

CRESTON COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2004

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Creston Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Robert Kuhl	President	2004
Bobbie McFee	Vice President	2005
Barb Wilmeth	Board Member	2005
Ken Hudson	Board Member	2003
Rich Flynn	Board Member	2003
Board of Education (After September 2003 Election)		
Bobbie McFee	President	2005
Rich Flynn	Vice President	2006
Barb Wilmeth	Board Member	2005
Robert Kuhl	Board Member	2004
Callie Bruce	Board Member	2006
School Officials		
Tim Hood	Superintendent	2004
Donald M. Krings	Business Manager	2004
Pat Moeller	District Treasurer	2004
Peter Pashler	Attorney	2004

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Creston Community School District:

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

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

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

In accordance with Government Auditing Standards, we have also issued our reports dated September 14, 2004 on our consideration of the Creston Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 35 through 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Creston Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, 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.

September 14, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$10,340,220 in fiscal 2003 to \$10,862,807 in fiscal 2004, while General Fund expenditures increased from \$10,149,296 in fiscal 2003 to \$10,752,994 in fiscal 2004. This resulted in an increase in the District's General Fund balance from \$1,312,409 in fiscal 2003 to a balance of \$1,422,422 in fiscal 2004, an 8% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in federal grant revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits. One reason the General Fund balance increased is because the negotiated salary and benefits settlement was less than the District's General Fund revenue increase for fiscal 2004. As a result, the District's General Fund increased.
- A decline in interest rates during the past fiscal year, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone to decrease from \$18,989 in fiscal year 2003 to \$12,933 in fiscal year 2004.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Creston 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 Creston 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 Creston 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.

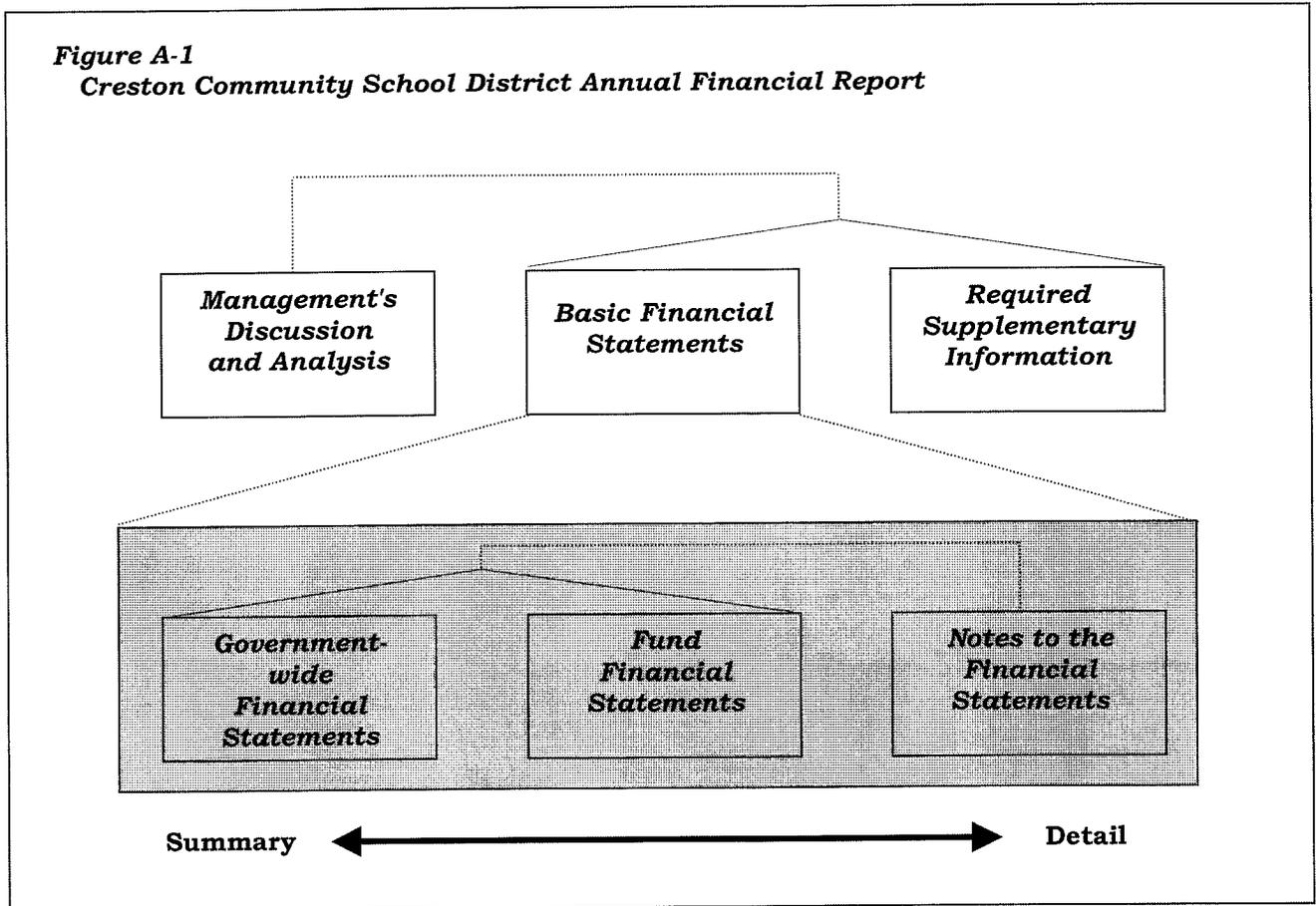


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2			
Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
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
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
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
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
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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

The District's governmental funds include the General Fund, Special Revenue Funds, and 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 one enterprise fund, the School Nutrition Fund.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change 2003-04
	2004	2003	2004	2003	2004	2003	
Current and other assets	\$ 8,375,244	16,539,720	131,991	80,071	8,507,235	16,619,791	-48.81%
Capital assets	16,991,279	6,989,574	110,780	128,567	17,102,059	7,118,141	140.26%
Total assets	25,366,523	23,529,294	242,771	208,638	25,609,294	23,737,932	7.88%
Long-term obligations	14,771,147	13,611,884	0	0	14,771,147	13,611,884	8.52%
Other liabilities	4,155,897	4,582,808	8,290	12,103	4,164,187	4,594,911	-9.37%
Total liabilities	18,927,044	18,194,692	8,290	12,103	18,935,334	18,206,795	4.00%
Net assets:							
Invested in capital assets, net of related debt	3,982,415	(6,672,028)	110,780	128,567	4,093,195	(6,543,461)	-162.55%
Restricted	1,246,206	10,833,196	0	0	1,246,206	10,833,196	-88.50%
Unrestricted	1,210,858	1,173,434	123,701	67,968	1,334,559	1,241,402	7.50%
Total net assets	\$ 6,439,479	5,334,602	234,481	196,535	6,673,960	5,531,137	20.66%

The District's combined net assets increased by 21% or approximately \$1,142,823 over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of 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 \$9,586,990 or 88.5 percent over the prior year. The decrease was primarily a result of increases expenditures in the Capital Projects Fund.

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 requirements-increased \$93,157 or 7.5 percent. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

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

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2004	2003	2004	2003	2004	2003	2003-04
Revenues:							
Program revenues:							
Charges for services	\$ 1,105,731	1,154,452	309,101	278,393	1,414,832	1,432,845	-1.26%
Operating grants and contributions and restricted interest	1,864,915	1,400,471	324,044	296,662	2,188,959	1,697,133	28.98%
Capital grants and contributions and restricted interest	632,932	0	0	0	632,932	0	100.00%
General revenues:							
Local tax	4,586,430	4,112,321	0	0	4,586,430	4,112,321	11.53%
Unrestricted state grants	5,399,217	5,368,867	0	0	5,399,217	5,368,867	0.57%
Other	364,400	280,115	878	1,346	365,278	281,461	29.78%
Total revenues	13,953,625	12,316,226	634,023	576,401	14,587,648	12,892,627	13.15%
Program expenses:							
Governmental activities:							
Instructional	8,367,201	7,453,199	0	0	8,367,201	7,453,199	12.26%
Support services	2,756,146	2,736,891	0	0	2,756,146	2,736,891	0.70%
Non-instructional programs	0	0	596,077	620,310	596,077	620,310	-3.91%
Other expenses	1,725,401	2,737,468	0	0	1,725,401	2,737,468	-36.97%
Total expenses	12,848,748	12,927,558	596,077	620,310	13,444,825	13,547,868	-0.76%
Changes in net assets	1,104,877	(611,332)	37,946	(43,909)	1,142,823	(655,241)	-274.41%
Net assets beginning of year	5,334,602	5,945,934	196,535	240,444	11,477,071	6,382,913	79.81%
Net assets end of year	\$ 6,439,479	5,334,602	234,481	196,535	12,619,894	5,727,672	120.33%

Property tax and unrestricted state grants account for 68% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 83% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$13,953,625 and expenses were \$13,734,559.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 8,367,201	5,859,951
Support services	2,756,146	2,714,230
Other expenses	1,725,401	670,989
Totals	\$ 12,848,748	9,245,170

- The cost financed by users of the District's programs was \$1,105,731.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,864,915.

-
- The net cost of governmental activities was financed with \$4,586,430 in local tax, \$5,399,217 in unrestricted state grants, and \$135,906 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$634,023 and expenses were \$596,077. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Creston 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 \$4,319,073, below last year's ending fund balances of a \$12,063,514. However, the primary reason for the decrease was the increased expenditures in the Capital Projects Fund.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors. Increase in the tax levy during the year resulted in an increase in revenues. The increase in revenues was more than the increase in General Fund expenditures ensuring increase in the financial position of the District.
- The Management, and Activity Fund combined balance decreased from \$295,562 in 2003, to \$294,558 in 2004, due to the increase in expenditures in both funds.
- The Physical Plant and Equipment Levy (PPEL) fund balance increased from \$699,636 to \$901,231, due to an increase in local tax and a decrease in total expenditures for the year.
- The Capital Projects fund balance decreased during the current year, from \$9,754,097 to \$1,703,471. This was a result of an increase in expenditures.
- The Debt Service fund balance decreased from \$1,810 to (\$2,609). This was a result of increased expenditures.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$196,535 at June 30, 2003 to \$234,481 at June 30, 2004, representing an increase of approximately 19%. For fiscal 2004, the District increased meal prices, resulting in increased revenues.

BUDGETARY HIGHLIGHTS

The District's revenues were \$311,347 less than budgeted revenues, a variance of 2%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund

spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget exceeded in the other expenditures functional areas due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$17.1 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 140% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$460,376.

The original cost of the District's capital assets was \$23,116,418. Governmental funds account for \$22,803,385 with \$313,033 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$10,547,649 at June 30, 2004, compared to \$1,165,640 reported at June 30, 2003. This increase resulted from the progress made on the new elementary school and middle school addition.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2004	2003	2004	2003	2004	2003	2003-04
Land	\$ 340,140	340,140	0	0	340,140	340,140	0.00%
Construction in progress	10,547,649	1,165,640	0	0	10,547,649	1,165,640	804.88%
Buildings	5,680,549	4,833,496	0	0	5,680,549	4,833,496	17.52%
Improvements other than buildings	76,458	114,512	0	0	76,458	114,512	-33.23%
Machinery and equipment	346,483	535,786	110,780	128,567	457,263	664,353	-31.17%
Total	\$ 16,991,279	6,989,574	110,780	128,567	17,102,059	7,118,141	140.26%

Long-Term Debt

At June 30, 2004, the District had long-term debt outstanding of \$14,771,147 in general obligation bonds, and early retirement. This represents a increase of approximately 8.5% 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 \$14,610,000 at June 30, 2004.

The District also had total outstanding early retirement payable of \$161,147 at June 30, 2004.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
General obligation bonds	\$ 14,610,000	13,555,000	7.8%
Early retirement	161,147	56,884	183.3%
Total	<u>\$ 14,771,147</u>	<u>13,611,884</u>	<u>8.5%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Although the District has experienced declining enrollment for a few years, the District expects a slight increase in enrollment.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Donald M. Krings, District Business Manager, Creston Community School District, 619 N Maple, Creston, Iowa, 50801.

BASIC FINANCIAL STATEMENTS

CRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 3,563,139	109,072	3,672,211
Receivables:			
Property tax:			
Delinquent	182,006	0	182,006
Succeeding year	3,715,105	0	3,715,105
Accounts	0	502	502
Accrued interest	2,609	0	2,609
Due from other governments	912,385	0	912,385
Inventories	0	22,417	22,417
Capital assets, net of accumulated depreciation(Note 5)	16,991,279	110,780	17,102,059
TOTAL ASSETS	25,366,523	242,771	25,609,294
LIABILITIES			
Accounts payable	165,977	1,807	167,784
Interest payable	99,726	0	99,726
Deferred revenue:			
Succeeding year property tax	3,715,105	0	3,715,105
Other	0	6,483	6,483
Due to other governments	175,089	0	175,089
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds	460,000	0	460,000
Early retirement	70,128	0	70,128
Portion due after one year:			
General obligation bonds	14,150,000	0	14,150,000
Early retirement	91,019	0	91,019
TOTAL LIABILITIES	18,927,044	8,290	18,935,334
NET ASSETS			
Investment in capital assets, net of related debt	3,982,415	110,780	4,093,195
Restricted for:			
Early intervention	122,849	0	122,849
Talented and gifted	69,255	0	69,255
Teacher quality	356	0	356
Success 4	3,667	0	3,667
Wellness	15,437	0	15,437
Physical plant & equipment levy	901,231	0	901,231
Management levy	40,528	0	40,528
Other special revenue purposes	92,883	0	92,883
Unrestricted	1,210,858	123,701	1,334,559
TOTAL NET ASSETS	\$ 6,439,479	234,481	6,673,960
TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS	\$ 25,366,523	242,771	25,609,294

SEE NOTES TO FINANCIAL STATEMENTS.

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	\$ 4,692,525	281,473	1,401,519	0
Special instruction	2,469,309	262,629	0	0
Other instruction	1,205,367	561,629	0	0
	8,367,201	1,105,731	1,401,519	0
Support services:				
Student services	268,392	0	0	0
Instructional staff services	296,910	0	0	0
Administration services	953,954	0	0	0
Operation and maintenance of plant services	739,853	0	41,916	0
Transportation services	389,732	0	0	0
Central support services	107,305	0	0	0
	2,756,146	0	41,916	0
Other expenditures:				
Facilities acquisitions	345,301	0	0	632,932
Long-term debt interest	638,000	0	0	0
AEA flowthrough	421,480	0	421,480	0
Depreciation (unallocated) *	320,620	0	0	0
	1,725,401	0	421,480	632,932
Total governmental activities	12,848,748	1,105,731	1,864,915	632,932
Business-Type activities:				
Non-instructional programs:				
Nutrition services	596,077	309,101	324,044	0
Total business-type activities	596,077	309,101	324,044	0
Total	\$ 13,444,825	1,414,832	2,188,959	632,932

General Revenues:

Property tax levied for:
 General purposes
 Debt services
 Capital outlay
 LOSST
 Unrestricted state grants
 Unrestricted investment earnings
 Sale of real property
 Sale of equipment

Total general revenues

Changes in net assets

Net assets beginning of year

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(3,009,533)	0	(3,009,533)
(2,206,680)	0	(2,206,680)
(643,738)	0	(643,738)
(5,859,951)	0	(5,859,951)
(268,392)	0	(268,392)
(296,910)	0	(296,910)
(953,954)	0	(953,954)
(697,937)	0	(697,937)
(389,732)	0	(389,732)
(107,305)	0	(107,305)
(2,714,230)	0	(2,714,230)
287,631	0	287,631
(638,000)	0	(638,000)
0	0	0
(320,620)	0	(320,620)
(670,989)	0	(670,989)
(9,245,170)	0	(9,245,170)
0	37,068	37,068
0	37,068	37,068
(9,245,170)	37,068	(9,208,102)
\$ 2,931,282	0	2,931,282
484,673	0	484,673
271,081	0	271,081
899,394	0	899,394
5,399,217	0	5,399,217
135,906	878	136,784
228,294	0	228,294
200	0	200
10,350,047	878	10,350,925
1,104,877	37,946	1,142,823
5,334,602	196,535	5,531,137
\$ 6,439,479	234,481	6,673,960

CRESTON COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Physical Plant and Equipment Levy	Capital Projects	Other Governmental Funds	Total
ASSETS					
Cash and pooled investments	\$ 1,270,069	896,751	1,112,322	283,997	3,563,139
Receivables:					
Property tax					
Delinquent	46,610	3,993	123,451	7,952	182,006
Succeeding year	2,863,980	270,658	0	580,467	3,715,105
Interfund	0	0	632,932	0	632,932
Accrued interest	1,379	487	743	0	2,609
Due from other governments	279,453	632,932	0	0	912,385
TOTAL ASSETS	\$ 4,461,491	1,804,821	1,869,448	872,416	9,008,176
LIABILITIES AND FUND BALANCES					
Liabilities:					
Interfund payable	\$ 0	632,932	0	0	632,932
Accounts payable	0	0	165,977	0	165,977
Deferred revenue:					
Succeeding year property tax	2,863,980	270,658	0	580,467	3,715,105
Due to other governments	175,089	0	0	0	175,089
Total liabilities	3,039,069	903,590	165,977	580,467	4,689,103
Fund balances:					
Reserved for:					
Early intervention	122,849	0	0	0	122,849
Talented and gifted	69,255	0	0	0	69,255
Teacher quality	356	0	0	0	356
Success 4	3,667	0	0	0	3,667
Wellness	15,437	0	0	0	15,437
Other	4,771	0	0	0	4,771
Unreserved:					
Designated for special purpose	99,031	0	0	0	99,031
Undesignated	1,107,056	901,231	1,703,471	291,949	4,003,707
Total fund balances	1,422,422	901,231	1,703,471	291,949	4,319,073
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,461,491	1,804,821	1,869,448	872,416	9,008,176

SEE NOTES TO FINANCIAL STATEMENTS.

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

Total fund balances of governmental funds (page 17)	\$ 4,319,073
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	16,991,279
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.	(99,726)
Long-term liabilities, including bonds payable and early retirement are not due and payable in the current period and, are not reported as liabilities in the governemetal funds.	<u>(14,771,147)</u>
Net assets of governmental activites (page 14)	\$ <u>6,439,479</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Physical Plant and Equipment Levy	Capital Projects	Other Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 2,881,079	271,081	0	534,876	3,687,036
IOSST	0	0	899,394	0	899,394
Tuition	544,102	0	0	0	544,102
Other	174,110	46,335	115,368	361,722	697,535
State sources	6,252,276	206	0	410	6,252,892
Federal sources	1,011,240	632,932	0	0	1,644,172
Total revenues	10,862,807	950,554	1,014,762	897,008	13,725,131
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	4,560,759	5,322	0	0	4,566,081
Special instruction	2,434,811	0	0	0	2,434,811
Other instruction	824,044	0	0	349,483	1,173,527
	7,819,614	5,322	0	349,483	8,174,419
Support services:					
Student services	264,642	0	0	0	264,642
Instructional staff services	274,942	0	0	0	274,942
Administration services	940,627	0	0	0	940,627
Operation and maintenance of plant services	618,456	60,370	0	31,477	710,303
Transportation services	338,905	20,137	0	0	359,042
Central support services	74,328	0	0	31,478	105,806
	2,511,900	80,507	0	62,955	2,655,362
Other expenditures:					
Facilities acquisitions	0	258,492	10,598,437	0	10,856,929
Long-term debt:					
Principal	0	0	0	445,000	445,000
Interest and fiscal charges	0	0	0	644,876	644,876
AEA flowthrough	421,480	0	0	0	421,480
	421,480	258,492	10,598,437	1,089,876	12,368,285
Total expenditures	10,752,994	344,321	10,598,437	1,502,314	23,198,066
Excess (deficiency) of revenues over (under) expenditures	109,813	606,233	(9,583,675)	(605,306)	(9,472,935)
Other financing sources (uses):					
Sale of bonds	0	0	1,500,000	0	1,500,000
Transfers in	0	0	632,932	599,883	1,232,815
Transfers out	0	(632,932)	(599,883)	0	(1,232,815)
Sale of equipment	200	0	0	0	200
Sale of real property	0	228,294	0	0	228,294
Total other financing sources (uses)	200	(404,638)	1,533,049	599,883	1,728,494
Net change in fund balances	110,013	201,595	(8,050,626)	(5,423)	(7,744,441)
Fund balance beginning of year	1,312,409	699,636	9,754,097	297,372	12,063,514
Fund balance end of year	\$ 1,422,422	901,231	1,703,471	291,949	4,319,073

SEE NOTES TO FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds (page 19) \$ (7,744,441)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are 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	\$ 10,599,787	
Depreciation expense	(440,876)	10,158,911

The cost of the fixed assets below the District's capitalization threshold was removed from the capital assets account in the Statement of Net Assets and the "loss on disposal of fixed assets" due to reclassification is reported within the government-type expenses. (157,206)

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. 445,000

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. 6,876

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 (104,263)

Proceeds of long-term debt provide current financial resources to governmental funds but increase long-term liabilities in the Statement of Net Assets. (1,500,000)

Changes in net assets of governmental activities (page 16) \$ 1,104,877

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2004

	School Nutrition
ASSETS	
Cash and cash equivalents	\$ 109,072
Accounts receivable	502
Inventories	22,417
Capital assets, net of accumulated depreciation	110,780
TOTAL ASSETS	<u>242,771</u>
LIABILITIES	
Accounts payable	1,807
Deferred revenues	6,483
TOTAL LIABILITES	<u>8,290</u>
NET ASSETS	
Invested in capital assets, net of related debt	110,780
Unrestricted	123,701
TOTAL NET ASSETS	<u>\$ 234,481</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Other local sources:	
Sale of lunches and breakfasts:	
Students	\$ 181,367
Adults	12,494
A la carte	75,085
Miscellaneous	40,155
TOTAL OPERATING REVENUES	309,101
OPERATING EXPENSES:	
Food service operations:	
Salaries	255,870
Benefits	41,881
Services	28,459
Supplies	248,690
Depreciation	19,500
TOTAL OPERATING EXPENSES	594,400
OPERATING LOSS	(285,299)
NON-OPERATING REVENUES (EXPENSES):	
Loss on disposal of assets	(1,677)
Interest	878
State sources	8,149
Federal sources	315,895
TOTAL NON-OPERATING REVENUES	323,245
Net income	37,946
Retained earnings at beginning of year	196,535
Retained earnings end of year	\$ 234,481

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 262,984
Cash received from miscellaneous operating activities	40,155
Cash payments to employees for services	(297,751)
Cash payments to suppliers for goods or services	(225,812)
Net cash used in operating activities	(220,424)
Cash flows from non-capital financing activities:	
State grants received	8,149
Federal grants received	280,184
Net cash provided by non-capital financing activities	288,333
Cash flows from investing activities:	
Interest on investments	878
Net cash provided by investing activities	878
Cash flows from capital financing activities:	
Purchase of assets	(3,390)
Net cash used by financing activities	(3,390)
Net increase in cash and cash equivalents	65,397
Cash and cash equivalents at beginning of year	43,675
Cash and cash equivalents at end of year	\$ 109,072
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (285,299)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	35,711
Depreciation	19,500
Decrease in inventories	13,819
Increase in accounts receivable	(342)
Increase in accounts payable	1,807
Decrease in deferred revenue	(5,620)
Net cash used in operating activities	\$ (220,424)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 109,072
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
During the year ended June 30, 2004, the District received Federal commodities valued at \$35,711.	

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

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

The Creston 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 Creston, Iowa, and the predominate agricultural territory in Adams, Ringgold and Union Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

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

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Adams, Ringgold and Union 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 utilized to account for local option sales and service tax revenues and capital improvement expenditures.

The Special Revenue - Physical Plant and Equipment Levy (PPEL) Fund is used to account for resources used in building improvements and equipment purchases.

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to

customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

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

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

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

Asset Class	Amount
Land	\$ 2,500
Buildings	2,500
Improvements other than buildings	2,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,500

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

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

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

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

Long-term liabilities - In the government-wide financial statements, long-term debt and other long-term obligations

are reported as liabilities in the governmental activities column in the Statement of Net Assets.

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements in the other expenditures program area exceeded the amount budgeted.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$4,295,818 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2004 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital projects	PPEL	\$ 632,932

The PPEL Fund is paying the Capital Projects Fund for federal money received after the end of the year. The balance will be repaid by June 30, 2005.

(4) Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	\$ 599,883

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

(5) Capital Assets

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

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 340,140	0	0	340,140
Construction in progress	1,165,640	9,382,009	0	10,547,649
Total capital assets not being depreciated	1,505,780	9,382,009	0	10,887,789
Capital assets being depreciated:				
Buildings	8,674,789	1,131,425	0	9,806,214
Land improvements	622,639	0	21,899	600,740
Machinery and equipment	2,281,618	86,353	859,329	1,508,642
Total capital assets being depreciated	11,579,046	1,217,778	881,228	11,915,596
Less accumulated depreciation for:				
Buildings	3,841,293	284,372	0	4,125,665
Land improvements	508,127	36,248	20,093	524,282
Machinery and equipment	1,745,832	120,256	703,929	1,162,159
Total accumulated depreciation	6,095,252	440,876	724,022	5,812,106
Total capital assets being depreciated, net	5,483,794	776,902	157,206	6,103,490
Governmental activities capital assets, net	\$ 6,989,574	10,158,911	157,206	16,991,279

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Business-type activities:				
Machinery and equipment	\$ 339,973	3,390	30,330	313,033
Less accumulated depreciation	211,406	19,500	28,653	202,253
Business-type activities capital assets, net	\$ 128,567	(16,110)	1,677	110,780

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 1,324
Other		15,000
Support services:		
Instructional staff services		17,820
Operation and maintenance of plant services		20,917
Transportation		65,195
		<u>120,256</u>
Unallocated depreciation		<u>320,620</u>
Total governmental activities depreciation expense		<u>\$ 440,876</u>
Business-type activities:		
Food services		<u>\$ 19,500</u>

(6) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation	\$ 13,555,000	1,500,000	445,000	14,610,000	460,000
Early retirement	56,884	156,147	51,884	161,147	70,128
Total	<u>\$ 13,611,884</u>	<u>1,656,147</u>	<u>496,884</u>	<u>14,771,147</u>	<u>530,128</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-nine and must have completed twenty-four years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. Early retirement incentives for each eligible employee is equal to the difference between the employees annual full-time salary and the annual full-time salary for Step 3 of BA lane on the 2004-2005 salary schedule. Early retirement benefits paid during the year ended June 30, 2004, totaled 51,884. A liability has been recorded in the Government-wide financial statements representing the District's commitment to fund non-current early retirement.

General Obligation

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

Year Ending June 30,	Bond Issue of June 1, 2000			Bond Issue of April 1, 2003			Bond Issue of March 1, 2004		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2005	5.20% \$	320,000	43,940	1.50% \$	105,000	6,528	-	-	48,525
2006	5.20	340,000	27,300	1.85	125,000	4,952	1.55%	130,000	41,593
2007	5.20	185,000	9,620	2.20	120,000	2,640	1.90	135,000	39,578
2008	-	-	-	-	-	-	2.15	140,000	37,013
2009	-	-	-	-	-	-	2.40	140,000	34,003
2010	-	-	-	-	-	-	2.75	145,000	30,643
2011	-	-	-	-	-	-	2.95	150,000	26,655
2012	-	-	-	-	-	-	3.20	155,000	22,230
2013	-	-	-	-	-	-	3.30	160,000	17,270
2014	-	-	-	-	-	-	3.45	170,000	11,990
2015	-	-	-	-	-	-	3.50	175,000	6,125
2016	-	-	-	-	-	-	-	-	-
2017	-	-	-	-	-	-	-	-	-
2018	-	-	-	-	-	-	-	-	-
2019	-	-	-	-	-	-	-	-	-
2020	-	-	-	-	-	-	-	-	-
2021	-	-	-	-	-	-	-	-	-
2022	-	-	-	-	-	-	-	-	-
2023	-	-	-	-	-	-	-	-	-
Total		\$ 845,000	80,860		\$ 350,000	14,120		1,500,000	315,622

Year Ending June 30,	Bond Issue of May 1, 2003			Bond Issue of May 1, 2003			Total	
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest
2005	3.50% \$	10,000	482,190	5.00% \$	25,000	90,930	\$ 460,000	672,113
2006	4.00	5,000	481,840	5.00	10,000	89,680	610,000	645,365
2007	4.00	120,000	481,640	5.00	75,000	89,180	635,000	622,658
2008	5.00	455,000	476,840	5.00	65,000	85,430	660,000	599,283
2009	5.00	480,000	454,090	5.20	70,000	82,050	690,000	570,143
2010	5.25	500,000	430,090	5.20	80,000	78,410	725,000	539,143
2011	5.25	530,000	403,840	5.20	80,000	74,250	760,000	504,745
2012	5.25	555,000	376,015	5.20	85,000	70,090	795,000	468,335
2013	4.40	580,000	346,877	3.75	90,000	65,670	830,000	429,817
2014	4.50	610,000	321,357	3.90	95,000	62,295	875,000	395,642
2015	4.60	635,000	293,907	4.00	100,000	58,590	910,000	358,622
2016	4.75	670,000	264,698	4.10	100,000	54,590	770,000	319,288
2017	4.80	695,000	232,872	4.20	110,000	50,490	805,000	283,362
2018	4.88	730,000	199,513	4.30	110,000	45,870	840,000	245,383
2019	4.90	770,000	163,925	4.40	110,000	41,140	880,000	205,065
2020	4.90	805,000	126,195	4.40	120,000	36,300	925,000	162,495
2021	5.00	845,000	86,750	4.40	125,000	31,020	970,000	117,770
2022	5.00	890,000	44,500	4.40	130,000	25,520	1,020,000	70,020
2023	-	-	-	4.40	450,000	19,800	450,000	19,800
Total		\$ 9,885,000	5,667,139		\$ 2,030,000	1,151,305	\$ 14,610,000	7,229,046

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$418,678, \$420,069, and \$414,572 respectively, equal to the required contributions for each year.

(8) Risk Management

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

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

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$731,895.

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

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

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has

given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

Creston 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 \$421,480 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2004, disbursements in the other expenditures functional program area exceeded the amount budgeted.

(11) Construction Commitments

The District entered into various contract totaling \$11,165,727 for a new elementary school and middle school addition. At June 30, 2004, \$10,547,649 of the contracts were completed. The remaining amounts of the contracts will be paid as work on the project progresses.

REQUIRED SUPPLEMENTAL INFORMATION

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

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 5,731,331	304,017
State sources	6,232,762	8,149
Federal sources	1,080,859	315,895
Total receipts	<u>13,044,952</u>	<u>628,061</u>
Disbursements:		
Instruction	8,443,353	0
Support services	2,646,271	0
Non-instructional programs	9,094	562,664
Other expenditures	12,565,482	0
Total disbursements	<u>23,664,200</u>	<u>562,664</u>
Excess(deficiency) of receipts over(under) disbursements	(10,619,248)	65,397
Other financing sources, net	<u>1,728,494</u>	0
Excess(deficiency) of receipts and other financing sources over(under) disbursements	(8,890,754)	65,397
Balance beginning of year	<u>12,453,893</u>	<u>43,675</u>
Balance end of year	<u>\$ 3,563,139</u>	<u>109,072</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
6,035,348	6,423,316	6,423,316	(387,968)
6,240,911	6,641,044	6,641,044	(400,133)
1,396,754	920,000	920,000	476,754
13,673,013	13,984,360	13,984,360	(311,347)
8,443,353	9,126,070	9,126,070	682,717
2,646,271	3,388,468	3,388,468	742,197
571,758	654,000	654,000	82,242
12,565,482	12,073,116	12,073,116	(492,366)
24,226,864	25,241,654	25,241,654	1,014,790
(10,553,851)	(11,257,294)	(11,257,294)	703,443
1,728,494	10,000	10,000	1,748,494
(8,825,357)	(11,247,294)	(11,247,294)	2,451,937
12,497,568	12,194,551	12,194,551	303,017
3,672,211	947,257	947,257	2,754,954

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

	Governmental Fund Types		
	Cash Basis	Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 13,044,952	680,179	13,725,131
Expenses	23,664,200	(466,134)	23,198,066
Net	(10,619,248)	1,146,313	(9,472,935)
Other financing sources, net	1,728,494	0	1,728,494
Beginning fund balances	12,453,893	(390,379)	12,063,514
Ending fund balances	\$ 3,563,139	755,934	4,319,073

	Proprietary Fund Type		
	Cash Basis	Enterprise Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 628,061	5,962	634,023
Expenses	562,664	33,413	596,077
Net	65,397	(27,451)	37,946
Beginning retained earnings	43,675	152,860	196,535
Ending retained earnings	\$ 109,072	125,409	234,481

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

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

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

During the year ended June 30, 2004, disbursements in the other expenditures area exceeded the amounts budgeted.

OTHER SUPPLEMENTAL INFORMATION

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

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Total Special Revenue	Debt Service	
ASSETS					
Cash and pooled investments	\$ 200,863	92,883	293,746	(9,749)	283,997
Receivables:					
Property tax:					
Current year delinquent	812	0	812	7,140	7,952
Succeeding year	70,000	0	70,000	510,467	580,467
TOTAL ASSETS	\$ 271,675	92,883	364,558	507,858	872,416
LIABILITIES AND FUND EQUITY					
Liabilities:					
Deferred revenue:					
Succeeding year property tax	\$ 70,000	0	70,000	510,467	580,467
	70,000	0	70,000	510,467	580,467
Fund equity:					
Fund balances:					
Unreserved:					
Undesignated	201,675	92,883	294,558	(2,609)	291,949
Total fund balances	201,675	92,883	294,558	(2,609)	291,949
TOTAL LIABILITIES AND FUND EQUITY	\$ 271,675	92,883	364,558	507,858	872,416

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue				Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Total Special Revenue	Debt Service	
REVENUES:					
Local sources:					
Local tax	\$ 50,203	0	50,203	484,673	534,876
Other	1,965	359,225	361,190	532	361,722
State sources	41	0	41	369	410
TOTAL REVENUES	52,209	359,225	411,434	485,574	897,008
EXPENDITURES:					
Current:					
Instruction:					
Other instruction	0	349,483	349,483	0	349,483
Support services:					
Operation and maintenance of plant services	31,477	0	31,477	0	31,477
Central support services	31,478	0	31,478	0	31,478
	62,955	0	62,955	0	62,955
Other expenditures:					
Long-term debt:					
Principal	0	0	0	445,000	445,000
Interest and fiscal charges	0	0	0	644,876	644,876
	0	0	0	1,089,876	1,089,876
TOTAL EXPENDITURES	62,955	349,483	412,438	1,089,876	1,502,314
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(10,746)	9,742	(1,004)	(604,302)	(605,306)
Other financing sources:					
Operating transfers in	0	0	0	599,883	599,883
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(10,746)	9,742	(1,004)	(4,419)	(5,423)
Fund balance beginning of year	212,421	83,141	295,562	1,810	297,372
Fund balance end of year	\$ 201,675	92,883	294,558	(2,609)	291,949

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Thespians	\$ 1,008	2,260	2,877	391
Speech	12	2,114	2,119	7
Vocal	3,093	5,486	8,432	147
Frosh-Soph festival	973	148	507	614
Band	23	15,858	15,840	41
Band uniforms	2,946	19,993	5,748	17,191
National honor society	19	488	487	20
Library	0	17	17	0
Industrial arts	0	302	302	0
Special olympics	49	1,639	1,646	42
Boys basketball	301	11,984	12,206	79
Football	55	18,715	18,769	1
Special football	2,698	5,104	3,814	3,988
Baseball	2	7,125	7,058	69
Boys track	102	4,084	4,127	59
Cross country	39	4,232	4,210	61
Tennis	17	1,168	1,164	21
Golf	13	3,492	3,472	33
Wrestling	60	10,367	10,409	18
Girls basketball	567	6,968	7,511	24
Volleyball	1,530	7,004	6,305	2,229
Softball	314	5,756	5,735	335
Girls track	66	2,224	2,289	1
Soccer	5	4,295	4,272	28
Middle school	40	3,841	2,122	1,759
Elementary library	1,143	0	0	1,143
Alternative school	1,258	7	0	1,265
Alumni	4,639	0	690	3,949
Class of 04	3,241	33	1	3,273
Class of 05	1,005	7,419	5,069	3,355
Class of 06	0	220	100	120
Class of 07	0	91	0	91
Student government	1,393	6,899	5,596	2,696
Trees	6,367	7,000	5,910	7,457
SADD	5,119	15,121	20,200	40
Peppers	809	6,920	5,053	2,676
Cheerleaders	721	6,216	6,867	70
Y-Teens	50	0	0	50
Big sister/little sister	1,510	0	0	1,510
FFA general account	1,449	8,924	9,334	1,039
FFA fruit	7,365	20,560	13,057	14,868
FFA livestock	398	0	300	98
FFA special projects	4,259	3,288	4,428	3,119
FFA juice machine	809	298	0	1,107
FHA	13	1,012	273	752
Spanish club	36	0	0	36
Crest/yearbook	14,075	11,127	23,713	1,489
Student pop machine	1	0	0	1
Teachers lounge	1,886	0	0	1,886
JDC	20	4	(17)	41
Towel fund	83	459	497	45
Concessions	90	5,805	5,362	533
Activity accounts	1,789	103,943	102,841	2,891
Activity maintenance	1	0	(144)	145
Interest	47	723	0	770
Administrative account	752	2,533	3,189	96
Coca Cola achievement	0	642	0	642
Capital improvements	(746)	27	0	(719)
Hawkeye 10 conference	9,627	5,290	5,726	9,191
Total	\$ 83,141	359,225	349,483	92,883

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 4,586,430	4,112,321	3,421,706	3,417,696
Tuition	544,102	691,682	650,950	631,171
Other	697,535	742,885	619,216	613,713
State sources	6,252,892	6,281,847	5,872,888	5,880,321
Federal sources	1,644,172	487,491	442,850	435,752
Total	\$ 13,725,131	12,316,226	11,007,610	10,978,653
Expenditures:				
Instruction:				
Regular instruction	\$ 4,566,081	4,362,639	4,386,977	4,142,288
Special instruction	2,434,811	2,081,776	2,083,865	1,976,258
Other instruction	1,173,527	1,053,002	989,479	984,723
Support services:				
Student services	264,642	265,203	269,359	256,948
Instructional staff services	274,942	218,851	204,261	190,255
Administration services	940,627	902,311	856,941	794,755
Operation and maintenance of plant services	710,303	797,819	673,828	618,577
Transportation services	359,042	342,906	313,243	328,913
Central support services	105,806	98,706	88,848	61,026
Non-instructional:				
Food service	0	0	1,152	941
Other expenditures:				
Facilities acquisitions	10,856,929	2,788,560	503,521	115,431
Long Term Debt:				
Principal	445,000	475,000	355,000	429,425
Interest	644,876	607,126	134,025	169,566
AEA flow-through	421,480	452,020	443,976	460,313
Total	\$ 23,198,066	14,445,919	11,304,475	10,529,419

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CRESTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2004

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION (non-cash)	10.550	FY 04	\$ 35,711
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 04	66,235
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 04	213,949
			280,184
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1503-G	276,047
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1503-GC	2,505
			278,552
MIGRANT EDUCATION - BASIC STATE GRANTS PROGRAM (TITLE I MIGRANTS)	84.011	FY 04	22,140
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)	84.298	FY 04	11,737
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 04	12,216
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 03	31,723
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 04	29,924
			61,647
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 04	8,712
FUNDS FOR THE IMPROVEMENT OF EDUCATION - (HARKIN GRANT)	84.215	FY 04	632,932

CRESTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2004

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC			
GRANTS TO STATES	84.048	FY 04	17,165
SPECIAL EDUCATION - GRANTS TO			
STATES(SUCCESS 4)	84.027	FY 03	2,622
SPECIAL EDUCATION - GRANTS TO			
STATES(SUCCESS 4)	84.027	FY 04	1,297
			3,919
SPECIAL EDUCATION - GRANTS TO			
STATES(PART B)	84.027	FY 04	63,531
DATA DRIVEN LEADERSHIP			
	84.348	FY 04	3,600
TOTAL			\$ 1,432,046

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Creston Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

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

To the Board of Education of the
Creston Community School District:

We have audited the financial statements of Creston Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated September 14, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved except for IV-A-04, and IV-B-04.

Internal Control Over Financial Reporting

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

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

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

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

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


NOLTE, CORNMAN & JOHNSON, P.C.

September 14, 2004

NOLTE, CORNMAN & JOHNSON P.C.

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Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance

To the Board of Education of
Creston Community School District

Compliance

We have audited the compliance of Creston Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Creston Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Creston Community School District's management. Our responsibility is to express an opinion on Creston Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Creston Community School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Creston Community School District's compliance with those requirements.

In our opinion, Creston Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Creston Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Creston Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

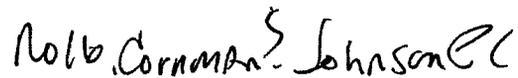
We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Creston Community School District's ability to administer a major

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federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described as item III-A-04 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulation, contracts and grants that would be material in relation to a major federal program 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 compliance 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 a material weaknesses. However, we believe item III-A-04 is a material weakness.

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


NOLTE, CORNMAN & JOHNSON, P.C.

September 14, 2004

CRESTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - Clustered
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - Individual
 - CFDA Number 84.215 - Funds for the Improvement of Education
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Creston Community School District did not qualify as a low-risk auditee.

CRESTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

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

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-04 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done 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.

II-B-04 Gate Admissions - The gate admissions were not reconciled to pre-numbered tickets.

Recommendation - The District should establish reconciliation procedures for gate admissions. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the admissions to the number of tickets issued.

Response - We will review our procedures.

Conclusion - Response accepted.

II-C-04 Student Activity Fund - We noted during our audit that the Student Activity fund included a towel fund, teachers lounge account, and administration account.

Recommendation - The receipts and expenditures made from this account appear to be more appropriately accounted for in the General fund. The District should review the transactions in this account and make the necessary transfers.

Response - We will make the necessary changes.

Conclusion - Response accepted.

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

Recommendation - Interest should be allocated out at year-end to various accounts.

Response - We will make the necessary changes.

Conclusion - Response accepted

II-E-04 District and Regional Rents - We noted during our audit that the district receives money for use of facilities when hosting district and regional events.

Recommendation - Chapter 297.9 of the code of Iowa requires rent to be receipted into the General Fund. The district should receipt rent collected for facility usage into the General Fund instead of the Activity Fund.

Response - We will make the necessary changes.

Conclusion - Response accepted.

CRESTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number 10.553: School Breakfast Program and
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2004
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.215: Funds for the Improvement of Education
Federal Award Year: 2004
U.S. Department of Agriculture
Passed through the Iowa Department of Education

III-A-04 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done 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.

CRESTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part IV: Other Findings Related to Statutory Reporting

IV-A-04 Official Depositories - A resolution naming official depositories has been approved by the Board. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2004.

Recommendation - The district should increase their depository limits.

Response - We will raise them in the future.

Conclusion - Response accepted.

IV-B-04 Certified Budget - District disbursements for the year ended June 30, 2004, exceeded the amount budgeted in the other disbursements functional area.

Recommendation-The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response- We will amend the budget if necessary in the future.

Conclusion- Response accepted.

IV-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

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

IV-E-04 Business Transactions – No business transactions between the District and District officials were noted.

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

IV-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response- We are providing the minutes within the time period required, however, we are unable to control the publishing dates.

Conclusion- Response accepted.

IV-H-04 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-I-04 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-J-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

IV-K-04 Financial Condition – During our audit we noted that the District had negative account balances in the Student Activity Fund, and a deficit fund balance in the Debt Service Fund.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficit.

Response - We will monitor these funds and investigate any available options to eliminate this deficit.

Conclusion- Response accepted