. The decrease was primarily a result of the decrease in the Physical Plant and Equipment Levy (PPEL) fund balance.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - increased $180,084 or nearly 61%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2005 compared to June 30, 2004.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Revenues:							
Program revenues:							
Charges for services	$ 389,128	381,689	191,743	187,948	580,871	569,637	1.97%
Operating grants and contributions and restricted interest	471,495	522,897	113,337	112,057	584,832	634,954	-7.89%
Capital grants and contributions and restricted interest	32,228	0	0	0	32,228	0	100.00%
General revenues:							
Local tax	1,922,983	1,935,298	0	0	1,922,983	1,935,298	-0.64%
Local option sales and service tax	259,408	0	0	0	259,408	0	100.00%
Unrestricted state grants	2,384,024	2,263,015	0	0	2,384,024	2,263,015	5.35%
Other	38,924	16,631	1,211	164	40,135	16,795	138.97%
Total revenues	5,498,190	5,119,530	306,291	300,169	5,804,481	5,419,699	7.10%
Program expenses:							
Governmental activities:							
Instructional	3,159,029	3,098,888	0	0	3,159,029	3,098,888	1.94%
Support services	1,397,358	1,372,046	0	0	1,397,358	1,372,046	1.84%
Non-instructional programs	0	0	267,819	267,826	267,819	267,826	0.00%
Other expenses	624,176	451,945	0	0	624,176	451,945	38.11%
Total expenses	5,180,563	4,922,879	267,819	267,826	5,448,382	5,190,705	4.96%
Changes in net assets	317,627	196,651	38,472	32,343	356,099	228,994	55.51%
Net assets beginning of year	1,798,678	1,602,027	157,084	124,741	1,955,762	1,726,768	13.26%
Net assets end of year	$ 2,116,305	1,798,678	195,556	157,084	2,311,861	1,955,762	18.21%

Property tax and unrestricted state grants account for 74% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 84% of the total expenses.

Governmental Activities

Revenues for governmental activities were $5,498,190 and expenses were $5,180,563. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	$ 3,159,029	2,466,292
Support services	1,397,358	1,396,536
Other expenses	624,176	424,884
Totals	$ 5,180,563	4,287,712

- The cost financed by users of the District's programs was $389,128.
- Federal and state governments subsidized certain programs with grants and contributions totaling $503,723.
- The net cost of governmental activities was financed with $1,922,983 in local tax, $259,408 in local option sales and service tax, $2,384,024 in unrestricted state grants, and $36,029 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were $306,291 and expenses were $267,819. The District's business-type activities include the School Nutrition Fund and Day Care Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Southeast Warren Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of $827,358, above last year's ending fund balances of a $486,962.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors. Increase in the tax levy, as well as, state grants during the year, resulted in an increase in revenues. The increase in expenditures was not enough to offset by the increase in revenues ensuring the increase of the Districts financial position.
- The Management Levy fund balance increased from $192,293 to $212,716, due to revenues exceeding expenditures during the year.
- The Physical Plant and Equipment Levy (PPEL) fund balance decreased from $72,144 to $45,208. This resulted from an increase in expenditures and interfund transfer out during the year.
- The Capital Projects fund balance increased from $179, in 2004, to $202,157, in 2005, due to the District starting to receive local options sales and service tax during the year.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from $125,902 at June 30, 2004 to $156,722 at June 30, 2005, representing an increase of approximately 24.5%. The Day Care Fund net

assets increased from $31,182 in 2004, to $38,834 in 2005, due to an increase in federal sources during the year.

BUDGETARY HIGHLIGHTS

The District's revenues were $299,653 less than budgeted revenues, a variance of 5%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested $4.6 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 3.17% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was $210,365.

The original cost of the District's capital assets was $6,962,452. Governmental funds account for $6,788,896 with the remainder of $173,556 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled $241,189 at June 30, 2004 compared to $211,273 at June 30, 2005. This decrease is due to the deprecation expense taken during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Land	$ 15,174	15,174	0	0	15,174	15,174	0.00%
Buildings	4,300,964	4,414,043	0	0	4,300,964	4,414,043	-2.63%
Improvements other than buildings	25,224	26,389	0	0	25,224	26,389	-4.62%
Machinery and equipment	140,895	161,867	70,378	79,322	211,273	241,189	-14.16%
Total	$ 4,482,257	4,617,473	70,378	79,322	4,552,635	4,696,795	-3.17%

Long-Term Debt

At June 30, 2005, the District had long-term debt outstanding of $3,303,919 in general obligation bonds, bus lease payable and compensated absences. This represents a decrease of approximately 3.3% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District had total outstanding general obligation bonds payable of $3,245,000 at June 30, 2005.

The District obtained financing for a new bus during fiscal year 2005. This lease in the amount of $43,705, is payable in the next year.

The District also had total outstanding compensated absences of $15,214 at June 30, 2005.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total
	2005	2004	Change
General obligation bonds	$ 3,245,000	3,405,000	-4.7%
Bus lease payable	43,705	0	100.0%
Compensated absences	15,214	12,215	24.6%
Total	$ 3,303,919	3,417,215	-3.3%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Low allowable growth over several years and enrollment fluctuations is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.

- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Julie Wilson, District Business Manager, Southeast Warren Community School District, 16331 Tyler Street, Liberty Center, Iowa, 50145.

BASIC FINANCIAL STATEMENTS

Exhibit A

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents:			
ISCAP(Note 5)	$ 602,658	0	602,658
Other	1,188,108	132,658	1,320,766
Receivables			
Property tax:			
Delinquent	37,117	0	37,117
Succeeding year	1,789,509	0	1,789,509
Income surtax	137,097	0	137,097
Accounts	6,571	1,047	7,618
Accrued ISCAP interest(Note 5)	247	0	247
Due from other governments	207,581	0	207,581
Inventories	0	6,346	6,346
Capital assets, net of accumulated depreciation(Note 6)	4,482,257	70,378	4,552,635
TOTAL ASSETS	8,451,145	210,429	8,661,574
LIABILITIES			
Accounts payable	69,546	302	69,848
Salaries and benefits payable	520,878	12,311	533,189
Due to other governments	698	0	698
Accrued interest payable	26,488	0	26,488
ISCAP warrants payable(Note 5)	600,000	0	600,000
ISCAP accrued interest payable(Note 5)	101	0	101
ISCAP unamortized premium	8,058	0	8,058
Deferred revenue:			
Succeeding year property tax	1,789,509	0	1,789,509
Other	15,643	2,260	17,903
Long-term liabilities(Note 7):			
Portion due within one year:			
General obligation bonds	170,000	0	170,000
Bus Lease	43,705	0	43,705
Compensated absences	15,214	0	15,214
Portion due after one year:			
General obligation bonds	3,075,000	0	3,075,000
TOTAL LIABILITIES	6,334,840	14,873	6,349,713
NET ASSETS			
Investment in capital assets, net of related debt	1,387,322	70,378	1,457,700
Restricted for:			
Teacher Compensation	219	0	219
At-risk	18,697	0	18,697
Talented and Gifted	27,367	0	27,367
Early Intervention	11,667	0	11,667
Management levy	212,716	0	212,716
Physical plant and equipment levy	45,208	0	45,208
Other special revenue purposes	60,627	0	60,627
Unrestricted	352,482	125,178	477,660
TOTAL NET ASSETS	$ 2,116,305	195,556	2,311,861

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants, Contributions and Restricted Interest	Program Revenues: Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	$ 1,823,504	154,468	276,078	0
Special instruction	811,582	37,912	28,027	0
Other instruction	523,943	196,252	0	0
	3,159,029	388,632	304,105	0
Support services:				
Student services	146,397	0	0	0
Instructional staff services	186,229	0	0	0
Adminstration services	462,655	0	0	0
Operation and maintenance of plant se	407,590	0	0	0
Transportation services	194,487	496	326	0
	1,397,358	496	326	0
Other expenditures:				
Facilities acquisitions	184,592	0	0	32,228
Long-term debt interest	158,276	0	0	0
AEA flowthrough	167,064	0	167,064	0
Depreciation(unallocated)*	114,244	0	0	0
	624,176	0	167,064	32,228
Total governmental activities	5,180,563	389,128	471,495	32,228
Business-Type activities:				
Non-instructional programs:				
Nutrition services	208,474	149,848	88,724	0
Day Care	59,345	41,895	24,613	0
Total business-type activities	267,819	191,743	113,337	0
Total	$ 5,448,382	580,871	584,832	32,228
General Revenues:				
Property tax levied for:				
General purposes				
Debt service				
Capital outlay				
Local option sales and services				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				
Changes in net assets				
Net assets beginning of year				
Net assets end of year				

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

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(1,392,958)	0	(1,392,958)
(745,643)	0	(745,643)
(327,691)	0	(327,691)
(2,466,292)	0	(2,466,292)
(146,397)	0	(146,397)
(186,229)	0	(186,229)
(462,655)	0	(462,655)
(407,590)	0	(407,590)
(193,665)	0	(193,665)
(1,396,536)	0	(1,396,536)
(152,364)	0	(152,364)
(158,276)	0	(158,276)
0	0	0
(114,244)	0	(114,244)
(424,884)	0	(424,884)
(4,287,712)	0	(4,287,712)
0	30,098	30,098
0	7,163	7,163
0	37,261	37,261
(4,287,712)	37,261	(4,250,451)
$ 1,570,574	0	1,570,574
319,637	0	319,637
32,772	0	32,772
259,408	0	259,408
2,384,024	0	2,384,024
36,029	1,211	37,240
2,895	0	2,895
4,605,339	1,211	4,606,550
317,627	38,472	356,099
1,798,678	157,084	1,955,762
$ 2,116,305	195,556	2,311,861

Exhibit C

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	Capital Projects	Manage-ment	Other Nonmajor Governmental Funds	Total
ASSETS					
Cash and pooled investments:					
ISCAP(Note 5)	$ 602,658	0	0	0	602,658
Other	806,111	61,711	210,938	109,348	1,188,108
Receivables:					
Property tax:					
Delinquent	27,979	0	1,778	7,360	37,117
Succeeding year	1,359,808	0	75,000	354,701	1,789,509
Income surtax	137,097	0	0	0	137,097
Interfund	0	0	0	5,699	5,699
Accounts	3,056	0	0	3,515	6,571
Accrued ISCAP interest(Note 5)	247	0	0	0	247
Due from other governments	45,570	162,011	0	0	207,581
TOTAL ASSETS	$ 2,982,526	223,722	287,716	480,623	3,974,587
LIABILITIES AND FUND BALANCES					
Liabilities:					
Interfund payable	$ 0	5,699	0	0	5,699
Accounts payable	51,694	15,866	0	1,986	69,546
Salaries and benefits payable	520,878	0	0	0	520,878
Due to other governments	698	0	0	0	698
ISCAP warrants payable(Note 5)	600,000	0	0	0	600,000
ISCAP accrued interest payable(Note 5)	101	0	0	0	101
ISCAP unamortized premium	8,058	0	0	0	8,058
Deferred revenue:					
Succeeding year property tax	1,359,808	0	75,000	354,701	1,789,509
Income surtax	137,097	0	0	0	137,097
Other	15,643	0	0	0	15,643
Total liabilities	2,693,977	21,565	75,000	356,687	3,147,229
Fund balances:					
Reserved for:					
Debt service	0	0	0	18,101	18,101
Teacher Compensation	219	0	0	0	219
At-risk	18,697	0	0	0	18,697
Talented and Gifted	27,367	0	0	0	27,367
Early Intervention	11,667	0	0	0	11,667
Unreserved:					
General	230,599	0	0	0	230,599
Capital projects	0	202,157	0	0	202,157
Management levy	0	0	212,716	0	212,716
Physical plant and equipment levy	0	0	0	45,208	45,208
Other special revenue	0	0	0	60,627	60,627
Total fund balances	288,549	202,157	212,716	123,936	827,358
TOTAL LIABILITIES AND FUND BALANCES	$ 2,982,526	223,722	287,716	480,623	3,974,587

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Exhibit D

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005

Total fund balances of governmental funds (page 16)	$	827,358
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		4,482,257
Accrued interest payable in the long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(26,488)
Accounts receivable income surtax, is not yet available to finance expenditures of the current fiscal period.		137,097
Long-term liabilities, including bonds payable, lease payable and compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.		(3,303,919)
Net assets of governmental activites (page 13)	$	2,116,305

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Exhibit E

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	General	Capital Projects	Manage-ment	Other Nonmajor Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	$ 1,487,736	0	85,026	352,409	1,925,171
Local options sales and service tax	0	259,408	0	0	259,408
Tuition	192,380	0	0	0	192,380
Other	101,203	997	5,210	125,367	232,777
State sources	2,724,312	0	72	297	2,724,681
Federal sources	130,838	32,228	0	0	163,066
Total revenues	4,636,469	292,633	90,308	478,073	5,497,483
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	1,810,992	0	13,027	0	1,824,019
Special instruction	811,582	0	0	0	811,582
Other instruction	394,324	0	0	128,888	523,212
	3,016,898	0	13,027	128,888	3,158,813
Support services:					
Student services	146,397	0	0	0	146,397
Instructional staff services	169,643	0	0	0	169,643
Administration services	456,679	0	4,972	0	461,651
Operation and maintenance of plant services	367,899	0	36,421	0	404,320
Transportation services	176,127	0	15,465	0	191,592
	1,316,745	0	56,858	0	1,373,603
Other expenditures:					
Facilities acquisitions	0	143,965	0	40,627	184,592
Long-term debt:					
Principal	0	0	0	160,000	160,000
Interest and fiscal charges	0	0	0	159,615	159,615
AEA flowthrough	167,064	0	0	0	167,064
	167,064	143,965	0	360,242	671,271
Total expenditures	4,500,707	143,965	69,885	489,130	5,203,687
Excess(deficiency) of revenues over(under) expenditures	135,762	148,668	20,423	(11,057)	293,796
Other financing sources:					
Sale of equipment	5	0	0	0	5
Compensation for loss of fixed assets	2,890	0	0	0	2,890
Proceeds of loans	0	43,705	0	0	43,705
Transfers in	0	19,736	0	10,131	29,867
Transfers out	0	(10,131)	0	(19,736)	(29,867)
Total other financing sources	2,895	53,310	0	(9,605)	46,600
Net change in fund balances	138,657	201,978	20,423	(20,662)	340,396
Fund balance beginning of year	149,892	179	192,293	144,598	486,962
Fund balance end of year	$ 288,549	202,157	212,716	123,936	827,358

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2005

Net change in fund balances - total governmental funds (page 18)		$ 340,396
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:		
Capital outlays	$ 65,397	
Depreciation expense	(200,613)	(135,216)
Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liablilities in the Statement of Net Assets. Current year repayments were as follows:		160,000
Proceeds of long-term debt provide current financial resources to governmental funds but increase long-term liabilities in the Statement of Net Assets.		(43,705)
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		1,339
Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		(2,188)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in the governmental funds, as follows:		
Compensated absences		(2,999)
Changes in net assets of governmental activities (page 15)		$ 317,627

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Exhibit G

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2005

	School Nutrition	Day Care	Total
ASSETS			
Cash and pooled investments	$ 98,715	33,943	132,658
Accounts receivable	0	1,047	1,047
Inventories	6,346	0	6,346
Capital assets, net of accumulated depreciation(Note 6)	66,232	4,146	70,378
Total assets	171,293	39,136	210,429
LIABILITIES			
Accounts payable	0	302	302
Salaries and benefits payable	12,311	0	12,311
Deferred revenue:			
Other	2,260	0	2,260
Total liabilities	14,571	302	14,873
NET ASSETS			
Investment in capital assets	66,232	4,146	70,378
Unrestricted	90,490	34,688	125,178
Total net assets	$ 156,722	38,834	195,556

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Exhibit H

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2005

	School Nutrition	Day Care	Total
Operating revenues:			
Local sources:			
Charges for services	$ 149,848	41,895	191,743
Operating expenses:			
Non-instructional programs:			
Salaries	63,178	41,679	104,857
Benefits	19,964	8,208	28,172
Services	3,442	12	3,454
Supplies	113,351	8,233	121,584
Depreciation	8,539	1,213	9,752
Total operating expenses	208,474	59,345	267,819
Operating loss	(58,626)	(17,450)	(76,076)
Non-operating revenues:			
State sources	3,301	0	3,301
Federal sources	85,423	24,613	110,036
Interest on investments	722	489	1,211
Total non-operating revenues	89,446	25,102	114,548
Change in net assets	30,820	7,652	38,472
Net assets beginning of year	125,902	31,182	157,084
Net assets end of year	$ 156,722	38,834	195,556

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Exhibit I

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2005

	School Nutrition	Day Care	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	$ 150,696	764	151,460
Cash received from miscellanous operating activities	2,143	41,895	44,038
Cash payments to employees for services	(82,089)	(49,887)	(131,976)
Cash payments to suppliers for goods or services	(105,316)	(9,582)	(114,898)
Net cash used in operating activities	(34,566)	(16,810)	(51,376)
Cash flows from non-capital financing activities:			
State grants received	3,301	0	3,301
Federal grants received	70,190	24,613	94,803
Net cash provided by non-capital financing activities	73,491	24,613	98,104
Cash flows from capital and related financing activities:			
Purchase of capital assets	0	(808)	(808)
Net cash used in capital and related financing activities	0	(808)	(808)
Cash flows from investing activities:			
Interest on investments	722	489	1,211
Net cash provided by investing activities	722	489	1,211
Net increase in cash and cash equivalents	39,647	7,484	47,131
Cash and cash equivalents at beginning of year	59,068	26,459	85,527
Cash and cash equivalents at end of year	$ 98,715	33,943	132,658
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$ (58,626)	(17,450)	(76,076)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Commodities consumed	15,233	0	15,233
Depreciation	8,539	1,213	9,752
Increase in inventories	(3,756)	0	(3,756)
Decrease in accounts receivable	731	764	1,495
Decrease in accounts payable	0	(1,337)	(1,337)
Increase in salaries and benefits payable	1,053	0	1,053
Increase in deferred revenue	2,260	0	2,260
Net cash used in operating activities	$ (34,566)	(16,810)	(51,376)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and pooled investments	$ 98,715	33,943	132,658

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2005, the District received Federal commodities valued at $15,233.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Exhibit J

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2005

	Agency
Assets	
Cash and pooled investments	$ 1,866
Liabilities	
Due to other groups	$ 1,866

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

(1) Summary of Significant Accounting Policies

The Southeast Warren Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic are served includes the predominate agricultural territory in Warren and Lucas counties. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

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

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Warren and Lucas Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

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

The Management Fund is used to account for the District's property/liability insurance.

The District reports the following major proprietary fund:

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

The District reports the following fiduciary fund:

The District's fiduciary fund is the Agency Fund. The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and do not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fiduciary financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items + are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

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

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	$ 1,500
Buildings	1,500
Land improvements	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

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

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

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

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

E. Budgeting and Budgetary Control

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

(2) Cash and Pooled Investments

The District's deposits at June 30, 2005 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortizied Cost
Diversified portfolio	$ 1,175,178

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
Capital Projects	Special Revenue, Physical Plant and Equipment Levy	$ 19,736
Debt Service	Capital Projects	10,131
Total		$ 29,867

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

(4) Interfund Receivables and Payables

At June 30, 2005 the interfund receivables and payables consisted of the following:

Receivable Fund	Payable Fund	Amount
Debt Service	Capital Projects	$ 5,699

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2005 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2004-05A	6/30/04	6/30/05	$ 0	118	0	0
2005-06A	6/30/05	6/30/06	602,658	129	600,000	101
			$ 602,658	247	600,000	101

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, 2005 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2004-05A	$ 0	300,000	300,000	0

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

Series	Interest Rates on Warrants	Interest Rates on Investments
2004-05A	3.000%	2.463%
2005-06B	3.500%	3.903%

(6) Capital Assets

Capital assets activity for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 15,174	0	0	15,174
Total capital assets not being depreciated	15,174	0	0	15,174
Capital assets being depreciated:				
Buildings	5,714,856	0	0	5,714,856
Improvements other than buildings	47,482	0	0	47,482
Machinery and equipment	945,987	65,397	0	1,011,384
Total capital assets being depreciated	6,708,325	65,397	0	6,773,722
Less accumulated depreciation for:				
Buildings	1,300,813	113,079	0	1,413,892
Improvements other than buildings	21,093	1,165	0	22,258
Machinery and equipment	784,120	86,369	0	870,489
Total accumulated depreciation	2,106,026	200,613	0	2,306,639
Total capital assets being depreciated, net	4,602,299	(135,216)	0	4,467,083
Governmental activities capital assets, net	$ 4,617,473	(135,216)	0	4,482,257

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	$ 172,748	808	0	173,556
Less accumulated depreciation	93,426	9,752	0	103,178
Business-type activities capital assets, net	$ 79,322	(8,944)	0	70,378

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	$ 1,207
Other	731
Support services:	
Instructional Staff	16,586
Administration	332
Operation and maintenance of plant	6,968
Transportation	60,545
	86,369
Unallocated depreciation	114,244
Total governmental activities depreciation expense	$ 200,613
Business-type activities:	
Food services	$ 8,539
Day Care	1,213
Total business-type activities depreciation expense	$ 9,752

(7) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2005 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	3,405,000	0	160,000	3,245,000	170,000
Bus Lease	0	43,705	0	43,705	43,705
Compensated absences	12,215	15,214	12,215	15,214	15,214
Total	$ 3,417,215	58,919	172,215	3,303,919	228,919

Bonded Debt

Details of the District's June 30, 2005 general obligation bond indebtedness are as follows:

Year Ending June 30,	Issue date October 14, 1998			
	Interest Rates	Principal	Interest	Total
2006	5.00 %	$ 170,000	151,215	321,215
2007	5.00	180,000	142,715	322,715
2008	5.00	190,000	133,715	323,715
2009	1.30	195,000	124,215	319,215
2010	4.30	205,000	115,830	320,830
2011	4.38	215,000	107,015	322,015
2012	4.40	220,000	97,609	317,609
2013	4.50	230,000	87,929	317,929
2014	4.50	245,000	77,579	322,579
2015	4.63	255,000	66,554	321,554
2016	4.70	265,000	54,760	319,760
2017	4.80	280,000	42,305	322,305
2018	4.80	290,000	28,865	318,865
2019	4.90	305,000	14,944	319,944
Total		$ 3,245,000	1,245,250	4,490,250

Lease Payable

The District's bus lease is payable from the Capital Projects Fund. Details of the indebtedness are as follows:

Year Ending June 30,	Bus Lease dated October 8, 2004		
	Principal	Interest	Total
2006	$ 43,705	1,779	45,484

(8) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004, 2003. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were $161,397, $151,747, $150,925, respectively, equal to the required contributions for each year.

(9) Risk Management

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

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled $167,064 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	$ 2,476,957	196,709
State sources	2,726,673	3,301
Federal sources	157,006	110,036
Total receipts	5,360,636	310,046
Disbursements:		
Instruction	3,111,335	0
Support services	1,341,398	0
Non-instructional programs	0	262,915
Other expenditures	655,405	0
Total disbursements	5,108,138	262,915
Excess(deficiency) of receipts over(under) disbursements	252,498	47,131
Other financing sources, net	46,600	0
Excess(deficiency) of receipts over(under) disbursements	299,098	47,131
Balance beginning of year	889,010	85,527
Balance end of year	$ 1,188,108	132,658

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts Original	Budgeted Amounts Final	Final to Actual Variance - Positive (Negative)
2,673,666	2,802,243	2,802,243	(128,577)
2,729,974	2,797,228	2,797,228	(67,254)
267,042	370,864	370,864	(103,822)
5,670,682	5,970,335	5,970,335	(299,653)
3,111,335	3,854,679	3,854,679	743,344
1,341,398	1,529,100	1,529,100	187,702
262,915	452,886	452,886	189,971
655,405	811,999	811,999	156,594
5,371,053	6,648,664	6,648,664	1,277,611
299,629	(678,329)	(678,329)	(977,958)
46,600	5,000	5,000	(41,600)
346,229	(673,329)	(673,329)	(1,019,558)
974,537	915,695	915,695	58,842
1,320,766	242,366	242,366	1,078,400

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2005

	Governmental Funds		
	Cash Basis	Accrual Adjust-ments	Modified Accrual Basis
Revenues	$ 5,360,636	136,847	5,497,483
Expenditures	5,108,138	95,549	5,203,687
Net	252,498	41,298	293,796
Other financing sources, net	46,600	0	46,600
Beginning fund balances	889,010	(402,048)	486,962
Ending fund balances	$ 1,188,108	(360,750)	827,358

	Proprietary Fund Enterprise		
	Cash Basis	Accrual Adjust-ments	Modified Accrual Basis
Revenues	$ 310,046	(3,755)	306,291
Expenditures	262,915	4,904	267,819
Net	47,131	(8,659)	38,472
Beginning fund balances	85,527	71,557	157,084
Ending fund balances	$ 132,658	62,898	195,556

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated 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.

OTHER SUPPLEMENTARY INFORMATION

Schedule 1

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005

	Special Revenue Funds				
	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	Total Nonmajor Governmental Funds
ASSETS					
Cash and pooled investments	$ 59,098	44,523	103,621	5,727	109,348
Receivables:					
Property tax:					
Current year delinquent	0	685	685	6,675	7,360
Succeeding year	0	33,186	33,186	321,515	354,701
Interfund	0	0	0	5,699	5,699
Accounts	3,515	0	3,515	0	3,515
TOTAL ASSETS	$ 62,613	78,394	141,007	339,616	480,623
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable	$ 1,986	0	1,986	0	1,986
Deferred revenue:					
Succeeding year property tax	0	33,186	33,186	321,515	354,701
Total Liabilities	1,986	33,186	35,172	321,515	356,687
Fund equity:					
Fund balances:					
Reserved:					
Debt service	0	0	0	18,101	18,101
Unreserved:					
Undesignated	60,627	45,208	105,835	0	105,835
Total fund balances	60,627	45,208	105,835	18,101	123,936
TOTAL LIABILITIES AND FUND EQUITY	$ 62,613	78,394	141,007	339,616	480,623

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 2

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	Special Revenue Funds				
	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	Total Nonmajor Governmental Funds
REVENUES:					
Local sources:					
Local tax	$ 0	32,772	32,772	319,637	352,409
Other	123,903	627	124,530	837	125,367
State sources	0	28	28	269	297
TOTAL REVENUES	123,903	33,427	157,330	320,743	478,073
EXPENDITURES:					
Current:					
Instruction:					
Other instruction	128,888	0	128,888	0	128,888
Other expenditures:					
Facilities acquisitions	0	40,627	40,627	0	40,627
Long-term debt:					
Principal	0	0	0	160,000	160,000
Interest and fiscal charges	0	0	0	159,615	159,615
TOTAL EXPENDITURES	128,888	40,627	169,515	319,615	489,130
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	(4,985)	(7,200)	(12,185)	1,128	(11,057)
OTHER FINANCING SOURCES(USES):					
Transfers in	0	0	0	10,131	10,131
Transfers out	0	(19,736)	(19,736)	0	(19,736)
Total other financing sources (uses)	0	(19,736)	(19,736)	10,131	(9,605)
EXCESS(DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES	(4,985)	(26,936)	(31,921)	11,259	(20,662)
FUND BALANCE BEGINNING OF YEAR	65,612	72,144	137,756	6,842	144,598
FUND BALANCE END OF YEAR	$ 60,627	45,208	105,835	18,101	123,936

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 3

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Academic Bowl	$ 44	280	227	97
Art Club	130	2,947	2,510	567
Art Club-JR High	169	4	173	0
Athletic Boosters	656	2,000	1,884	772
Baseball	978	3,675	6,929	(2,276)
Baseball clinic	0	1,040	291	749
Basketball-Boys	1,992	3,648	2,444	3,196
Basketball-Girls	946	5,340	4,660	1,626
Cheerleaders	960	0	0	960
Class of 03	26	0	26	0
Class of 04	271	0	271	0
Class of 05	965	596	1,535	26
Class of 06	1,091	5,614	5,926	779
Class of 07	55	0	0	55
Class of 08	25	0	0	25
Cross Country	405	0	258	147
Dance Team	1,879	9,859	10,236	1,502
Dance Team-JH	(240)	845	482	123
Drama	366	2,140	2,068	438
Elem Pictures	777	(587)	190	0
Elem Pictures INT	754	(521)	233	0
Elem Yearbook	750	996	1,181	565
ELP Trips	477	897	1,044	330
Est. Comm. Pride	1,312	379	1,160	531
FBLA	179	1,538	1,717	0
FCCLA	(79)	3,821	3,742	0
FFA	4,074	18,711	17,625	5,160
Football	5,320	9,877	7,835	7,362
General Athletics	(565)	6,976	4,414	1,997
Golf	792	2,234	1,436	1,590
HS Pictures	35	(35)	0	0
Instrumental Music	564	3,853	2,894	1,523
I-Music Flags	244	3,069	3,339	(26)
Interest Income	138	0	138	0
Intermed. Activities	547	684	448	783
Activity Support	23,000	0	0	23,000
JH Cheer	0	342	0	342
JR High Sports	49	576	625	0
JH Student Council	1,083	(1,083)	0	0
JR-SR High Activities	232	(192)	40	0
Model Legislature	98	(98)	0	0
Nat. Honor Society	876	410	1,090	196
Primary Activities	660	588	424	824
Softball	2,712	5,737	7,546	903
Spanish Club	1,474	13	503	984
Speech	25	0	0	25
SH Student Council	1,644	3,294	1,692	3,246
Tournaments	2,165	(662)	140	1,363
Track	0	1,215	1,215	0
Utility	(198)	2,235	1,341	696
Vocal Music	(34)	592	1,049	(491)
Vocal-NY Trip	(1,647)	5,160	3,133	380
Volleyball	711	2,647	2,373	985
Wrestling	761	4,345	4,772	334
Yearbook	5,964	8,904	15,629	(761)
Total	$ 65,612	123,903	128,888	60,627

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 4

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
YEAR ENDED JUNE 30, 2005

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash and pooled investments	$ 1,285	71,920	71,339	1,866
Total assets	$ 1,285	71,920	71,339	1,866
Liabilities				
Due to other groups	$ 1,285	71,920	71,339	1,866
Total liabilities	$ 1,285	71,920	71,339	1,866

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 5

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	$ 2,184,579	1,935,298	1,860,042	1,736,373
Tuition	192,380	150,073	118,681	57,848
Other	232,777	246,347	172,538	299,123
State sources	2,724,681	2,605,662	2,606,882	2,481,055
Federal sources	163,066	180,250	238,415	123,662
Total	$ 5,497,483	5,117,630	4,996,558	4,698,061
Expenditures:				
Current:				
Instruction:				
Regular instruction	$ 1,824,019	1,896,490	1,944,708	1,874,236
Special instruction	811,582	751,279	721,634	630,281
Other instruction	523,212	442,153	364,831	375,455
Support services:				
Student services	146,397	89,499	84,660	72,842
Instructional staff services	169,643	143,206	147,385	162,099
Adminstration services	461,651	441,472	563,480	502,213
Operation and maintenance of plant services	404,320	403,734	419,086	422,226
Transportation services	191,592	214,966	193,180	357,286
Non-instructional programs	0	0	0	38
Other expenditures:				
Facilities acquisitions	184,592	6,069	87,771	398,887
Long-term debt:				
Principal	160,000	155,000	200,771	190,177
Interest and other charges	159,615	167,265	177,092	184,048
AEA flow-through	167,064	165,576	173,712	170,073
Total	$ 5,203,687	4,876,709	5,078,310	5,339,861

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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Telephone (641) 792-1910

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Southeast Warren Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 25, 2005. 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 Southeast Warren Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-05 is a material weakness.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Southeast Warren Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

NOLTE, CORNMAN & JOHNSON, P.C.

October 25, 2005

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

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

REPORTABLE CONDITIONS:

I-A-05 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

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

Conclusion - Response accepted.

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part II: Other Findings Related to Statutory Reporting

II-A-05 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

II-B-05 Certified Budget - District disbursements for the year ended June 30, 2005 did not exceed the amount budgeted.

II-C-05 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-05 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-E-05 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Gene Wadley, Asst coach Owner of Lacona Hardware	Supplies	$710

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions do not appear to represent a conflict of interest.

II-F-05 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-05 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-H-05 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-I-05 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-J-05 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

II-K-05 Deficit Balances - We noted during our audit that there were a few accounts in the Student Activity fund that had negative individual balances.

Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficit account balances.

Response - We will monitor these accounts and investigate any available options to eliminate these negative accounts.

Conclusion - Response accepted.

- Agency Fund – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2005 compared June 30, 2004.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Current and other assets	$ 3,968,888	3,846,158	140,051	90,659	4,108,939	3,936,817	4.37%
Capital assets	4,482,257	4,617,473	70,378	79,322	4,552,635	4,696,795	-3.07%
Total assets	8,451,145	8,463,631	210,429	169,981	8,661,574	8,633,612	0.32%
Long-term obligations	3,303,919	3,417,215	0	0	3,303,919	3,417,215	-3.32%
Other liabilities	3,030,921	3,247,738	14,873	12,897	3,045,794	3,260,635	-6.59%
Total liabilities	6,334,840	6,664,953	14,873	12,897	6,349,713	6,677,850	-4.91%
Net assets:							
Invested in capital assets, net of related debt	1,387,322	1,191,488	70,378	79,322	1,457,700	1,270,810	14.71%
Restricted	376,501	387,376	0	0	376,501	387,376	-2.81%
Unrestricted	352,482	219,814	125,178	77,762	477,660	297,576	60.52%
Total net assets	$ 2,116,305	1,798,678	195,556	157,084	2,311,861	1,955,762	18.21%

The District's combined net assets increased by 18.21% or $356,099 compared to the prior year. The largest portion of the District's net assets is the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets decreased $10,875 or 2.81% over the prior year. The decrease was primarily a result of the decrease in the Physical Plant and Equipment Levy (PPEL) fund balance.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - increased $180,084 or nearly 45%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2005 compared to June 30, 2004.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Revenues:							
Program revenues:							
Charges for services	$ 389,128	381,689	191,743	187,948	580,871	569,637	1.97%
Operating grants and contributions and restricted interest	471,495	522,897	113,337	112,057	584,832	634,954	-7.89%
Capital grants and contributions and restricted interest	32,228	0	0	0	32,228	0	100.00%
General revenues:							
Local tax	1,922,983	1,935,298	0	0	1,922,983	1,935,298	-0.64%
Local option sales and service tax	259,408	0	0	0	259,408	0	100.00%
Unrestricted state grants	2,384,024	2,263,015	0	0	2,384,024	2,263,015	5.35%
Other	38,924	16,631	1,211	164	40,135	16,795	138.97%
Total revenues	5,498,190	5,119,530	306,291	300,169	5,804,481	5,419,699	7.10%
Program expenses:							
Governmental activities:							
Instructional	3,159,029	3,098,888	0	0	3,159,029	3,098,888	1.94%
Support services	1,397,358	1,372,046	0	0	1,397,358	1,372,046	1.84%
Non-instructional programs	0	0	267,819	267,826	267,819	267,826	0.00%
Other expenses	624,176	451,945	0	0	624,176	451,945	38.11%
Total expenses	5,180,563	4,922,879	267,819	267,826	5,448,382	5,190,705	4.96%
Changes in net assets	317,627	196,651	38,472	32,343	356,099	228,994	55.51%
Net assets beginning of year	1,798,678	1,602,027	157,084	124,741	1,955,762	1,726,768	13.26%
Net assets end of year	2,116,305	1,798,678	195,556	157,084	2,311,861	1,955,762	18.21%

Property tax and unrestricted state grants account for 74% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 84% of the total expenses.

Governmental Activities

Revenues for governmental activities were $5,498,190 and expenses were $5,180,563. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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