

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

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Sergeant Bluff-Luton Community School District

Officials

| <u>Name</u>  | <u>Title</u>   | <u>Term Expires</u> |
|--|----------------|---------------------|
| <b>Board of Education<br/>(Before September 2004 Election)</b> |                |                     |
| 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                |

|   |                |      |
|---|----------------|------|
| <b>Board of Education<br/>(After September 2004 Election)</b> |                |      |
| Neil Stockfleth   | President      | 2006 |
| Therese Haindfield  | Vice President | 2007 |
| Mark Reinders   | Board Member   | 2007 |
| Rob Shultz  | Board Member   | 2006 |
| Lea Ann Young   | Board Member   | 2005 |

|                         |  |      |
|-------------------------|--|------|
| <b>School Officials</b> |  |      |
| Richard Caldwell        | Superintendent                                       | 2005 |
| Susan Mohr              | District Secretary/Treasurer<br>and Business Manager | 2005 |
| Jim Hanks               | Attorney   | 2005 |

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

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Telephone (641) 792-1910

### INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Sergeant Bluff-Luton 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 Sergeant Bluff-Luton Community School District, Sergeant Bluff-Luton, 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 Sergeant Bluff-Luton 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 19, 2005 on our consideration of 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 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 36 through 38 are not required parts of the basic financial statements, but are supplementary

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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 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 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.

October 19, 2005

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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, 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 \$9,782,593 in fiscal 2004 to \$10,337,629 in fiscal 2005, while General Fund expenditures increased from \$10,177,050 in fiscal 2004 to \$10,514,304 in fiscal 2005. This resulted in a decrease in the District's General Fund balance from \$337,975 in fiscal 2004 to a balance of \$175,285 in fiscal 2005, a 48% 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 2005. 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 2005.
- The September 2004 Certified Enrollment count resulted in an increase of 73.9 students, representing a 5.9% increase 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 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.

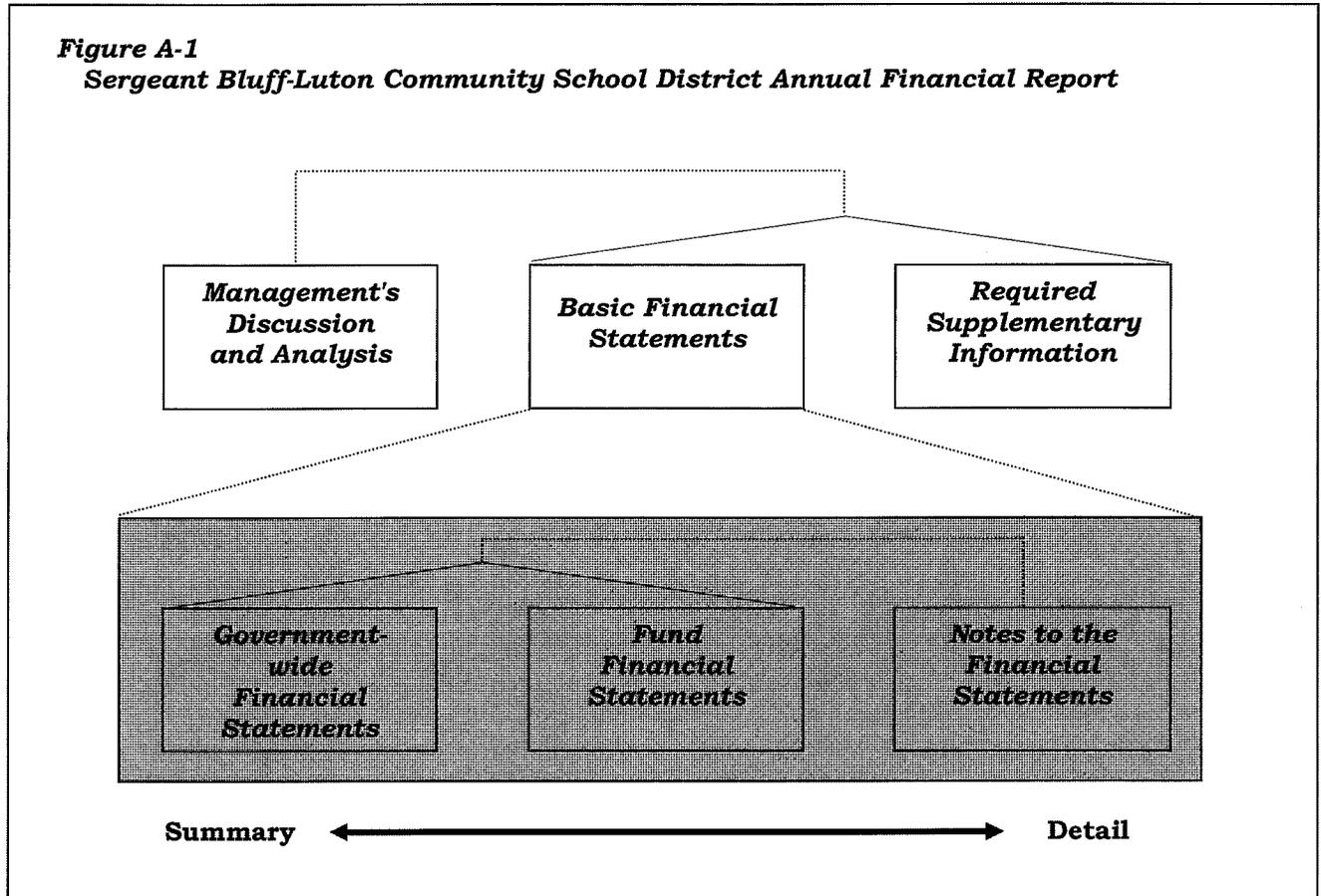


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

**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          | <ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul> | <ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>   | <ul style="list-style-type: none"> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul> | <ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul> |
| 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.

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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 Early Childhood Enterprises.

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 to 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                           | \$ 8,463,064            | 9,411,635  | 86,320                   | 84,479  | 8,549,384             | 9,496,114  | -9.97%       |
| Capital assets                                     | 18,320,883              | 18,536,171 | 111,371                  | 126,503 | 18,432,254            | 18,662,674 | -1.23%       |
| Total assets                                       | 26,783,947              | 27,947,806 | 197,691                  | 210,982 | 26,981,638            | 28,158,788 | -4.18%       |
| Long-term obligations                              | 8,501,816               | 9,350,017  | 0                        | 0       | 8,501,816             | 9,350,017  | -9.07%       |
| Other liabilities                                  | 7,489,971               | 7,767,417  | 16,695                   | 13,924  | 7,506,666             | 7,781,341  | -3.53%       |
| Total liabilities                                  | 15,991,787              | 17,117,434 | 16,695                   | 13,924  | 16,008,482            | 17,131,358 | -6.55%       |
| Net assets:  |                         |            |                          |         |                       |            |              |
| Invested in capital assets,<br>net of related debt | 10,422,316              | 9,712,414  | 111,371                  | 126,503 | 10,533,687            | 9,838,917  | 7.06%        |
| Restricted   | 265,520                 | 421,364    | 0                        | 0       | 265,520               | 421,364    | -36.99%      |
| Unrestricted                                       | 104,324                 | 257,520    | 69,625                   | 70,555  | 173,949               | 328,075    | -46.98%      |
| Total net assets                                   | \$ 10,792,160           | 10,391,298 | 180,996                  | 197,058 | 10,973,156            | 10,588,356 | 3.63%        |

The District's combined net assets increased by 3.63% or \$384,800 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 \$155,844 or 36.99% over the prior year. The decrease was primarily a result of the decrease in the Management 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 - decreased \$154,126 or nearly 47%. 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, 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                                       | \$ 1,751,170            | 1,496,568  | 517,681                  | 498,511 | 2,268,851             | 1,995,079  | 13.72%       |
| Operating grants and contributions and restricted interest | 1,021,001               | 970,204    | 203,815                  | 184,203 | 1,224,816             | 1,154,407  | 6.10%        |
| General revenues:  |                         |            |                          |         |                       |            |              |
| Local tax  | 5,191,338               | 5,066,405  | 0                        | 0       | 5,191,338             | 5,066,405  | 2.47%        |
| Local option sales and service tax                         | 806,881                 | 877,459    | 0                        | 0       | 806,881               | 877,459    | -8.04%       |
| Unrestricted state grants                                  | 3,636,674               | 3,529,033  | 0                        | 0       | 3,636,674             | 3,529,033  | 3.05%        |
| Other  | 60,524                  | 30,279     | 547                      | 517     | 61,071                | 30,796     | 98.31%       |
| Total revenues   | 12,467,588              | 11,969,948 | 722,043                  | 683,231 | 13,189,631            | 12,653,179 | 4.24%        |
| Program expenses:  |                         |            |                          |         |                       |            |              |
| Governmental activities:                                   |                         |            |                          |         |                       |            |              |
| Instructional  | 7,752,404               | 7,035,485  | 0                        | 0       | 7,752,404             | 7,035,485  | 10.19%       |
| Support services   | 2,949,251               | 2,916,754  | 0                        | 0       | 2,949,251             | 2,916,754  | 1.11%        |
| Non-instructional programs                                 | 58,195                  | 4,027      | 738,105                  | 691,659 | 796,300               | 695,686    | 14.46%       |
| Other expenses   | 1,306,876               | 2,057,614  | 0                        | 0       | 1,306,876             | 2,057,614  | -36.49%      |
| Total expenses   | 12,066,726              | 12,013,880 | 738,105                  | 691,659 | 12,804,831            | 12,705,539 | 0.78%        |
| Net income(loss) before restatement                        | 400,862                 | (43,932)   | (16,062)                 | (8,428) | 384,800               | (52,360)   | -834.91%     |
| Capital asset restatement (Note 10)                        | 0                       | (439,074)  | 0                        | 0       | 0                     | (439,074)  | -100.00%     |
| Changes in net assets                                      | 400,862                 | (483,006)  | (16,062)                 | (8,428) | 384,800               | (491,434)  | -178.30%     |
| Net assets beginning of year, as restated (Note 10)        | 10,391,298              | 10,874,304 | 197,058                  | 205,486 | 10,588,356            | 11,079,790 | -4.44%       |
| Net assets end of year                                     | \$ 10,792,160           | 10,391,298 | 180,996                  | 197,058 | 10,973,156            | 10,588,356 | 3.63%        |

Property tax and unrestricted state grants account for 67% 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 \$12,467,588 and expenses were \$12,066,726. 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<br>of Services | Net Cost<br>of Services |
|-------------------|---------------------------|-------------------------|
| Instruction       | \$ 7,752,404              | 5,357,604               |
| Support services  | 2,949,251                 | 2,932,888               |
| Non-instructional | 58,195                    | 58,195                  |
| Other expenses    | 1,306,876                 | 945,868                 |
| Totals            | <u>\$ 12,066,726</u>      | <u>9,294,555</u>        |

- The cost financed by users of the District’s programs was \$1,751,170.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,021,001.
- The net cost of governmental activities was financed with \$5,191,338 in property tax, \$806,881 in local option sales and service tax, \$3,636,674 in unrestricted state grants, \$58,443 in interest income and \$2,081 in gain on sale of equipment.

**Business-Type Activities**

Revenues of the District’s business-type activities were \$722,043 and expenses were \$738,105. The District’s business-type activities include the School Nutrition Fund and Early Childhood Enterprises. 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 \$1,065,925, below last year’s ending fund balances of a \$1,249,840.

**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 Physical Plant and Equipment Levy (PPEL) fund balance decreased from \$141,108 to \$108,595. This resulted from revenues being exceeded by expenditures, despite the decrease in expenditures for the year.
- The Capital Projects fund balance increased from \$404,634, in 2004, to \$432,993, in 2005, due to a decrease in facility acquisitions during the year.

**Proprietary Fund Highlights**

The School Nutrition Fund net assets decreased from \$176,475 at June 30, 2004 to \$146,552 at June 30, 2005, representing a decrease of approximately 17%. The Early Childhood Enterprises net assets increased from \$20,583 in 2004, to \$34,444 in 2005.

## 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 instructional and non-instructional functions.

The District's revenues were \$344,516 more than budgeted revenues, a variance of 2.7%. 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 \$18.4 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 1.25% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$635,342.

The original cost of the District's capital assets was \$27,133,915. Governmental funds account for \$26,701,438 with the remainder of \$432,477 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 which was completed 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                    | \$ 294,815 | 294,815                  | 0       | 0                     | 294,815    | 294,815      |
| Construction in progress          | 0                       | 961,308    | 0                        | 0       | 0                     | 961,308    | -100.00%     |
| Buildings                         | 17,036,124              | 16,206,978 | 0                        | 0       | 17,036,124            | 16,206,978 | 4.87%        |
| Improvements other than buildings | 672,336                 | 741,200    | 0                        | 0       | 672,336               | 741,200    | -10.24%      |
| Machinery and equipment           | 317,608                 | 331,870    | 111,371                  | 126,503 | 428,979               | 458,373    | -6.85%       |
| Total                             | \$ 18,320,883           | 18,536,171 | 111,371                  | 126,503 | 18,432,254            | 18,662,674 | -1.25%       |

### Long-Term Debt

At June 30, 2005, the District had long-term debt outstanding of \$8,501,816 in general obligation bonds, revenue bond anticipation notes, and early retirement. This represents a decrease of 9.1% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding general obligation bonds payable of \$7,980,000 at June 30, 2005.

The District had total revenue bond anticipation notes payable of \$340,000 at June 30, 2005.

The District also had total outstanding early retirement payable of \$181,816 from the Special Revenue, Management Levy Fund at June 30, 2005.

Figure A-7  
Outstanding Long-Term Obligations

|                          | Total School District |                  | Total<br>Change |
|--------------------------|-----------------------|------------------|-----------------|
|                          | 2005                  | 2004             |                 |
| General obligation bonds | \$ 7,980,000          | 8,535,000        | -6.5%           |
| Revenue bans             | 340,000               | 675,000          | -49.6%          |
| Early retirement         | 181,816               | 140,017          | 29.9%           |
| <b>Total</b>             | <b>\$ 8,501,816</b>   | <b>9,350,017</b> | <b>-9.1%</b>    |

### **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:

- 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 2004.
- 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 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, 2005

|   | Governmental<br>Activities | Business-type<br>Activities | Total             |
|---|----------------------------|-----------------------------|-------------------|
| <b>ASSETS</b>   |                            |                             |                   |
| Cash and pooled investments:                                |                            |                             |                   |
| ISCAP (Note 4)  | \$ 824,509                 | 0                           | 824,509           |
| Other   | 1,778,281                  | 76,260                      | 1,854,541         |
| Receivables:  |                            |                             |                   |
| Property tax:   |                            |                             |                   |
| Delinquent  | 29,663                     | 0                           | 29,663            |
| Succeeding year   | 5,525,044                  | 0                           | 5,525,044         |
| Accounts  | 1,316                      | 0                           | 1,316             |
| Accrued ISCAP interest (Note 4)                             | 11,169                     | 0                           | 11,169            |
| Due from other governments                                  | 293,082                    | 0                           | 293,082           |
| Inventories   | 0                          | 10,060                      | 10,060            |
| Capital assets, net of accumulated<br>depreciation (Note 5) | 18,320,883                 | 111,371                     | 18,432,254        |
| <b>TOTAL ASSETS</b>   | <b>26,783,947</b>          | <b>197,691</b>              | <b>26,981,638</b> |
| <b>LIABILITIES</b>  |                            |                             |                   |
| Accounts payable  | 16,975                     | 0                           | 16,975            |
| Interest payable  | 36,053                     | 0                           | 36,053            |
| Salaried and benefits payable                               | 1,016,174                  | 8,034                       | 1,024,208         |
| ISEBA assessment payable (Note 8)                           | 56,779                     | 0                           | 56,779            |
| ISCAP warrants payable (Note 4)                             | 822,000                    | 0                           | 822,000           |
| ISCAP accrued interest payable (Note 4)                     | 12,059                     | 0                           | 12,059            |
| ISCAP premiums payable                                      | 4,887                      | 0                           | 4,887             |
| Deferred revenue:   |                            |                             |                   |
| Succeeding year property tax                                | 5,525,044                  | 0                           | 5,525,044         |
| Other   | 0                          | 8,661                       | 8,661             |
| Long-term liabilities (Note 6):                             |                            |                             |                   |
| Portion due within one year:                                |                            |                             |                   |
| General obligation bonds payable                            | 575,000                    | 0                           | 575,000           |
| Revenue bond anticipation notes payable                     | 340,000                    | 0                           | 340,000           |
| Early retirement payable                                    | 43,659                     | 0                           | 43,659            |
| Portion due after one year:                                 |                            |                             |                   |
| General obligation bonds payable                            | 7,405,000                  | 0                           | 7,405,000         |
| Early retirement payable                                    | 138,157                    | 0                           | 138,157           |
| <b>TOTAL LIABILITIES</b>                                    | <b>15,991,787</b>          | <b>16,695</b>               | <b>16,008,482</b> |
| <b>NET ASSETS</b>   |                            |                             |                   |
| Investment in capital assets, net of<br>related debt        | 10,422,316                 | 111,371                     | 10,533,687        |
| Restricted for:   |                            |                             |                   |
| Talanted and gifted   | 11,810                     | 0                           | 11,810            |
| Teacher quality   | 55                         | 0                           | 55                |
| Phase III   | 2,317                      | 0                           | 2,317             |
| Physical plant and equipment levy                           | 108,595                    | 0                           | 108,595           |
| Management levy   | 3,966                      | 0                           | 3,966             |
| Other special revenue purposes                              | 138,777                    | 0                           | 138,777           |
| Unrestricted  | 104,324                    | 69,625                      | 173,949           |
| <b>TOTAL NET ASSETS</b>                                     | <b>\$ 10,792,160</b>       | <b>180,996</b>              | <b>10,973,156</b> |

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2005

| Functions/Programs                          | Program Revenues     |                      |   |
|---|----------------------|----------------------|---|
|   | Expenses             | Charges for Services | Operating Grants, Contributions and Restricted Interest |
| <b>Governmental activities:</b>             |                      |                      |   |
| <b>Instruction:</b>                         |                      |                      |   |
| Regular instruction                         | \$ 4,949,394         | 742,283              | 649,732   |
| Special instruction                         | 1,420,136            | 116,685              | 0   |
| Other instruction                           | 1,382,874            | 886,100              | 0   |
|   | <u>7,752,404</u>     | <u>1,745,068</u>     | <u>649,732</u>  |
| <b>Support services:</b>                    |                      |                      |   |
| Student services                            | 237,723              | 0                    | 0   |
| Instructional staff services                | 423,589              | 0                    | 0   |
| Administration services                     | 1,043,479            | 0                    | 0   |
| Operation and maintenance of plant services | 1,018,575            | 0                    | 0   |
| Transportation services                     | 225,885              | 6,102                | 10,261  |
|   | <u>2,949,251</u>     | <u>6,102</u>         | <u>10,261</u>   |
| <b>Non-instructional services:</b>          | <u>58,195</u>        | <u>0</u>             | <u>0</u>  |
| <b>Other expenditures:</b>                  |                      |                      |   |
| Facilities acquisitions                     | 0                    | 0                    | 0   |
| Long-term debt interest                     | 400,060              | 0                    | 0   |
| AEA flowthrough                             | 361,008              | 0                    | 361,008   |
| Depreciation(unallocated)*                  | 545,808              | 0                    | 0   |
|   | <u>1,306,876</u>     | <u>0</u>             | <u>361,008</u>  |
| <b>Total governmental activities</b>        | <b>12,066,726</b>    | <b>1,751,170</b>     | <b>1,021,001</b>  |
| <b>Business-Type activities:</b>            |                      |                      |   |
| <b>Non-instructional programs:</b>          |                      |                      |   |
| Nutrition services                          | 560,279              | 326,416              | 203,815   |
| Early childhood enterprises                 | 177,826              | 191,265              | 0   |
| <b>Total business-type activities</b>       | <b>738,105</b>       | <b>517,681</b>       | <b>203,815</b>  |
| <b>Total</b>                                | <b>\$ 12,804,831</b> | <b>2,268,851</b>     | <b>1,224,816</b>  |

**General Revenues:**

Property tax levied for:  
  General purposes  
  Debt services  
  Capital outlay  
  Local option sales and service tax  
  Unrestricted state grants  
  Unrestricted investment earnings  
  Gain on sale of equipment

Total general revenues

Changes in net assets

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

Net assets end of year

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

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Exhibit B

| Net (Expense) Revenue<br>and Changes in Net Assets |                             |             |
|--|-----------------------------|-------------|
| Governmental<br>Activities                         | Business-Type<br>Activities | Total       |
| (3,557,379)  | 0                           | (3,557,379) |
| (1,303,451)  | 0                           | (1,303,451) |
| (496,774)  | 0                           | (496,774)   |
| (5,357,604)  | 0                           | (5,357,604) |
| (237,723)  | 0                           | (237,723)   |
| (423,589)  | 0                           | (423,589)   |
| (1,043,479)  | 0                           | (1,043,479) |
| (1,018,575)  | 0                           | (1,018,575) |
| (209,522)  | 0                           | (209,522)   |
| (2,932,888)  | 0                           | (2,932,888) |
| (58,195)   | 0                           | (58,195)    |
| 0  | 0                           | 0           |
| (400,060)  | 0                           | (400,060)   |
| 0  | 0                           | 0           |
| (545,808)  | 0                           | (545,808)   |
| (945,868)  | 0                           | (945,868)   |
| (9,294,555)  | 0                           | (9,294,555) |
| 0  | (30,048)                    | (30,048)    |
| 0  | 13,439                      | 13,439      |
| 0  | (16,609)                    | (16,609)    |
| (9,294,555)  | (16,609)                    | (9,311,164) |
| \$ 4,384,798                                       | 0                           | 4,384,798   |
| 658,200  | 0                           | 658,200     |
| 148,340  | 0                           | 148,340     |
| 806,881  | 0                           | 806,881     |
| 3,636,674  | 0                           | 3,636,674   |
| 58,443   | 547                         | 58,990      |
| 2,081  | 0                           | 2,081       |
| 9,695,417  | 547                         | 9,695,964   |
| 400,862  | (16,062)                    | 384,800     |
| 10,391,298   | 197,058                     | 10,588,356  |
| \$ 10,792,160                                      | 180,996                     | 10,973,156  |

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

|  | Other               |                     |                       | Total            |
|--|---------------------|---------------------|-----------------------|------------------|
|  | General             | Capital<br>Projects | Governmental<br>Funds |                  |
| <b>ASSETS</b>                              |                     |                     |                       |                  |
| Cash and pooled investments:               |                     |                     |                       |                  |
| ISCAP(Note 4)                              | \$ 824,509          | 0                   | 0                     | 824,509          |
| Other                                      | 1,008,821           | 318,383             | 451,077               | 1,778,281        |
| Receivables:                               |                     |                     |                       |                  |
| Property tax                               |                     |                     |                       |                  |
| Delinquent                                 | 23,093              | 0                   | 6,570                 | 29,663           |
| Succeeding year                            | 4,635,484           | 0                   | 889,560               | 5,525,044        |
| Accounts                                   | 1,316               | 0                   | 0                     | 1,316            |
| Accrued ISCAP interest(Note 4)             | 11,169              | 0                   | 0                     | 11,169           |
| Due from other governments                 | 178,472             | 114,610             | 0                     | 293,082          |
| <b>TOTAL ASSETS</b>                        | <b>\$ 6,682,864</b> | <b>432,993</b>      | <b>1,347,207</b>      | <b>8,463,064</b> |
| <b>LIABILITIES AND FUND BALANCES</b>       |                     |                     |                       |                  |
| Liabilities:                               |                     |                     |                       |                  |
| Accounts payable                           | \$ 16,975           | 0                   | 0                     | 16,975           |
| Salaries and benefits payable              | 1,016,174           | 0                   | 0                     | 1,016,174        |
| ISCAP warrants payable(Note 4)             | 822,000             | 0                   | 0                     | 822,000          |
| ISCAP accrued interest payable(Note 4)     | 12,059              | 0                   | 0                     | 12,059           |
| ISCAP premiums payable                     | 4,887               | 0                   | 0                     | 4,887            |
| Deferred revenue:                          |                     |                     |                       |                  |
| Succeeding year property tax               | 4,635,484           | 0                   | 889,560               | 5,525,044        |
| Total liabilities                          | 6,507,579           | 0                   | 889,560               | 7,397,139        |
| Fund balances:                             |                     |                     |                       |                  |
| Reserved for:                              |                     |                     |                       |                  |
| Talanted and gifted                        | 11,810              | 0                   | 0                     | 11,810           |
| Teacher quality                            | 55                  | 0                   | 0                     | 55               |
| Phase III                                  | 2,317               | 0                   | 0                     | 2,317            |
| Debt service                               | 0                   | 0                   | 24,493                | 24,493           |
| Unreserved:                                |                     |                     |                       |                  |
| General                                    | 161,103             | 0                   | 0                     | 161,103          |
| Capital projects                           | 0                   | 432,993             | 0                     | 432,993          |
| Management levy                            | 0                   | 0                   | 185,782               | 185,782          |
| Physical plant and equipment levy          | 0                   | 0                   | 108,595               | 108,595          |
| Other special revenue                      | 0                   | 0                   | 138,777               | 138,777          |
| Total fund balances                        | 175,285             | 432,993             | 457,647               | 1,065,925        |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b> | <b>\$ 6,682,864</b> | <b>432,993</b>      | <b>1,347,207</b>      | <b>8,463,064</b> |

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2005

|   |                             |
|---|-----------------------------|
| <b>Total fund balances of governmental funds (page 16)</b>  | \$ 1,065,925                |
| <br><b>Amounts reported for governmental activities in the statement of net assets are different because:</b>   |                             |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.   | 18,320,883                  |
| 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.  | (36,053)                    |
| ISEBA assessment payable, is not yet due and payable in the current period due to the completion of a lawsuit settlement and, therefore, are not reported as liabilities in the governmental funds.                         | (56,779)                    |
| Long-term liabilities, including bonds payable, revenue bans payable, and early retirement payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. | <u>(8,501,816)</u>          |
| <b>Net assets of governmental activites (page 13)</b>   | <u><u>\$ 10,792,160</u></u> |

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2005

|   | Other             |                     |                       | Total             |
|---|-------------------|---------------------|-----------------------|-------------------|
|   | General           | Capital<br>Projects | Governmental<br>Funds |                   |
| <b>REVENUES:</b>  |                   |                     |                       |                   |
| Local sources:  |                   |                     |                       |                   |
| Local tax   | \$ 4,170,259      | 0                   | 1,021,079             | 5,191,338         |
| LOSST   | 0                 | 806,881             | 0                     | 806,881           |
| Tuition   | 858,968           | 0                   | 0                     | 858,968           |
| Other   | 641,017           | 30,488              | 269,161               | 940,666           |
| Intermediate sources                                    | 9,979             | 0                   | 0                     | 9,979             |
| State sources   | 4,328,110         | 0                   | 269                   | 4,328,379         |
| Federal sources   | 329,296           | 0                   | 0                     | 329,296           |
| Total revenues  | <u>10,337,629</u> | <u>837,369</u>      | <u>1,290,509</u>      | <u>12,465,507</u> |
| <b>EXPENDITURES:</b>                                    |                   |                     |                       |                   |
| Current:  |                   |                     |                       |                   |
| Instruction:  |                   |                     |                       |                   |
| Regular instruction                                     | 4,755,214         | 0                   | 92,008                | 4,847,222         |
| Special instruction                                     | 1,420,136         | 0                   | 0                     | 1,420,136         |
| Other instruction                                       | 1,133,864         | 0                   | 249,010               | 1,382,874         |
|   | <u>7,309,214</u>  | <u>0</u>            | <u>341,018</u>        | <u>7,650,232</u>  |
| Support services:                                       |                   |                     |                       |                   |
| Student services  | 236,461           | 0                   | 1,262                 | 237,723           |
| Instructional staff services                            | 408,452           | 0                   | 21,856                | 430,308           |
| Administration services                                 | 1,029,149         | 0                   | 15,308                | 1,044,457         |
| Operation and maintenance of plant services             | 912,124           | 0                   | 107,888               | 1,020,012         |
| Transportation services                                 | 201,614           | 0                   | 17,038                | 218,652           |
|   | <u>2,787,800</u>  | <u>0</u>            | <u>163,352</u>        | <u>2,951,152</u>  |
| Non-instructional programs                              | 56,282            | 0                   | 1,913                 | 58,195            |
| Other expenditures:                                     |                   |                     |                       |                   |
| Facilities acquisitions                                 | 0                 | 174,010             | 163,945               | 337,955           |
| Long-term debt:   |                   |                     |                       |                   |
| Principal   | 0                 | 0                   | 890,000               | 890,000           |
| Interest and fiscal charges                             | 0                 | 0                   | 408,703               | 408,703           |
| AEA flowthrough   | 361,008           | 0                   | 0                     | 361,008           |
|   | <u>361,008</u>    | <u>174,010</u>      | <u>1,462,648</u>      | <u>1,997,666</u>  |
| Total expenditures                                      | <u>10,514,304</u> | <u>174,010</u>      | <u>1,968,931</u>      | <u>12,657,245</u> |
| Excess(deficiency) of revenues over(under) expenditures | (176,675)         | 663,359             | (678,422)             | (191,738)         |
| Other financing sources(uses):                          |                   |                     |                       |                   |
| Transfers in  | 10,000            | 0                   | 638,838               | 648,838           |
| Transfers out   | (3,838)           | (635,000)           | (10,000)              | (648,838)         |
| Sale of equipment and materials                         | 7,510             | 0                   | 0                     | 7,510             |
| Compensation for loss of capital assets                 | 313               | 0                   | 0                     | 313               |
| Total other financing sources(uses)                     | <u>13,985</u>     | <u>(635,000)</u>    | <u>628,838</u>        | <u>7,823</u>      |
| Net change in fund balances                             | (162,690)         | 28,359              | (49,584)              | (183,915)         |
| Fund balance beginning of year                          | 337,975           | 404,634             | 507,231               | 1,249,840         |
| Fund balance end of year                                | <u>\$ 175,285</u> | <u>432,993</u>      | <u>457,647</u>        | <u>1,065,925</u>  |

SEE NOTES TO BASIC 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, 2005

**Net change in fund balances - total governmental funds (page 18)** \$ (183,915)

**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 | \$ 406,314       |           |
| Depreciation expense | <u>(615,860)</u> | (209,546) |

The proceeds from the compensation for loss of fixed assets (\$313) and sale of equipment and materials (\$7,510) are reported as revenue in the governmental funds. However, the cost of the equipment (\$10,244) as well as the corresponding depreciation (\$4,502) is removed from the capital assets account in the Statement of Net Assets and offset against the sale proceeds resulting in a "gain on sale of equipment" which is reported on the Statement of Activities. Thus, more revenue is reported in the governmental funds than the Statement of Activities. (5,742)

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. 890,000

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. 8,643

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 | \$ (41,799)     |                 |
| ISEBA assessment | <u>(56,779)</u> | <u>(98,578)</u> |

**Changes in net assets of governmental activities (page 15)** \$ 400,862

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF NET ASSETS  
 PROPRIETARY FUND  
 JUNE 30, 2005

|  | School<br>Nutrition | Early<br>Childhood<br>Enterprises | Total   |
|--|---------------------|-----------------------------------|---------|
| <b>ASSETS</b>  |                     |                                   |         |
| Cash and pooled investments                                | \$ 34,118           | 42,142                            | 76,260  |
| Inventories  | 10,060              | 0                                 | 10,060  |
| Capital assets, net of accumulated<br>depreciation(Note 5) | 111,371             | 0                                 | 111,371 |
| Total assets   | 155,549             | 42,142                            | 197,691 |
| <b>LIABILITIES</b>   |                     |                                   |         |
| Salaries and benefits payable                              | 336                 | 7,698                             | 8,034   |
| Deferred revenue:  |                     |                                   |         |
| Other  | 8,661               | 0                                 | 8,661   |
| Total liabilities  | 8,997               | 7,698                             | 16,695  |
| <b>NET ASSETS</b>  |                     |                                   |         |
| Investment in capital assets                               | 111,371             | 0                                 | 111,371 |
| Unrestricted   | 35,181              | 34,444                            | 69,625  |
| Total net assets   | \$ 146,552          | 34,444                            | 180,996 |

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2005

|                                 | School<br>Nutrition | Early<br>Childhood<br>Enterprises | Total            |
|---------------------------------|---------------------|-----------------------------------|------------------|
| OPERATING REVENUE:              |                     |                                   |                  |
| Local sources:                  |                     |                                   |                  |
| Other local sources:            |                     |                                   |                  |
| Charges for services            | \$ 326,416          | 191,265                           | 517,681          |
| TOTAL OPERATING REVENUES        | <u>326,416</u>      | <u>191,265</u>                    | <u>517,681</u>   |
| OPERATING EXPENSES:             |                     |                                   |                  |
| Non-instructional programs:     |                     |                                   |                  |
| Salaries                        | 185,759             | 139,398                           | 325,157          |
| Benefits                        | 34,099              | 24,944                            | 59,043           |
| Services                        | 1,971               | 4,712                             | 6,683            |
| Supplies                        | 318,968             | 8,772                             | 327,740          |
| Depreciation                    | 19,482              | 0                                 | 19,482           |
| TOTAL OPERATING EXPENSES        | <u>560,279</u>      | <u>177,826</u>                    | <u>738,105</u>   |
| OPERATING INCOME (LOSS)         | <u>(233,863)</u>    | <u>13,439</u>                     | <u>(220,424)</u> |
| NON-OPERATING REVENUES:         |                     |                                   |                  |
| Interest income                 | 125                 | 422                               | 547              |
| State sources                   | 7,313               | 0                                 | 7,313            |
| Federal sources                 | 196,502             | 0                                 | 196,502          |
| TOTAL NON-OPERATING REVENUES    | <u>203,940</u>      | <u>422</u>                        | <u>204,362</u>   |
| Change in net assets            | (29,923)            | 13,861                            | (16,062)         |
| Net assets at beginning of year | <u>176,475</u>      | <u>20,583</u>                     | <u>197,058</u>   |
| Net assets end of year          | <u>\$ 146,552</u>   | <u>34,444</u>                     | <u>180,996</u>   |

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2005

|  | School<br>Nutrition | Early<br>Childhood<br>Enterprises | Total     |
|--|---------------------|-----------------------------------|-----------|
| Cash flows from operating activities:  |                     |                                   |           |
| Cash received from sale of lunches and breakfasts  | \$ 325,393          | 0                                 | 325,393   |
| Cash received from miscellaneous operating activities  | 3,580               | 191,265                           | 194,845   |
| Cash payments to employees for services  | (219,522)           | (164,071)                         | (383,593) |
| Cash payments to suppliers for goods or services   | (275,681)           | (13,877)                          | (289,558) |
| Net cash provided by(used in) operating activities   | (166,230)           | 13,317                            | (152,913) |
| Cash flows from non-capital financing activities:  |                     |                                   |           |
| State grants received  | 7,313               | 0                                 | 7,313     |
| Federal grants received  | 153,326             | 0                                 | 153,326   |
| Net cash provided by non-capital financing activities  | 160,639             | 0                                 | 160,639   |
| Cash flows from investing activities:  |                     |                                   |           |
| Interest on investments  | 125                 | 422                               | 547       |
| Net cash provided by investing activities  | 125                 | 422                               | 547       |
| Cash flows from capital financing activities:  |                     |                                   |           |
| Purchase of assets   | (4,350)             | 0                                 | (4,350)   |
| Net cash used in financing activities  | (4,350)             | 0                                 | (4,350)   |
| Net increase(decrease) in cash and cash equivalents  | (9,816)             | 13,739                            | 3,923     |
| Cash and cash equivalents at beginning of year   | 43,934              | 28,403                            | 72,337    |
| Cash and cash equivalents at end of year   | \$ 34,118           | 42,142                            | 76,260    |
| Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:                |                     |                                   |           |
| Operating income(loss)   | \$ (233,863)        | 13,439                            | (220,424) |
| Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:         |                     |                                   |           |
| Commodities consumed   | 43,176              | 0                                 | 43,176    |
| Depreciation   | 19,482              | 0                                 | 19,482    |
| Decrease in inventories  | 2,082               | 0                                 | 2,082     |
| Decrease in accounts payable   | 0                   | (393)                             | (393)     |
| Increase in salaries and benefits payable  | 336                 | 271                               | 607       |
| Increase in deferred revenue   | 2,557               | 0                                 | 2,557     |
| Net cash provided by(used in) operating activities   | \$ (166,230)        | 13,317                            | (152,913) |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET: |                     |                                   |           |
| Current assets:  |                     |                                   |           |
| Cash and pooled investments  | \$ 34,118           | 42,142                            | 76,260    |
| NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:  |                     |                                   |           |

During the year ended June 30, 2005, the District received Federal commodities valued at \$43,176.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUND  
JUNE 30, 2005

|                             | <u>Agency</u> |
|-----------------------------|---------------|
| ASSETS                      |               |
| Cash and pooled investments | \$     169    |
| LIABILITIES                 |               |
| Due to other groups         | \$     169    |

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005

**(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, 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 District's proprietary funds are the Enterprise, School Nutrition Fund and the Enterprise, Early Childhood Enterprises. The School Nutrition Fund is used to account for the food service operations of the District. The Early Childhood Enterprises Fund is used to account for day care services provided by 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, 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 funds 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, 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                            | \$ 500 |
| Buildings                       | 500    |
| Land improvements               | 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 Lives (In Years) |
|-------------------------|-----------------------------------|
| Buildings               | 50 years                          |
| Land improvements       | 20 years                          |
| Machinery and equipment | 5-12 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.

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 no investments at June 30, 2005.

**(3) Transfers**

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

| Transfer to                          | Transfer from                        | Amount            |
|--------------------------------------|--------------------------------------|-------------------|
| Debt Service                         | Capital Projects                     | \$ 635,000        |
| Special Revenue,<br>Student Activity | General                              | 3,838             |
| General                              | Special Revenue,<br>Student Activity | <u>10,000</u>     |
| Total                                |                                      | <u>\$ 648,838</u> |

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

**(4) Iowa School Cash Anticipation Program (ISCAP)**

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

| Series   | Warrant Date | Final Warrant Maturity | Investments       | Accrued Interest Receivable | Warrants Payable | Accrued Interest Payable |
|----------|--------------|------------------------|-------------------|-----------------------------|------------------|--------------------------|
| 2004-05A | 6/30/2004    | 6/30/2005              | 133               | 0                           | 0                | 0                        |
| 2004-05B | 1/28/2005    | 1/27/2006              | 824,376           | 11,169                      | 822,000          | 12,059                   |
| Total    |              |                        | <u>\$ 824,509</u> | <u>11,169</u>               | <u>822,000</u>   | <u>12,059</u>            |

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25<sup>th</sup> 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 shown as follows:

| Series   | Balance Beginning of Year | Advances Received | Advances Repaid | Balance End of Year |
|----------|---------------------------|-------------------|-----------------|---------------------|
| 2004-05A | \$ 0                      | 150,000           | 150,000         | 0                   |
| Total    | <u>\$ 0</u>               | <u>150,000</u>    | <u>150,000</u>  | <u>0</u>            |

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%                        |
| 2004-05B | 3.500%                     | 3.232%                        |

(5) Capital Assets

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

|   | Balance<br>Beginning of<br>Year, as Restated<br>(Note 10) | Increases | Decreases | Balance<br>End<br>of Year |
|---|---|-----------|-----------|---------------------------|
| Governmental activities:                    |   |           |           |                           |
| Capital assets not being depreciated:       |   |           |           |                           |
| Land  | \$ 294,815  | 0         | 0         | 294,815                   |
| Construction in progress                    | 961,308   | 343,524   | 1,304,832 | 0                         |
| Total capital assets not being depreciated  | 1,256,123   | 343,524   | 1,304,832 | 294,815                   |
| Capital assets being depreciated:           |   |           |           |                           |
| Buildings                                   | 22,492,340  | 1,311,832 | 10,244    | 23,793,928                |
| Land improvements                           | 1,496,788   | 0         | 0         | 1,496,788                 |
| Machinery and equipment                     | 1,091,502   | 55,790    | 31,385    | 1,115,907                 |
| Total capital assets being depreciated      | 25,080,630  | 1,367,622 | 41,629    | 26,406,623                |
| Less accumulated depreciation for:          |   |           |           |                           |
| Buildings                                   | 6,285,362   | 476,944   | 4,502     | 6,757,804                 |
| Land improvements                           | 755,588   | 68,864    | 0         | 824,452                   |
| Machinery and equipment                     | 759,632   | 70,052    | 31,385    | 798,299                   |
| Total accumulated depreciation              | 7,800,582   | 615,860   | 35,887    | 8,380,555                 |
| Total capital assets being depreciated, net | 17,280,048  | 751,762   | 5,742     | 18,026,068                |
| Governmental activities capital assets, net | \$ 18,536,171   | 1,095,286 | 1,310,574 | 18,320,883                |

|  | Balance<br>Beginning<br>of Year | Increases | Decreases | Balance<br>End<br>of Year |
|--|---------------------------------|-----------|-----------|---------------------------|
| Business-type activities:                    |                                 |           |           |                           |
| Machinery and equipment                      | \$ 428,127                      | 4,350     | 0         | 432,477                   |
| Less accumulated depreciation                | 301,624                         | 19,482    | 0         | 321,106                   |
| Business-type activities capital assets, net | \$ 126,503                      | (15,132)  | 0         | 111,371                   |

Depreciation expense was charged by the District as follows:

|  |  |                   |
|--|--|-------------------|
| Governmental activities:                           |  |                   |
| Instruction:                                       |  |                   |
| Regular  |  | \$ 15,846         |
| Support services:                                  |  |                   |
| Instructional staff services                       |  | 4,442             |
| Administration services                            |  | 4,794             |
| Operation and maintenance of plant services        |  | 5,295             |
| Transportation                                     |  | 39,675            |
|  |  | <u>70,052</u>     |
| Unallocated depreciation                           |  | 545,808           |
|  |  | <u>545,808</u>    |
| Total governmental activities depreciation expense |  | <u>\$ 615,860</u> |
| Business-type activities:                          |  |                   |
| Food services                                      |  | <u>\$ 19,482</u>  |

**(6) Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

|                          | Balance<br>Beginning<br>of Year | Additions     | Deletions      | Balance<br>End of<br>Year | Due<br>Within<br>One Year |
|--------------------------|---------------------------------|---------------|----------------|---------------------------|---------------------------|
| General Obligation Bonds | \$ 8,535,000                    | 0             | 555,000        | 7,980,000                 | 575,000                   |
| Revenue Bans             | 675,000                         | 0             | 335,000        | 340,000                   | 340,000                   |
| Early retirement         | 140,017                         | 81,523        | 39,724         | 181,816                   | 43,659                    |
|                          |                                 |               |                | <u>8,501,816</u>          |                           |
| Total                    | <u>\$ 9,350,017</u>             | <u>81,523</u> | <u>929,724</u> | <u>8,501,816</u>          | <u>958,659</u>            |

General Obligation

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

| Year<br>Ending<br>June 30, | Bond Issue of April 1, 2000 |                   |               | Bond Issue of June 1, 1998 |                     |                  | Total               |                  |                   |
|----------------------------|-----------------------------|-------------------|---------------|----------------------------|---------------------|------------------|---------------------|------------------|-------------------|
|                            | Interest<br>Rates           | Principal         | Interest      | Interest<br>Rates          | Principal           | Interest         | Principal           | Interest         | Total             |
| 2006                       | 5.10 %                      | \$ 480,000        | 39,200        | 5.25 %                     | \$ 95,000           | 330,748          | \$ 575,000          | 369,948          | 944,948           |
| 2007                       | 5.10                        | 500,000           | 20,000        | 5.25                       | 100,000             | 326,568          | 600,000             | 346,568          | 946,568           |
| 2008                       | -                           | -                 | -             | 5.25                       | 550,000             | 322,118          | 550,000             | 322,118          | 872,118           |
| 2009                       | -                           | -                 | -             | 5.25                       | 575,000             | 296,818          | 575,000             | 296,818          | 871,818           |
| 2010                       | -                           | -                 | -             | 5.25                       | 600,000             | 270,368          | 600,000             | 270,368          | 870,368           |
| 2011                       | -                           | -                 | -             | 5.25                       | 630,000             | 242,768          | 630,000             | 242,768          | 872,768           |
| 2012                       | -                           | -                 | -             | 5.25                       | 655,000             | 213,473          | 655,000             | 213,473          | 868,473           |
| 2013                       | -                           | -                 | -             | 5.25                       | 690,000             | 182,688          | 690,000             | 182,688          | 872,688           |
| 2014                       | -                           | -                 | -             | 5.25                       | 720,000             | 149,913          | 720,000             | 149,913          | 869,913           |
| 2015                       | -                           | -                 | -             | 5.25                       | 755,000             | 115,713          | 755,000             | 115,713          | 870,713           |
| 2016                       | -                           | -                 | -             | 5.25                       | 795,000             | 79,473           | 795,000             | 79,473           | 874,473           |
| 2017                       | -                           | -                 | -             | 5.25                       | 835,000             | 40,915           | 835,000             | 40,915           | 875,915           |
| Total                      |                             | <u>\$ 980,000</u> | <u>59,200</u> |                            | <u>\$ 7,000,000</u> | <u>2,571,563</u> | <u>\$ 7,980,000</u> | <u>2,630,763</u> | <u>10,610,763</u> |

Revenue Bond Anticipation Notes Payable

Details of the District's June 30, 2005 revenue bans indebtedness is as follows:

| Year<br>Ending<br>June 30, | Interest<br>Rate | Loans dated June 30, 2004 |          |         |
|----------------------------|------------------|---------------------------|----------|---------|
|                            |                  | Principal                 | Interest | Total   |
| 2006                       | 2.30 %           | \$ 340,000                | 7,828    | 347,828 |

#### 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 the number of unused sick leave days available to the retiring employee. In addition, teachers selecting early retirement may elect to have their single health insurance premium paid, at the fixed dollar amount paid by the District for their health insurance premium during the retirement year, until the teacher reaches age 65. Early retirement expenditures for the year ended June 30, 2005 totaled \$39,724.

#### **(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 covered payroll for the years ended June 30, 2005, 2004 and 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 \$398,127, \$379,519, and \$357,732 respectively, equal to the required contributions for each year.

#### **(8) Risk Management**

The District was a member in the Iowa School Employee Benefits Association (ISEBA), an Iowa Code Chapter 28E organization until June 30, 2004. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical and prescription drugs.

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members that terminated from ISEBA on June 30, 2004 received an assessment in December 2004 which is due July 1, 2005. The total assessment

for terminated members is approximately \$1.95 million. The District's share of this assessment was \$56,779 which is recorded on the district-wide Statement of Net Assets as a liability as of June 30, 2005.

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 \$361,008 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.

**(10) Accounting Restatement**

The restatement is due to a change in land recognized by the District. It is being restated \$439,074 and is shown as follows:

|   | Balance<br>6/30/2004<br>as Previously<br>Reported | Increases | Decreases      | Balance<br>7/1/2004<br>as Restated |
|---|---|-----------|----------------|------------------------------------|
| Governmental activities:                    |   |           |                |                                    |
| Capital assets not being depreciated:       |   |           |                |                                    |
| Land  | \$ 733,889  | 0         | 439,074        | 294,815                            |
| Construction in progress                    | 961,308   | 0         | 0              | 961,308                            |
| Total capital assets not being depreciated  | <u>1,695,197</u>                                  | <u>0</u>  | <u>439,074</u> | <u>1,256,123</u>                   |
| Capital assets being depreciated:           |   |           |                |                                    |
| Buildings                                   | 22,492,340  | 0         | 0              | 22,492,340                         |
| Improvements other than buildings           | 1,496,788   | 0         | 0              | 1,496,788                          |
| Machinery and equipment                     | 1,091,502   | 0         | 0              | 1,091,502                          |
| Total capital assets being depreciated      | <u>25,080,630</u>                                 | <u>0</u>  | <u>0</u>       | <u>25,080,630</u>                  |
| Less accumulated depreciation for:          |   |           |                |                                    |
| Buildings                                   | 6,285,362   | 0         | 0              | 6,285,362                          |
| Improvements other than buildings           | 755,588   | 0         | 0              | 755,588                            |
| Machinery and equipment                     | 759,632   | 0         | 0              | 759,632                            |
| Total accumulated depreciation              | <u>7,800,582</u>                                  | <u>0</u>  | <u>0</u>       | <u>7,800,582</u>                   |
| Total capital assets being depreciated, net | <u>17,280,048</u>                                 | <u>0</u>  | <u>0</u>       | <u>17,280,048</u>                  |
| Governmental activities capital assets, net | <u>\$ 18,975,245</u>                              | <u>0</u>  | <u>439,074</u> | <u>18,536,171</u>                  |

The effect of the adjustments to restate the capital assets results in a change to the previously reported governmental activities, net assets as follows:

|  |                      |
|--|----------------------|
| Net assets, June 30, 2004, as previously reported            | \$ 10,830,372        |
| Capital assets adjustment                                    | <u>(439,074)</u>     |
| Net assets, July 1, 2004, as restated for governmental funds | <u>\$ 10,391,298</u> |

REQUIRED SUPPLEMENTARY 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, 2005

|   | Governmental<br>Fund Types<br>Actual | Proprietary<br>Fund Type<br>Actual |
|---|--------------------------------------|------------------------------------|
| Revenues:   |                                      |                                    |
| Local sources   | \$ 7,797,853                         | 518,228                            |
| Intermediate sources  | 9,979                                | 0                                  |
| State sources   | 4,328,379                            | 7,313                              |
| Federal sources   | 329,296                              | 196,502                            |
| Total revenues  | <u>12,465,507</u>                    | <u>722,043</u>                     |
| Expenditures:   |                                      |                                    |
| Instruction   | 7,650,232                            | 0                                  |
| Support services  | 2,951,152                            | 0                                  |
| Non-instructional programs  | 58,195                               | 738,105                            |
| Other expenditures  | 1,997,666                            | 0                                  |
| Total expenditures  | <u>12,657,245</u>                    | <u>738,105</u>                     |
| Excess(deficiency) of revenues<br>over(under) expenditures                                | (191,738)                            | (16,062)                           |
| Other financing sources, net  | <u>7,823</u>                         | <u>0</u>                           |
| Excess(deficiency) of revenues and<br>other financing sources over(under)<br>expenditures | (183,915)                            | (16,062)                           |
| Balance beginning of year   | <u>1,249,840</u>                     | <u>197,058</u>                     |
| Balance end of year   | <u>\$ 1,065,925</u>                  | <u>180,996</u>                     |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

| Total<br>Actual   | Budgeted Amounts  |                   | Final to<br>Actual<br>Variance -<br>Positive<br>(Negative) |
|-------------------|-------------------|-------------------|--|
|                   | Original          | Final             |  |
| 8,316,081         | 8,041,980         | 8,041,980         | 274,101  |
| 9,979             | 0                 | 0                 | 9,979  |
| 4,335,692         | 4,423,054         | 4,423,054         | (87,362)   |
| 525,798           | 378,000           | 378,000           | 147,798  |
| <u>13,187,550</u> | <u>12,843,034</u> | <u>12,843,034</u> | <u>344,516</u>   |
| 7,650,232         | 6,934,657         | 8,434,657         | 784,425  |
| 2,951,152         | 2,967,439         | 2,967,439         | 16,287   |
| 796,300           | 684,673           | 834,673           | 38,373   |
| 1,997,666         | 2,446,655         | 2,446,655         | 448,989  |
| <u>13,395,350</u> | <u>13,033,424</u> | <u>14,683,424</u> | <u>1,288,074</u>   |
| (207,800)         | (190,390)         | (1,840,390)       | 1,632,590  |
| <u>7,823</u>      | <u>0</u>          | <u>0</u>          | <u>7,823</u>   |
| (199,977)         | (190,390)         | (1,840,390)       | 1,640,413  |
| <u>1,446,898</u>  | <u>2,573,383</u>  | <u>2,573,383</u>  | <u>(1,126,485)</u>   |
| <u>1,246,921</u>  | <u>2,382,993</u>  | <u>732,993</u>    | <u>513,928</u>   |

SERGEANT BLUFF-LUTON 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 GAAP basis. Encumbrances are not recognized on the GAAP 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. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$1,650,000.

OTHER SUPPLEMENTARY INFORMATION

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2005

|  | Special Revenue Funds |  |                     |                             |                 | Total<br>Nonmajor<br>Governmental<br>Funds |
|--|-----------------------|--|---------------------|-----------------------------|-----------------|--|
|  | Manage-<br>ment       | Physical<br>Plant and<br>Equipment<br>Levy | Student<br>Activity | Total<br>Special<br>Revenue | Debt<br>Service |  |
| <b>ASSETS</b>                                |                       |  |                     |                             |                 |  |
| Cash and pooled investments                  | \$ 184,598            | 107,607                                    | 138,777             | 430,982                     | 20,095          | 451,077                                    |
| Receivables:                                 |                       |  |                     |                             |                 |  |
| Property tax:                                |                       |  |                     |                             |                 |  |
| Current year delinquent                      | 1,184                 | 988  | 0                   | 2,172                       | 4,398           | 6,570                                      |
| Succeeding year                              | 215,000               | 151,587                                    | 0                   | 366,587                     | 522,973         | 889,560                                    |
| <b>TOTAL ASSETS</b>                          | <b>\$ 400,782</b>     | <b>260,182</b>                             | <b>138,777</b>      | <b>799,741</b>              | <b>547,466</b>  | <b>1,347,207</b>                           |
| <b>LIABILITIES AND FUND EQUITY</b>           |                       |  |                     |                             |                 |  |
| Liabilities:                                 |                       |  |                     |                             |                 |  |
| Deferred revenue:                            |                       |  |                     |                             |                 |  |
| Succeeding year property tax                 | \$ 215,000            | 151,587                                    | 0                   | 366,587                     | 522,973         | 889,560                                    |
|  | 215,000               | 151,587                                    | 0                   | 366,587                     | 522,973         | 889,560                                    |
| Fund equity:                                 |                       |  |                     |                             |                 |  |
| Fund balances:                               |                       |  |                     |                             |                 |  |
| Unreserved:                                  |                       |  |                     |                             |                 |  |
| Debt Service                                 | 0                     | 0  | 0                   | 0                           | 24,493          | 24,493                                     |
| Unreserved:                                  |                       |  |                     |                             |                 |  |
| Undesignated                                 | 185,782               | 108,595                                    | 138,777             | 433,154                     | 0               | 433,154                                    |
| Total fund balances                          | 185,782               | 108,595                                    | 138,777             | 433,154                     | 24,493          | 457,647                                    |
| <b>TOTAL LIABILITIES AND<br/>FUND EQUITY</b> | <b>\$ 400,782</b>     | <b>260,182</b>                             | <b>138,777</b>      | <b>799,741</b>              | <b>547,466</b>  | <b>1,347,207</b>                           |

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, 2005

|  | Special Revenue   |  |                     |                             |                  | Total<br>Nonmajor<br>Governmental<br>Funds |
|--|-------------------|--|---------------------|-----------------------------|------------------|--|
|  | Manage-<br>ment   | Physical<br>Plant and<br>Equipment<br>Levy | Student<br>Activity | Total<br>Special<br>Revenue | Debt<br>Service  |  |
| <b>REVENUES:</b>   |                   |  |                     |                             |                  |  |
| Local sources:   |                   |  |                     |                             |                  |  |
| Local tax  | \$ 214,539        | 148,340                                    | 0                   | 362,879                     | 658,200          | 1,021,079                                  |
| Other  | 3,433             | 2,060                                      | 260,147             | 265,640                     | 3,521            | 269,161                                    |
| State sources  | 61                | 38   | 0                   | 99                          | 170              | 269  |
| <b>TOTAL REVENUES</b>  | <b>218,033</b>    | <b>150,438</b>                             | <b>260,147</b>      | <b>628,618</b>              | <b>661,891</b>   | <b>1,290,509</b>                           |
| <b>EXPENDITURES:</b>   |                   |  |                     |                             |                  |  |
| Current:   |                   |  |                     |                             |                  |  |
| Instruction:   |                   |  |                     |                             |                  |  |
| Regular instruction  | 92,008            | 0  | 0                   | 92,008                      | 0                | 92,008                                     |
| Other instruction  | 0                 | 0  | 249,010             | 249,010                     | 0                | 249,010                                    |
|  | <u>92,008</u>     | <u>0</u>                                   | <u>249,010</u>      | <u>341,018</u>              | <u>0</u>         | <u>341,018</u>                             |
| Support services:  |                   |  |                     |                             |                  |  |
| Student support services   | 1,262             | 0  | 0                   | 1,262                       | 0                | 1,262                                      |
| Instructional staff services   | 2,850             | 19,006                                     | 0                   | 21,856                      | 0                | 21,856                                     |
| Administration services  | 15,308            | 0  | 0                   | 15,308                      | 0                | 15,308                                     |
| Operation and maintenance of plant services  | 107,888           | 0  | 0                   | 107,888                     | 0                | 107,888                                    |
| Transportation services  | 17,038            | 0  | 0                   | 17,038                      | 0                | 17,038                                     |
|  | <u>144,346</u>    | <u>19,006</u>                              | <u>0</u>            | <u>163,352</u>              | <u>0</u>         | <u>163,352</u>                             |
| Non-instructional programs   | 1,913             | 0  | 0                   | 1,913                       | 0                | 1,913                                      |
| Other expenditures:  |                   |  |                     |                             |                  |  |
| Facilities acquisitions  | 0                 | 163,945                                    | 0                   | 163,945                     | 0                | 163,945                                    |
| Long-term debt:  |                   |  |                     |                             |                  |  |
| Principal  | 0                 | 0  | 0                   | 0                           | 890,000          | 890,000                                    |
| Interest and fiscal charges  | 0                 | 0  | 0                   | 0                           | 408,703          | 408,703                                    |
|  | <u>0</u>          | <u>163,945</u>                             | <u>0</u>            | <u>163,945</u>              | <u>1,298,703</u> | <u>1,462,648</u>                           |
| <b>TOTAL EXPENDITURES</b>  | <b>238,267</b>    | <b>182,951</b>                             | <b>249,010</b>      | <b>670,228</b>              | <b>1,298,703</b> | <b>1,968,931</b>                           |
| Excess(deficiency) of revenues over(under) expenditures  | (20,234)          | (32,513)                                   | 11,137              | (41,610)                    | (636,812)        | (678,422)                                  |
| Other financing sources(uses):   |                   |  |                     |                             |                  |  |
| Transfers in   | 0                 | 0  | 3,838               | 3,838                       | 635,000          | 638,838                                    |
| Transfers out  | 0                 | 0  | (10,000)            | (10,000)                    | 0                | (10,000)                                   |
| <b>Total other financing sources(uses)</b>   | <b>0</b>          | <b>0</b>                                   | <b>(6,162)</b>      | <b>(6,162)</b>              | <b>635,000</b>   | <b>628,838</b>                             |
| Excess(deficiency) of revenues and other financing sources over(under) expenditures and other financing uses | (20,234)          | (32,513)                                   | 4,975               | (47,772)                    | (1,812)          | (49,584)                                   |
| Fund balance beginning of year   | 206,016           | 141,108                                    | 133,802             | 480,926                     | 26,305           | 507,231                                    |
| Fund balance end of year   | <u>\$ 185,782</u> | <u>108,595</u>                             | <u>138,777</u>      | <u>433,154</u>              | <u>24,493</u>    | <u>457,647</u>                             |

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, 2005

| Account                             | Balance<br>Beginning<br>of Year | Revenues | Expendi-<br>tures | Balance<br>End<br>of Year |
|-------------------------------------|---------------------------------|----------|-------------------|---------------------------|
| Select vocal fundraisers            | \$ 4,275                        | 10,788   | 7,438             | 7,625                     |
| One step closer                     | 522                             | 49       | 571               | 0                         |
| Field trips                         | 10,000                          | 0        | 10,000            | 0                         |
| Action group                        | 0                               | 900      | 900               | 0                         |
| Parent-teacher organization         | 0                               | 15,992   | 14,227            | 1,765                     |
| After school activities             | 1,520                           | 824      | 735               | 1,609                     |
| Primary school projects             | 213                             | 2,389    | 3,722             | (1,120)                   |
| Elementary playground special needs | 2,610                           | 572      | 209               | 2,973                     |
| K-4 weekly readers                  | 29                              | 0        | 0                 | 29                        |
| Elementary special projects         | 3,989                           | 7,965    | 8,346             | 3,608                     |
| Music magazine sales                | 3,467                           | 6,889    | 6,607             | 3,749                     |
| Instrumental music                  | 535                             | 47       | 0                 | 582                       |
| Jr. high cheerleaders               | 1,282                           | 475      | 489               | 1,268                     |
| Jr. high football                   | 64                              | 1,264    | 847               | 481                       |
| 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                     | 1,643                           | 169      | 505               | 1,307                     |
| Jr. high yearbook                   | 747                             | 3,571    | 2,876             | 1,442                     |
| L.A. experience                     | 1,937                           | 1,821    | 1,764             | 1,994                     |
| Jr. high athletics/juice            | 5,102                           | 8,920    | 6,029             | 7,993                     |
| Student council                     | 106                             | 260      | 0                 | 366                       |
| Middle school projects              | 15,841                          | 11,741   | 8,655             | 18,927                    |
| Theater/plays                       | 1,745                           | 1,291    | 821               | 2,215                     |
| Speech                              | 855                             | 0        | 0                 | 855                       |
| Music trip/fundraisers              | 101                             | 1,215    | 3,880             | (2,564)                   |
| Instrumental music                  | 2,134                           | 3,364    | 1,298             | 4,200                     |
| Athletics                           | 25,651                          | 59,828   | 50,684            | 34,795                    |
| Cheerleaders                        | 3,292                           | 1,150    | 2,026             | 2,416                     |
| Dance team                          | 3,959                           | 24,739   | 22,690            | 6,008                     |
| Spirit council                      | 101                             | 0        | 0                 | 101                       |
| Boy's basketball                    | 813                             | 2,647    | 2,030             | 1,430                     |
| Football                            | 4,173                           | 34,544   | 42,162            | (3,445)                   |
| Baseball                            | 544                             | 1,010    | 445               | 1,109                     |
| Boys track                          | (204)                           | 1,464    | 1,549             | (289)                     |
| Wrestling                           | 845                             | 7,864    | 8,121             | 588                       |
| Girls basketball                    | 2,168                           | 0        | 554               | 1,614                     |
| Volleyball                          | 589                             | 302      | 519               | 372                       |
| Girls track                         | (468)                           | 2,941    | 2,510             | (37)                      |
| History/literature renaissance      | 179                             | 0        | 0                 | 179                       |
| Homecoming club                     | (11)                            | 11       | 0                 | 0                         |
| Class of 2002                       | (11)                            | 11       | 0                 | 0                         |
| Class of 2003                       | 477                             | 0        | 198               | 279                       |
| Class of 2004                       | 2,672                           | 0        | 553               | 2,119                     |
| Class of 2005                       | 4,052                           | 430      | 3,688             | 794                       |
| Class of 2006                       | 380                             | 15,620   | 14,060            | 1,940                     |
| Class of 2007                       | 0                               | 315      | 0                 | 315                       |
| Class of 2008                       | 0                               | 558      | 148               | 410                       |
| S.T.E.P.                            | 992                             | 0        | 0                 | 992                       |
| High school yearbook                | 10,294                          | 10,903   | 13,007            | 8,190                     |
| Senior composite fees               | 325                             | 1,588    | 34                | 1,879                     |
| After prom party                    | (19)                            | 6,940    | 4,564             | 2,357                     |
| H.S. student council                | (147)                           | 3,068    | 2,489             | 432                       |
| Art                                 | 404                             | 0        | 0                 | 404                       |
| H.S. special projects               | 3,460                           | 5,742    | 7,039             | 2,163                     |
| Unallocated interest                | 6,893                           | 1,804    | 21                | 8,676                     |
| Total                               | \$ 133,802                      | 263,985  | 259,010           | 138,777                   |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -  
 AGENCY FUND  
 YEAR ENDED JUNE 30, 2005

|                             | Balance<br>Beginning<br>of Year | Additions | Deletions | Balance<br>End<br>of Year |
|-----------------------------|---------------------------------|-----------|-----------|---------------------------|
| <b>ASSETS</b>               |                                 |           |           |                           |
| Cash and pooled investments | \$ 19,374                       | 10,733    | 29,938    | 169                       |
| <b>LIABILITIES</b>          |                                 |           |           |                           |
| Due to other groups         | \$ 19,374                       | 10,733    | 29,938    | 169                       |

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,   |                   |                   |                   |
|   | 2005                   | 2004              | 2003              | 2002              |
| <b>Revenues:</b>                            |                        |                   |                   |                   |
| Local sources:                              |                        |                   |                   |                   |
| Local tax                                   | \$ 5,998,219           | 5,943,864         | 5,644,524         | 5,654,891         |
| Tuition                                     | 858,968                | 754,831           | 702,472           | 656,051           |
| Other                                       | 940,666                | 771,709           | 683,137           | 583,890           |
| Intermediate sources                        | 9,979                  | 307               | 575               | 0                 |
| State sources                               | 4,328,379              | 4,221,400         | 4,140,365         | 4,075,297         |
| Federal sources                             | 329,296                | 277,837           | 152,488           | 114,285           |
| <b>Total</b>                                | <b>\$ 12,465,507</b>   | <b>11,969,948</b> | <b>11,323,561</b> | <b>11,084,414</b> |
| <b>Expenditures:</b>                        |                        |                   |                   |                   |
| Instruction:                                |                        |                   |                   |                   |
| Regular instruction                         | \$ 4,847,222           | 4,533,294         | 4,638,054         | 4,135,864         |
| Special instruction                         | 1,420,136              | 2,011,736         | 1,489,724         | 1,457,386         |
| Other instruction                           | 1,382,874              | 678,780           | 623,070           | 781,412           |
| Support services:                           |                        |                   |                   |                   |
| Student services                            | 237,723                | 219,502           | 306,532           | 293,921           |
| Instructional staff services                | 430,308                | 565,179           | 364,862           | 419,559           |
| Administration services                     | 1,044,457              | 992,155           | 1,029,094         | 807,176           |
| Operation and maintenance of plant services | 1,020,012              | 991,911           | 906,205           | 890,760           |
| Transportation services                     | 218,652                | 237,016           | 242,257           | 191,083           |
| Other support services                      | 0                      | 3,816             | 41,234            | 91,335            |
| Non-instructional programs:                 | 58,195                 | 4,027             | 399               | 422               |
| Other expenditures:                         |                        |                   |                   |                   |
| Facilities acquisitions                     | 337,955                | 1,707,704         | 546,349           | 337,226           |
| Long Term Debt:                             |                        |                   |                   |                   |
| Principal                                   | 890,000                | 860,000           | 515,000           | 500,000           |
| Interest                                    | 408,703                | 437,458           | 436,061           | 465,354           |
| AEA flow-through                            | 361,008                | 355,163           | 365,298           | 359,457           |
| <b>Total</b>                                | <b>\$ 12,657,245</b>   | <b>13,597,741</b> | <b>11,504,139</b> | <b>10,730,955</b> |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

# NOLTE, CORNMAN & JOHNSON P.C.

## Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3050

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  
Sergeant Bluff-Luton 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 Sergeant Bluff-Luton 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 19, 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 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 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 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 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 Sergeant Bluff-Luton Community School District and other parties to Sergeant Bluff-Luton 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 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 PC

NOLTE, CORNMAN & JOHNSON, P.C.

October 19, 2005

SERGEANT BLUFF-LUTON 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 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-05 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-C-05 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.

I-D-05 Supporting Documentation - We noted during our audit instances of no supporting documentation to go with the cancelled check stubs and purchase orders.

Recommendation - The District should review their procedures that are in place to ensure that all bills are supported, approved and paid from an invoice with a purchase order. The District should adopt processes and procedures to use when an invoice may not be available, such as requiring additional approval or requiring support document other than an invoice.

Response - We will not issue checks in the future without an invoice. In almost all instances, purchase orders are used, but there are some instances where this does not happen-for instance, utilities, postage or emergency purchases by administrators or supervisors.

Conclusion - Response accepted.

SERGEANT BLUFF-LUTON 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 - No business transactions between the District and District officials were noted.
- 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 a variance in the basic enrollment data certified to the Department of Education. The number of students which were open enrolled out were overstated by 10.8 students, students tuitioned out were overstated by 1 and students open enrolled in were understated by 5.
- 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-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 Financial Condition - We noted during our audit that the District had a few negative account balances in the Student Activity Fund.

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

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

Conclusion - Response accepted.