SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

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Sergeant Bluff-Luton Community School District

Officials

Name	Title	Term Expires
	Board of Education (Before September 2003 Election)	
Rob Shultz	President	2003
Neil Stockfleth	Vice President	2003
Mark Reinders	Board Member	2004
Therese Haindfield	Board Member	2004
Lea Ann Young	Board Member	2005
	Board of Education (After September 2003 Election)	
Neil Stockfleth	President	2006
Therese Haindfield	Vice President	2004
Mark Reinders	Board Member	2004
Rob Shultz	Board Member	2006
Lea Ann Young	Board Member	2005
	School Officials	
Richard Caldwell	Superintendent	2004
Susan Mohr	District Secretary/Treasurer and Business Manager	2004
Jim Hanks	Attorney	2004

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Sergeant Bluff-Luton Community School District:

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

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In accordance with Government Auditing Standards, we have also issued our report dated September 30, 2004 on our consideration of the Sergeant Bluff-Luton Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 36 through 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and

presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Sergeant Bluff-Luton 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 three years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Nolte, Cornman & Johnson P.C.

NOLTE, CORNMAN & JOHNSON, P.C.

September 30, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sergeant Bluff-Luton Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from $9,319,554 in fiscal 2003 to $9,782,593 in fiscal 2004, while General Fund expenditures increased from $9,582,800 in fiscal 2003 to $10,177,050 in fiscal 2004. This resulted in a decrease in the District's General Fund balance from $729,713 in fiscal 2003 to a balance of $337,975 in fiscal 2004, a 54% decrease from the prior year.

- The increase in General Fund revenues was attributable to an increase in local tax, as well as, state and federal grant revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits. One reason the General Fund balance decreased is because the negotiated salary and benefits settlement was more than the District's General Fund increase in revenue for fiscal 2004.

- A decline in interest rates during the past fiscal year, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone to decrease from $74,118 in fiscal year 2003 to $6,967 in fiscal year 2004.

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 Sergeant Bluff-Luton 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 Sergeant Bluff-Luton 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 Sergeant Bluff-Luton 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
Sergeant Bluff-Luton Community School District Annual Financial Report

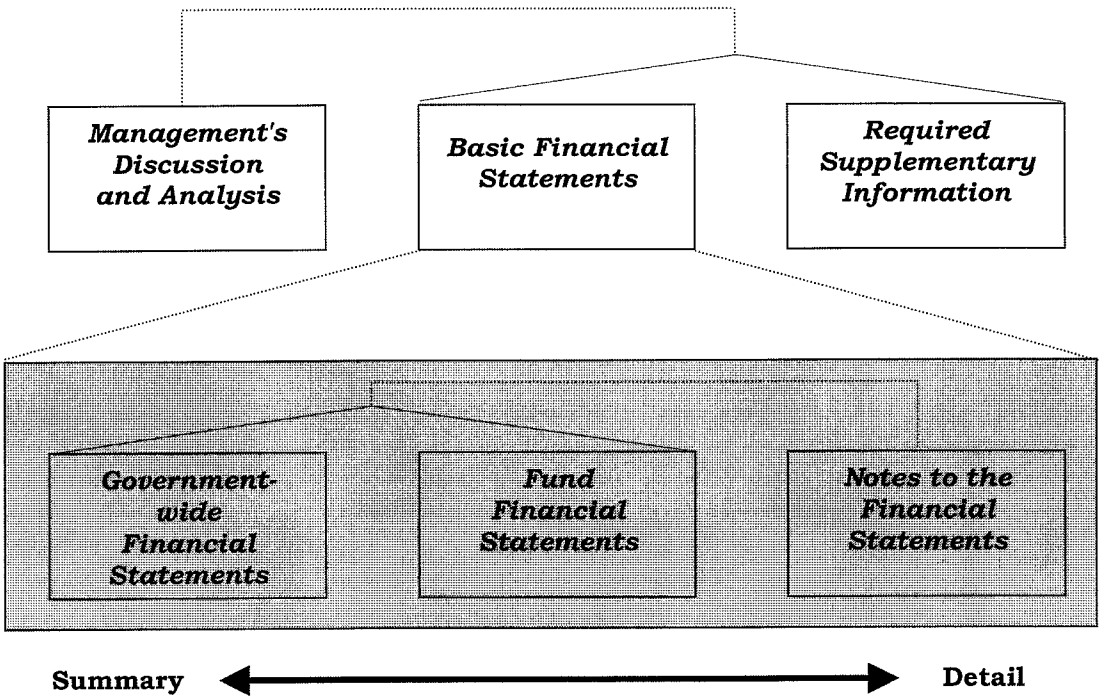

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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 fund, the School Nutrition Fund and Basic Learning Center 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.

   a. 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, 2004.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2004	2003	2004	2003	2004	2003	2003-04
Current and other assets	$ 8,972,561	10,482,453	84,479	79,806	9,057,040	10,562,259	-14.25%
Capital assets	18,975,245	18,233,672	126,503	140,868	19,101,748	18,374,540	3.96%
Total assets	27,947,806	28,716,125	210,982	220,674	28,158,788	28,936,799	-2.69%
Long-term obligations	9,350,017	7,653,926	0	0	9,350,017	7,653,926	22.16%
Other liabilities	7,767,417	10,187,895	13,924	15,188	7,781,341	10,203,083	-23.74%
Total liabilities	17,117,434	17,841,821	13,924	15,188	17,131,358	17,857,009	-4.06%
Net assets:							
Invested in capital assets, net of related debt	10,151,488	8,117,285	126,503	140,868	10,277,991	8,258,153	24.46%
Restricted	421,364	2,079,899	0	0	421,364	2,079,899	-79.74%
Unrestricted	257,520	677,120	70,555	64,618	328,075	741,738	-55.77%
Total net assets	$ 10,830,372	10,874,304	197,058	205,486	11,027,430	11,079,790	-0.47%

The District's combined net assets decreased by .47% or $52,360 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 $1,658,535 or 80% over the prior year. The decrease was primarily a result of reclassifying the Capital Projects fund balance into the investment in capital assets, net of related debt.

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 - decreased $413,633 or nearly 56%. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

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

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2004	2003	2004	2003	2004	2003	2003-04
Revenues:							
Program revenues:							
Charges for services	$ 1,496,568	1,288,348	498,511	462,213	1,995,079	1,750,561	13.97%
Operating grants and contributions and restricted interest	970,204	872,842	184,203	166,326	1,154,407	1,039,168	11.09%
General revenues:							
Local tax	5,943,864	5,644,524	0	0	5,943,864	5,644,524	5.30%
Unrestricted state grants	3,529,033	3,420,586	0	0	3,529,033		
Other	30,279	100,761	517	312	30,796	101,073	-69.53%
Total revenues	11,969,948	11,327,061	683,231	628,851	12,653,179	11,955,912	5.83%
Program expenses:							
Governmental activities:							
Instructional	7,035,485	6,693,748	0	0	7,035,485	6,693,748	5.11%
Support services	2,916,754	2,942,560	0	0	2,916,754	2,942,560	-0.88%
Non-instructional programs	4,027	399	691,659	628,583	695,686	628,982	10.61%
Other expenses	2,057,614	1,859,249	0	0	2,057,614	1,859,249	10.67%
Total expenses	12,013,880	11,495,956	691,659	628,583	12,705,539	12,124,539	4.79%
Changes in net assets	(43,932)	(168,895)	(8,428)	268	(52,360)	(168,627)	-68.95%
Net assets beginning of year	10,874,304	11,043,199	205,486	205,218	11,079,790	11,248,417	-1.50%
Net assets end of year	10,830,372	10,874,304	197,058	205,486	11,027,430	11,079,790	-0.47%

Property tax and unrestricted state grants account for 75% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 78% of the total expenses.

Governmental Activities

Revenues for governmental activities were $11,969,948 and expenses were $12,013,880. 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, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	$ 7,035,485	4,940,442
Support services	2,916,754	2,900,188
Non-instructional	4,027	4,027
Other expenses	2,057,614	1,702,451
Totals	$ 12,013,880	9,547,108

- The cost financed by users of the District's programs was $1,496,568.
- Federal and state governments subsidized certain programs with grants and contributions totaling $970,204.
- The net cost of governmental activities was financed with $5,943,864 in local tax, $3,529,033 in unrestricted state grants, and $30,279 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were $683,231 and expenses were $691,659. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Sergeant Bluff-Luton 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 $1,249,840, below last year's ending fund balances of a $2,874,914.

Governmental Fund Highlights

- The District's decreasing General Fund financial position is the product of many factors. Increase in the tax levy, as well as, state and federal grants during the year, resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures ensuring the decrease of the Districts financial position.
- The Management, and Activity Fund combined balance increased from $299,347 in 2003, to $339,818 in 2004, due to the decrease in expenditures in both funds.

- The Physical Plant and Equipment Levy (PPEL) fund balance decreased from $256,604 to $141,108, due to an increase in total expenditures for the year.

- The Capital Projects fund balance decreased from $1,574,347, in 2003, to $404,634, in 2004, due to an increase in facility acquisitions during the year.

- The Debt Service fund balance increased from $14,903 in 2003, to $26,305 in 2004.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from $178,656 at June 30, 2003 to $176,475 at June 30, 2004, representing a decrease of approximately 1%. The Basic Learning Center Fund net assets decreased from $26,830 in 2003, to $20,583 in 2004.

BUDGETARY HIGHLIGHTS

Over the course of the year, Sergeant Bluff-Luton Community School District amended its annual budget one time to reflect additional expenditures associated with all functional areas except for the other expenditures.

The District's revenues were $268,173 more than budgeted revenues, a variance of 2%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested $19.1 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 increase of 5% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was $618,600.

The original cost of the District's capital assets was $27,203,954. Governmental funds account for $26,775,827 with the remainder of $428,127 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled $961,308 at June 30, 2004. This increase resulted from the current year addition to the middle school.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2004	2003	2004	2003	2004	2003	2003-04
Land	$ 733,889	583,848	0	0	733,889	583,848	20.44%
Construction in progress	961,308	0	0	0	961,308	0	100.00%
Buildings	16,206,978	12,871,063	0	0	16,206,978	12,871,063	20.58%
Improvements other than buildings	741,200	738,290	0	0	741,200	738,290	0.39%
Machinery and equipment	331,870	4,040,471	126,503	140,868	458,373	4,181,339	-812.21%
Total	$ 18,975,245	18,233,672	126,503	140,868	19,101,748	18,374,540	3.81%

Long-Term Debt

At June 30, 2004, the District had long-term debt outstanding of $9,350,017 in general obligation bonds, revenue bond anticipation notes, and early retirement. This represents a decrease of approximately 8.2% 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 $8,535,000 at June 30, 2004.

The District had total revenue bond anticipation notes payable of $675,000 at June 30, 2004.

The District also had total outstanding early retirement payable of $140,017 at June 30, 2004.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
General obligation bonds	$ 8,535,000	9,070,000	-5.9%
Revenue bans	675,000	1,000,000	-32.5%
Early retirement	140,017	117,895	18.8%
Total	$ 9,350,017	10,187,895	-8.2%

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:

- Although the District has experienced declining enrollment for a few years, the District expects a slight increase in enrollment.
- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten-year period beginning in fiscal year 2005.
- Low allowable growth over several years and enrollment decreases 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 Susan Mohr, District Board Secretary, Sergeant Bluff-Luton Community School District, P.O. Box 97, Sergeant Bluff, Iowa, 51054.

BASIC FINANCIAL STATEMENTS

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments			
ISCAP (Note 4)	$ 1,209,587	0	1,209,587
Other	1,907,281	72,337	1,979,618
Receivables:			
Property tax:			
Delinquent	385,555	0	385,555
Succeeding year	5,228,480	0	5,228,480
Accounts	199,668	0	199,668
Accrued interest			
ISCAP (Note 4)	2,454	0	2,454
Due from other governments	39,536	0	39,536
Inventories	0	12,142	12,142
Capital assets, net of accumulated depreciation (Note 5)	18,975,245	126,503	19,101,748
TOTAL ASSETS	27,947,806	210,982	28,158,788
LIABILITIES			
Due to other governments	96	0	96
Accounts payable	307,593	393	307,986
Interest payable	44,696	0	44,696
Salaried and benefits payable	967,672	7,427	975,099
ISCAP warrants payable (Note 4)	1,213,000	0	1,213,000
ISCAP accrued interest payable (Note 4)	3,721	0	3,721
ISCAP premiums payable	2,159	0	2,159
Deferred revenue:			
Succeeding year property tax	5,228,480	0	5,228,480
Other	0	6,104	6,104
Long-term liabilities (Note 6):			
Portion due within one year:			
General obligation bonds	555,000	0	555,000
Revenue bond anticipation notes payable	335,000	0	335,000
Early retirement	35,443	0	35,443
Portion due after one year:			
General obligation bonds	7,980,000	0	7,980,000
Revenue bond anticipation notes payable	340,000	0	340,000
Early retirement	104,574	0	104,574
TOTAL LIABILITIES	17,117,434	13,924	17,131,358
NET ASSETS			
Investment in capital assets, net of related debt	10,151,488	126,503	10,277,991
Restricted for:			
Early intervention	71,227	0	71,227
Teacher quality	2,142	0	2,142
Phase III	7,086	0	7,086
Physical plant & equipment levy	141,108	0	141,108
Management levy	65,999	0	65,999
Other special revenue purposes	133,802	0	133,802
Unrestricted	257,520	70,555	328,075
TOTAL NET ASSETS	$ 10,830,372	197,058	11,027,430

SEE NOTES TO FINANCIAL STATEMENTS.

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants, Contributions and Restricted Interest
Governmental activities:			
Instruction:			
Regular instruction	$ 4,400,505	625,088	604,566
Special instruction	1,956,200	129,743	0
Other instruction	678,780	735,646	0
	7,035,485	1,490,477	604,566
Support services:			
Student services	219,502	0	0
Instructional staff services	565,179	0	0
Adminstration services	1,025,482	0	0
Operation and maintenance of plant services	975,297	0	0
Transportation services	127,478	6,091	10,475
Central support services	3,816	0	0
	2,916,754	6,091	10,475
Non-instructional services:			
Food service operations	4,027	0	0
Other expenditures:			
Facilities acquisitions	757,551	0	0
Long-term debt interest	435,767	0	0
AEA flowthrough	355,163	0	355,163
Depreciation(unallocated)*	509,133	0	0
	2,057,614	0	355,163
Total governmental activities	12,013,880	1,496,568	970,204
Business-Type activities:			
Non-instructional programs:			
Nutrition services	500,524	313,947	184,203
Basic learning center	191,135	184,564	0
Total business-type activities	691,659	498,511	184,203
Total	$ 12,705,539	1,995,079	1,154,407
General Revenues:			
Property tax levied for:			
General purposes			
Debt services			
Capital outlay			
Local option sales and service tax			
Unrestricted state grants			
Unrestricted investment earnings			
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 FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(3,170,851)	0	(3,170,851)
(1,826,457)	0	(1,826,457)
56,866	0	56,866
(4,940,442)	0	(4,940,442)
(219,502)	0	(219,502)
(565,179)	0	(565,179)
(1,025,482)	0	(1,025,482)
(975,297)	0	(975,297)
(110,912)	0	(110,912)
(3,816)	0	(3,816)
(2,900,188)	0	(2,900,188)
(4,027)	0	(4,027)
(757,551)	0	(757,551)
(435,767)	0	(435,767)
0	0	0
(509,133)	0	(509,133)
(1,702,451)	0	(1,702,451)
(9,547,108)	0	(9,547,108)
0	(2,374)	(2,374)
0	(6,571)	(6,571)
0	(8,945)	(8,945)
(9,547,108)	(8,945)	(9,556,053)
$ 4,263,672	0	4,263,672
654,608	0	654,608
148,125	0	148,125
877,459	0	877,459
3,529,033	0	3,529,033
30,279	517	30,796
9,503,176	517	9,503,693
(43,932)	(8,428)	(52,360)
10,874,304	205,486	11,079,790
$ 10,830,372	197,058	11,027,430

Exhibit C

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Capital Projects	Debt Service	Other Governmental Funds	Total
ASSETS					
Cash and pooled investments					
ISCAP (Note 4)	$ 1,209,587	0	0	0	1,209,587
Other	1,120,088	283,579	(4,416)	508,030	1,907,281
Receivables:					
Property tax					
Delinquent	214,548	122,545	30,721	17,741	385,555
Succeeding year	4,192,405	0	670,488	365,587	5,228,480
Accounts	199,668	0	0	0	199,668
Accrued interest					
ISCAP (Note 4)	2,454	0	0	0	2,454
Due from other governments	39,536	0	0	0	39,536
TOTAL ASSETS	$ 6,978,286	406,124	696,793	891,358	8,972,561
LIABILITIES AND FUND BALANCES					
Liabilities:					
Due to other governments	$ 96	0	0	0	96
Accounts payable	261,258	1,490	0	44,845	307,593
Salaries and benefits payable	967,672	0	0	0	967,672
ISCAP warrants payable (Note 4)	1,213,000	0	0	0	1,213,000
ISCAP accrued interest payable (Note 4)	3,721	0	0	0	3,721
ISCAP premiums payable	2,159	0	0	0	2,159
Deferred revenue:					
Succeeding year property tax	4,192,405	0	670,488	365,587	5,228,480
Total liabilities	6,640,311	1,490	670,488	410,432	7,722,721
Fund balances:					
Reserved for:					
Early intervention	71,227	0	0	0	71,227
Teacher quality	2,142	0	0	0	2,142
Phase III	7,086	0	0	0	7,086
Debt service	0	0	26,305	0	26,305
Unreserved:					
Undesignated	257,520	404,634	0	480,926	1,143,080
Total fund balances	337,975	404,634	26,305	480,926	1,249,840
TOTAL LIABILITIES AND FUND BALANCES	$ 6,978,286	406,124	696,793	891,358	8,972,561

SEE NOTES TO FINANCIAL STATEMENTS.

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2004

Total fund balances of governmental funds (page 17)	$	1,249,840
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 report as assets in in the governmental funds.		18,975,245
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(44,696)
Long-term liabilities, including bonds payable, revenue bans payable, and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(9,350,017)
Net assets of governmental activites (page 14)	$	10,830,372

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit E

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

	General	Capital Projects	Debt Service	Other Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	$ 4,057,969	0	654,608	353,828	5,066,405
LOSST	0	877,459	0	0	877,459
Tuition	754,831	0	0	0	754,831
Other	479,036	27,089	648	264,936	771,709
Intermediate sources	307	0	0	0	307
State sources	4,212,613	0	5,578	3,209	4,221,400
Federal sources	277,837	0	0	0	277,837
Total revenues	9,782,593	904,548	660,834	621,973	11,969,948
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	4,484,805	0	0	48,489	4,533,294
Special instruction	2,011,736	0	0	0	2,011,736
Other instruction	433,238	0	0	245,542	678,780
	6,929,779	0	0	294,031	7,223,810
Support services:					
Student services	219,502	0	0	0	219,502
Instructional staff services	565,179	0	0	0	565,179
Administration services	988,457	0	0	3,698	992,155
Operation and maintenance of plant services	901,418	0	0	90,493	991,911
Transportation services	217,552	0	0	19,464	237,016
Other	0	0	0	3,816	3,816
	2,892,108	0	0	117,471	3,009,579
Non-instructional:					
Food service	0	0	0	4,027	4,027
Other expenditures:					
Facilities acquisitions	0	1,426,235	0	281,469	1,707,704
Long-term debt:					
Principal	0	0	860,000	0	860,000
Interest and fiscal charges	0	0	437,458	0	437,458
AEA flowthrough	355,163	0	0	0	355,163
	355,163	1,426,235	1,297,458	281,469	3,360,325
Total expenditures	10,177,050	1,426,235	1,297,458	696,998	13,597,741
Deficiency of revenues under expenditures	(394,457)	(521,687)	(636,624)	(75,025)	(1,627,793)
Other financing sources(uses):					
Transfers in	0	0	648,026	0	648,026
Transfers out	0	(648,026)	0	0	(648,026)
Compensation for loss of fixed assets	2,719	0	0	0	2,719
Total other financing sources(uses)	2,719	(648,026)	648,026	0	2,719
Net change in fund balances	(391,738)	(1,169,713)	11,402	(75,025)	(1,625,074)
Fund balance beginning of year	729,713	1,574,347	14,903	555,951	2,874,914
Fund balance end of year	$ 337,975	404,634	26,305	480,926	1,249,840

SEE NOTES TO FINANCIAL STATEMENTS.

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds (page 19)		$ (1,625,074)
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 are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlays expenditures exceeded depreciation expense in the current year, as follows:		
Capital expenditures	$ 1,510,549	
Depreciation expense	(597,743)	
Fixed assets not previously reported	(163,502)	749,304
The proceeds from the compensation for loss of fixed assets ($2,719) are reported as revenue in the governmental funds. However, the cost of the equipment as well as the corresponding depreciation ($7,731) is removed from the capital assets account in the Statement of Net Assets and offset against the sale proceeds resulting in a "loss on disposal of equipment" which is reported within the government-type expenses. Thus, more revenue is reported in the governmental funds than the Statement of Activities.		(7,731)
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.		860,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		1,691
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 fund.		
Early retirement		(22,122)
Changes in net assets of governmental activities (page 16)		$ (43,932)

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit G

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2004

	School Nutrition	Basic Learning Center	Total
ASSETS			
Cash and cash equivalents	$ 43,934	28,403	72,337
Inventories	12,142	0	12,142
Capital assets, net of accumulated depreciation	126,503	0	126,503
TOTAL ASSETS	182,579	28,403	210,982
LIABILITIES			
Accounts payable	0	393	393
Salaries and benefits payable	0	7,427	7,427
Deferred revenues	6,104	0	6,104
TOTAL LIABILITES	6,104	7,820	13,924
NET ASSETS			
Invested in capital assets, net of related debt	126,503	0	126,503
Unrestricted	49,972	20,583	70,555
TOTAL NET ASSETS	$ 176,475	20,583	197,058

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit H

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	School Nutrition	Basic Learning Center	Total
OPERATING REVENUE:			
Local sources:			
Other local sources:			
Sale of lunches and breakfasts:			
Students	$ 288,858	0	288,858
Adults	15,548	0	15,548
A la carte	1,874	0	1,874
Miscellaneous	7,667	184,564	192,231
TOTAL OPERATING REVENUES	313,947	184,564	498,511
OPERATING EXPENSES:			
Non-instructional programs:			
Salaries	175,660	150,316	325,976
Benefits	30,335	23,519	53,854
Services	3,910	6,657	10,567
Supplies	269,762	10,643	280,405
Depreciation	20,857	0	20,857
TOTAL OPERATING EXPENSES	500,524	191,135	691,659
OPERATING LOSS	(186,577)	(6,571)	(193,148)
NON-OPERATING REVENUES:			
Interest	193	324	517
State sources	6,456	0	6,456
Federal sources	177,747	0	177,747
TOTAL NON-OPERATING REVENUES	184,396	324	184,720
Net loss	(2,181)	(6,247)	(8,428)
Net assets at beginning of year	178,656	26,830	205,486
Net assets end of year	$ 176,475	20,583	197,058

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit I

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	School Nutrition	Basic Learning Center	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	$ 311,359	0	311,359
Cash received from miscellaneous operating activities	7,667	184,564	192,231
Cash payments to employees for services	(205,995)	(175,568)	(381,563)
Cash payments to suppliers for goods or services	(220,064)	(19,304)	(239,368)
Net cash used in operating activities	(107,033)	(10,308)	(117,341)
Cash flows from non-capital financing activities:			
State grants received	6,456	0	6,456
Federal grants received	128,006	0	128,006
Net cash provided by non-capital financing activities	134,462	0	134,462
Cash flows from investing activities:			
Interest on investments	193	324	517
Net cash provided by investing activities	193	324	517
Cash flows from capital financing activities:			
Purchase of assets	(6,492)	0	(6,492)
Net cash used in financing activities	(6,492)	0	(6,492)
Net increase(decrease) in cash and cash equivalents	21,130	(9,984)	11,146
Cash and cash equivalents at beginning of year	22,804	38,387	61,191
Cash and cash equivalents at end of year	$ 43,934	28,403	72,337
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$ (186,577)	(6,571)	(193,148)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Commodities consumed	49,741	0	49,741
Depreciation	20,857	0	20,857
Decrease in inventories	6,473	0	6,473
Decrease in accounts payable	(2,606)	(2,004)	(4,610)
Decrease in salaries and benefits payable	0	(1,733)	(1,733)
Increase in deferred revenue	5,079	0	5,079
Net cash used in operating activities	$ (107,033)	(10,308)	(117,341)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and pooled investments	$ 43,934	28,403	72,337

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2004, the District received Federal commodities valued at $49,741.

SEE NOTES TO FINANCIAL STATEMENTS.

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2004

	Agency
ASSETS	
Cash and pooled investments	$ 19,374
Total assets	19,374
LIABILITIES	
Due to other groups	19,374
Total liabilities	19,374
NET ASSETS	$ 0

SEE NOTES TO FINANCIAL STATEMENTS.

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Woodbury County 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, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as 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 Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

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

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary fund is as follows:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board

Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on

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

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

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

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

Asset Class	Amount
Land	$ 500
Buildings	500
Improvements other than buildings	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

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

Asset Class	Estimated Useful Live (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-12 years

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

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been

recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

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

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. During the year ended June 30, 2004, no expenditures exceeded the amount budgeted.

(2) Cash and Pooled Investments

The District's deposits 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; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2004.

(3) Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	$ 648,026

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

(4) Iowa School Cash Anticipation Program (ISCAP)

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

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2003-04B	1/30/04	1/28/05	451,051	2,454	448,000	3,721
2004-05A	6/30/04	6/30/05	758,536	0	765,000	0
Total			$ 1,209,587	2,454	1,213,000	3,721

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. No ISCAP advance activity was noted in the General Fund for the year ended June 30, 2004.

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

Series	Interest Rates on Warrants	Interest Rates on Investments
2003-04B	2.000%	1.310%
2004-05A	3.000%	2.463%

(5) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 583,848	150,041	0	733,889
Construction in progress	0	961,308	0	961,308
Total capital assets not being depreciated	583,848	1,111,349	0	1,695,197
Capital assets being depreciated:				
Buildings	18,255,311	4,237,029	0	22,492,340
Land improvements	1,316,142	180,646	0	1,496,788
Machinery and equipment	4,842,588	234,641	3,985,727	1,091,502
Total capital assets being depreciated	24,414,041	4,652,316	3,985,727	25,080,630
Less accumulated depreciation for:				
Buildings	5,384,248	901,114	0	6,285,362
Land improvements	577,852	177,736	0	755,588
Machinery and equipment	802,117	88,610	131,095	759,632
Total accumulated depreciation	6,764,217	1,167,460	131,095	7,800,582
Total capital assets being depreciated, net	17,649,824	3,484,856	3,854,632	17,280,048
Governmental activities capital assets, net	$ 18,233,672	4,596,205	3,854,632	18,975,245

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	$ 232,382	6,492	(189,253)	428,127
Less accumulated depreciation	91,514	20,857	(189,253)	301,624
Business-type activities capital assets, net	$ 140,868	(14,365)	0	126,503

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	$ 26,748
Support services:	
Administration services	15,049
Operation and maintenance of plant services	5,159
Transportation	41,654
	88,610
Unallocated depreciation	509,133
Total governmental activities depreciation expense	$ 597,743
Business-type activities:	
Food services	$ 20,857

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	$ 9,070,000	0	535,000	8,535,000	555,000
Revenue Bans	1,000,000	0	325,000	675,000	335,000
Early retirement	117,895	71,879	49,757	140,017	35,443
Total	$ 10,187,895	71,879	909,757	9,350,017	925,443

General Obligation

Details of the District's June 30, 2004 general obligation bonds indebtedness is as follows:

Year Ending June 30,	Bond Issue of April 1, 2000			Bond Issue of June 1, 1998			Total	
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest
2005	5.00%	$ 465,000	57,800	5.25%	$ 90,000	334,663	$ 555,000	392,463
2006	5.10	480,000	39,200	5.25	95,000	330,748	575,000	369,948
2007	5.10	500,000	20,000	5.25	100,000	326,568	600,000	346,568
2008		-	-	5.25	550,000	322,118	550,000	322,118
2009		-	-	5.25	575,000	296,818	575,000	296,818
2010		-	-	5.25	600,000	270,368	600,000	270,368
2011		-	-	5.25	630,000	242,768	630,000	242,768
2012		-	-	5.25	655,000	213,473	655,000	213,473
2013		-	-	5.25	690,000	182,688	690,000	182,688
2014		-	-	5.25	720,000	149,913	720,000	149,913
2015		-	-	5.25	755,000	115,713	755,000	115,713
2016		-	-	5.25	795,000	79,473	795,000	79,473
2017		-	-	5.25	835,000	40,915	835,000	40,915
Total		$ 1,445,000	117,000		$ 7,090,000	2,906,226	$ 8,535,000	3,023,226

Revenue Bond Anticipation Notes Payable

Details of the District's June 30, 2004 revenue bans indebtedness is as follows:

Year Ending June 30,	Interest Rate	Loans dated June 30, 2004		
		Principal	Interest	Total
2005	2.30 %	$ 335,000	15,542	350,542
2006	2.30	340,000	7,828	347,828
Total		$ 675,000	23,370	698,370

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed ten years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. The early retirement incentive for each eligible employee is computed

according to a sliding scale based on age and years of service and is a percentage of the current year's teacher's salary. Early retirement expenditures for the year ended June 30, 2004 totaled $49,757.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were $379,519, $357,732, and $341,223 respectively, equal to the required contributions for each year.

(8) Risk Management

Sergeant Bluff-Luton Community School District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: medical and prescription drugs.

Each member's contributions to ISEBA funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were $1,065,754.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the District's financial

statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

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

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled $355,163 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Construction Commitments

The District entered into various contract totaling $1,034,783 for a middle school addition. At June 30, 2004, $961,308 of the contracts were completed. The remaining amounts of the contracts will be paid as work on the project progresses.

REQUIRED SUPPLEMENTAL INFORMATION

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL (GAAP BASIS) - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2004

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual
Revenues:			
Local sources	$ 7,470,404	499,028	7,969,432
Intermediate sources	307	0	307
State sources	4,221,400	6,456	4,227,856
Federal sources	277,837	177,747	455,584
Total revenues	11,969,948	683,231	12,653,179
Expenditures:			
Instruction	7,223,810	0	7,223,810
Support services	3,009,579	0	3,009,579
Non-instructional programs	4,027	691,659	695,686
Other expenditures	3,360,325	0	3,360,325
Total expenditures	13,597,741	691,659	14,289,400
Excess(deficiency) of revenues over(under) expenditures	(1,627,793)	(8,428)	(1,636,221)
Other financing sources, net	2,719	0	2,719
Excess(deficiency) of revenues and other financing sources over(under) expenditures	(1,625,074)	(8,428)	(1,633,502)
Balance beginning of year	2,874,914	205,486	3,080,400
Balance end of year	$ 1,249,840	197,058	1,446,898

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Budgeted Amounts		Final to Actual Variance - Positive
Original	Final	(Negative)
7,739,202	7,739,202	230,230
20,000	20,000	(19,693)
4,404,804	4,404,804	(176,948)
221,000	221,000	234,584
12,385,006	12,385,006	268,173
7,005,000	8,305,000	1,081,190
3,464,700	3,764,700	755,121
463,430	813,430	117,744
2,210,681	3,410,681	50,356
13,143,811	16,293,811	2,004,411
(758,805)	(3,908,805)	2,272,584
(3,000)	(3,000)	(3,281)
(761,805)	(3,911,805)	2,269,303
2,772,552	2,772,552	307,848
2,010,747	(1,139,253)	2,577,151

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2004

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by $3,150,000.

OTHER SUPPLEMENTAL INFORMATION

Schedule 1

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2004

	Special Revenue Funds			
	Manage-ment	Physical Plant & Equipment Levy	Student Activity	Total Nonmajor Governmental Funds
ASSETS				
Cash and pooled investments	$ 195,207	179,021	133,802	508,030
Receivables:				
Property tax:				
Current year delinquent	10,809	6,932	0	17,741
Succeeding year	215,000	150,587	0	365,587
TOTAL ASSETS	$ 421,016	336,540	133,802	891,358
LIABILITIES AND FUND EQUITY				
Liabilities:				
Accounts payable	$ 0	44,845	0	44,845
Deferred revenue:				
Succeeding year property tax	215,000	150,587	0	365,587
	215,000	195,432	0	410,432
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	206,016	141,108	133,802	480,926
Total fund balances	206,016	141,108	133,802	480,926
TOTAL LIABILITIES AND FUND EQUITY	$ 421,016	336,540	133,802	891,358

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

	Special Revenue			
	Manage-ment	Physical Plant & Equipment Levy	Student Activity	Total Nonmajor Governmental Funds
REVENUES:				
Local sources:				
Local tax	$ 205,703	148,125	0	353,828
Other	5,194	20,407	239,335	264,936
State sources	1,952	1,257	0	3,209
TOTAL REVENUES	212,849	169,789	239,335	621,973
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	48,489	0	0	48,489
Other instruction	0	0	245,542	245,542
	48,489	0	245,542	294,031
Support services:				
Administration services	3,698	0	0	3,698
Operation and maintenance of plant services	90,493	0	0	90,493
Transportation services	19,464	0	0	19,464
Other	0	3,816	0	3,816
	113,655	3,816	0	117,471
Non-instructional:				
Food service operations	4,027	0	0	4,027
Other expenditures:				
Facility acquisition	0	281,469	0	281,469
TOTAL EXPENDITURES	166,171	285,285	245,542	451,456
Excess(deficiency) of revenues over (under) expenditures	46,678	(115,496)	(6,207)	(75,025)
Fund balance beginning of year	159,338	256,604	140,009	555,951
Fund balance end of year	$ 206,016	141,108	133,802	480,926

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Select vocal fundraisers	$ 2,720	3,561	2,006	4,275
One step closer	402	120	0	522
Field trips	10,000	0	0	10,000
After school activities	1,040	668	188	1,520
Primary school projects	(248)	1,506	1,045	213
Elementary playground special needs	2,082	528	0	2,610
K-4 weekly readers	29	0	0	29
Elementary special projects	1,986	8,185	6,182	3,989
Music magazine sales	1,933	4,163	2,629	3,467
Instrumental music	349	260	74	535
Jr. high cheerleaders	1,279	182	179	1,282
Jr. high football	93	1,055	1,084	64
Jr. high wrestling	24	0	0	24
Jr. high girls basketball	23	0	0	23
Jr. high volleyball	8	0	0	8
Jr. high track	2,027	0	0	2,027
Writer's club	1,600	0	0	1,600
6th grade class	1,804	2,658	2,819	1,643
Jr. high home arts	(764)	0	(764)	0
Jr. high yearbook	841	3,191	3,285	747
L.A. experience	1,965	864	892	1,937
Jr. high athletics/juice	2,471	7,902	5,271	5,102
Student council	225	255	374	106
Middle school projects	22,880	5,305	12,344	15,841
Theater/plays	3,391	664	2,310	1,745
Speech	855	0	0	855
Music trip/fundraisers	5,010	26,873	31,782	101
Instrumental music	1,536	1,067	469	2,134
Athletics	21,020	70,305	65,674	25,651
Cheerleaders	2,292	2,794	1,794	3,292
Dance team	8,496	15,209	19,746	3,959
Spirit council	101	0	0	101
Boy's basketball	903	0	90	813
Football	4,200	21,766	21,793	4,173
Baseball	175	429	60	544
Boys track	(53)	1,062	1,213	(204)
Wrestling	2,758	5,429	7,342	845
Girls basketball	1,953	4,207	3,992	2,168
Volleyball	644	2,189	2,244	589
Girls track	(7)	1,446	1,907	(468)
History/literature renaissance	179	0	0	179
Homecoming club	(11)	0	0	(11)
Class of 2001	722	0	722	0
Class of 2002	(11)	0	0	(11)
Class of 2003	1,098	118	739	477
Class of 2004	4,577	1,395	3,300	2,672
Class of 2005	166	16,885	12,999	4,052
Class of 2006	205	175	0	380
Class of 2007	0	549	549	0
S.T.E.P.	992	0	0	992
High school yearbook	9,389	11,405	10,500	10,294
Senior composite fees	955	1,089	1,719	325
After prom party	(915)	8,005	7,109	(19)
H.S. student council	834	1,823	2,804	(147)
Art	404	0	0	404
H.S. special projects	8,398	2,139	7,077	3,460
Unallocated interest	4,984	1,909	0	6,893
Total	$ 140,009	239,335	245,542	133,802

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 4

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
AGENCY FUND
YEAR ENDED JUNE 30, 2004

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
ASSETS				
Cash and pooled investments	$ 34,893	93,400	108,919	19,374
LIABILITIES				
Due to other groups	$ 34,893	93,400	108,919	19,374

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	$ 5,943,864	5,644,524	5,654,891	5,825,495
Tuition	754,831	702,472	656,051	590,055
Other	771,709	683,137	583,890	847,503
Intermediate sources	307	575	0	6,016
State sources	4,221,400	4,140,365	4,075,297	3,915,460
Federal sources	277,837	152,488	114,285	111,722
Total	$ 11,969,948	11,323,561	11,084,414	11,296,251
Expenditures:				
Instruction:				
Regular instruction	$ 4,533,294	4,638,054	4,135,864	3,880,658
Special instruction	2,011,736	1,489,724	1,457,386	1,381,502
Other instruction	678,780	623,070	781,412	694,903
Support services:				
Student services	219,502	306,532	293,921	337,393
Instructional staff services	565,179	364,862	419,559	323,049
Administration services	992,155	1,029,094	807,176	765,018
Operation and maintenance of plant services	991,911	906,205	890,760	944,343
Transportation services	237,016	242,257	191,083	185,424
Central support services	3,816	41,234	91,335	4,874
Non-instructional:				
Food service operations	4,027	399	422	391
Other expenditures:				
Facilities acquisitions	1,707,704	546,349	337,226	1,392,228
Long Term Debt:				
Principal	860,000	515,000	500,000	455,000
Interest	437,458	436,061	465,354	512,631
AEA flow-through	355,163	365,298	359,457	356,128
Total	$ 13,597,741	11,504,139	10,730,955	11,233,542

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

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

To the Board of Education of the
Sergeant Bluff-Luton Community School District:

We have audited the financial statements of Sergeant Bluff-Luton Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated September 30, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Sergeant Bluff-Luton 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 grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved.

Internal Control Over Financial Reporting

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our

consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04 is a material weakness. Prior year reportable conditions have all been resolved except I-A-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Sergeant Bluff-Luton Community School District and other parties to whom Sergeant Bluff-Luton Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Sergeant Bluff-Luton 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

NOLTE, CORNMAN & JOHNSON, P.C.

September 30, 2004

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

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

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties - One important aspect of the internal control structure 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 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 that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

I-B-04 Credit Card Policy - We noted during our audit that the District had instances where there was no supporting documents with their credit card statements. We also noted that the District's credit card policy does not state procedures in using the credit cards.

Recommendation - The District needs to initiate and follow a policy that requires a detailed receipt with any purchase using a credit card. A detailed receipt should be present before reimbursement would occur.

Response - We are in the process of adopting a credit card policy that includes a requirement for detailed receipts.

Conclusion - Response accepted.

I-C-04 Student Activity Fund - We noted during our audit that the Student Activity fund included an interest account.

Recommendation - The interest earned each year should be allocated out at on an annual basis to the individual activity accounts.

Response - Interest will be allocated to individual activity accounts in the future.

Conclusion - Response accepted.

I-D-04 Student Activity Fund - We noted during our audit that the Student Activity fund included old class accounts.

Recommendation - Class accounts should be closed out upon graduation, and funds transferred to other appropriate Activity Fund accounts.

Response - Old class will be closed each year after all graduation expenses are taken out.

Conclusion - Response accepted.

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part II: Other Findings Related to Statutory Reporting

II-A-04 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

II-B-04 Certified Budget - District disbursements for the year ended June 30, 2004, did not exceed the amount budgeted

II-C-04 Questionable Disbursements - We noted during our audit that there where clothing items rented for coaches out of the Activity Fund which may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review these types of expenditures and document the public purpose served. The District may consider adopting a policy directed to requirements in meeting public purpose criteria. If no public purpose is identified, these types of expenditures should be added to the individuals W-2's or the District should be reimbursed by the individuals who received the items of clothing.

Response - We will comply.

Conclusion - Response accepted.

II-D-04 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-E-04 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Christoper Brown, Tech Coordinator Part Owner of CPM Consulting	Computers and supplies (per bid)	$97,108

In accordance with Attorney Generals opinion dated July 2, 1990, the transactions with the Tech Coordinator does not appear to be a conflict of interest as the computers and supplies were bid competitively.

II-F-04 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-H-04 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of students which were resident students in the district was understated by two students.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - The District will contact the Department of Education and the Department of Management regarding the two students.

Conclusion - Response accepted.

II-I-04 Deposits and Investments - We noted during our audit that the District received dividends from stock owned in Principal, which is an instance 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.

Recommendation - The District should sell the stock, and invest in an investment within compliance of the District policy.

Response - The District has sold the stock and placed the proceeds in the General Fund.

Conclusion - Response accepted.

II-J-04 Certified Annual Report - The Certified Annual Report was not filed with the Department of Education timely. However, we noted no significant deficiencies in the amounts reported.

Recommendation - The District should submit the Certified Annual Report in a timely manner in the future.

Response - We will submit the Certified Annual Report on time in the future.

Conclusion - Response accepted.

II-K-04 Financial Condition - We noted during our audit that the District had a negative account balances in the Student Activity Fund.

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

Response - We will monitor these funds more closely in the future to eliminate the deficits.

Conclusion - Response accepted.