

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

JUNE 30, 2005

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Creston Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2004 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
Board of Education (After September 2004 Election)		
Rich Flynn	President	2006
Barb Wilmeth	Vice President	2005
Bobbie McFee	Board Member	2005
Robert Deranleau	Board Member	2007
Callie Bruce	Board Member	2006
School Officials		
Tim Hood	Superintendent	2005
Donald M. Krings	Business Manager	2005
Pat Moeller	District Treasurer	2005
Peter Pashler	Attorney	2005

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

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

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

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

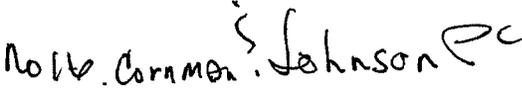
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Creston Community School District at June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

In accordance with Government Auditing Standards, we have also issued our reports dated September 27, 2005 on our consideration of Creston Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 38 through 41 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board.

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

Our audit was conducted for the purpose of forming 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, 2004 (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, Audits of States, Local Governments, and Non-Profit Organizations, 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 27, 2005

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, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$10,862,807 in fiscal 2004 to \$10,896,665 in fiscal 2005, while General Fund expenditures increased from \$10,752,994 in fiscal 2004 to \$11,007,761 in fiscal 2005. This resulted in a decrease in the District's General Fund balance from \$1,422,422 in fiscal 2004 to a balance of \$1,311,912 in fiscal 2005, a 7.8% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in state revenue in fiscal 2005. The increase in expenditures was due primarily to an increase in administration and operation and maintenance of plant services expenses.
- The District finished the new elementary/middle school project during fiscal 2005. This brought the fund balance of the Capital Projects to \$394,632 compared to \$1,703,471 the year before.
- School Nutrition Fund turned a profit of \$7,063 during the year, but with the contributed capital from the Physical Plant and Equipment Levy (PPEL) Fund of \$181,014, it allowed the fund balance to increase from \$234,481 to \$422,558. The PPEL Fund paid for the new kitchen equipment that was placed in the new school.

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.

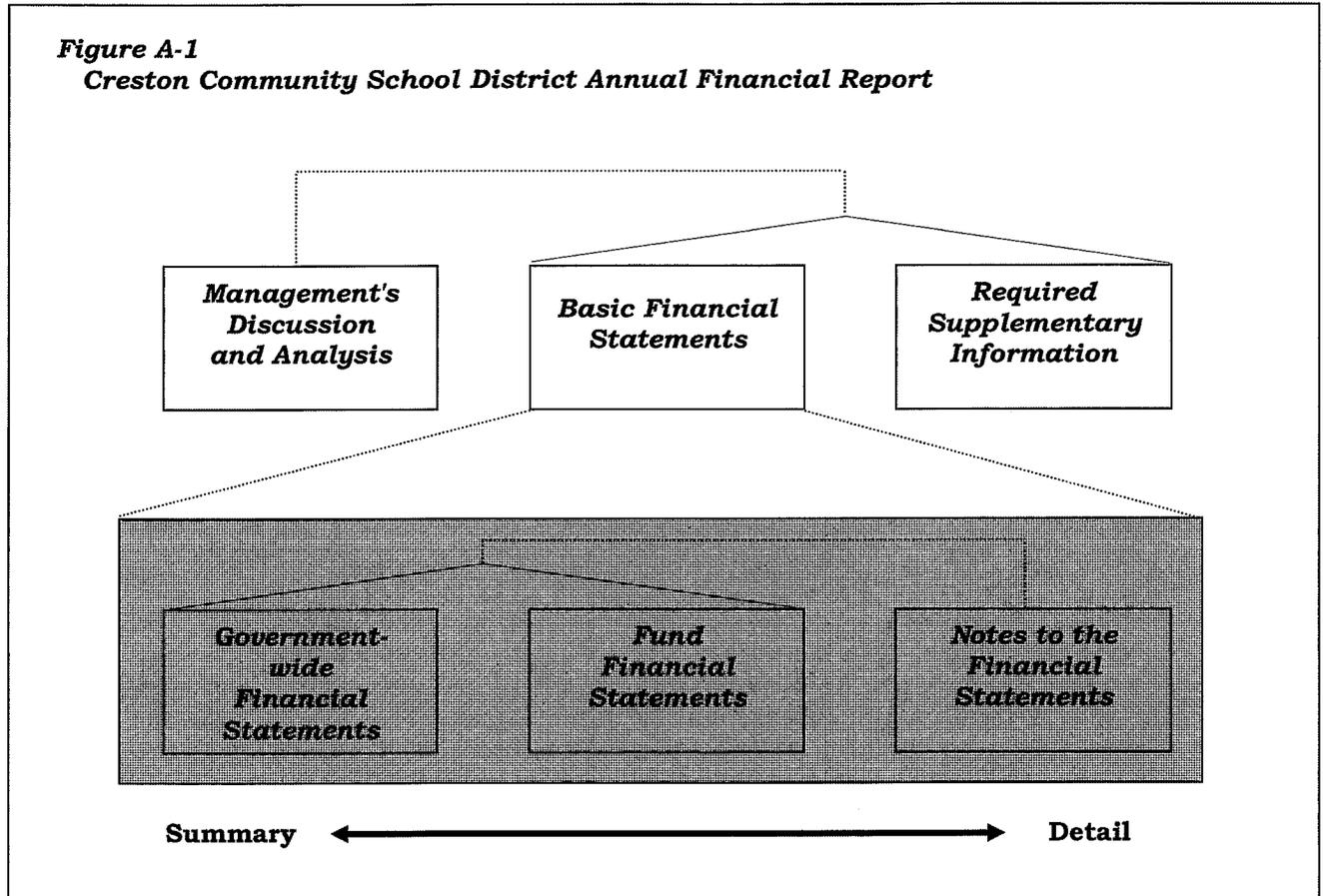


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • 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 revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service and Capital Projects 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 net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

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

- Agency Fund - These are funds for which the District administers and accounts for certain employee's cafeteria health insurance premiums and related expenditures.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Current and other assets	\$ 6,349,550	8,406,047	153,354	131,991	6,502,904	8,538,038	-23.84%
Capital assets	23,468,658	21,438,168	276,323	110,780	23,744,981	21,548,948	10.19%
Total assets	29,818,208	29,844,215	429,677	242,771	30,247,885	30,086,986	0.53%
Long-term obligations	14,481,710	14,771,147	0	0	14,481,710	14,771,147	-1.96%
Other liabilities	3,997,919	4,155,897	7,119	8,290	4,005,038	4,164,187	-3.82%
Total liabilities	18,479,629	18,927,044	7,119	8,290	18,486,748	18,935,334	-2.37%
Net assets:							
Invested in capital assets, net of related debt	9,980,813	8,429,305	276,323	110,780	10,257,136	8,540,085	20.11%
Restricted	339,438	1,277,008	0	0	339,438	1,277,008	-73.42%
Unrestricted	1,018,328	1,210,858	146,235	123,701	1,164,563	1,334,559	-12.74%
Total net assets	\$ 11,338,579	10,917,171	422,558	234,481	11,761,137	11,151,652	5.47%

The District's combined net assets increased by 5.47% or approximately \$609,485 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 \$937,570 or 73.42 percent over the prior year. The decrease was a result of reclassifying the Physical Plant and Equipment Levy fund balance to the invested in capital assets line to cover the related debt associated with the 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-decreased \$169,996 or 12.74 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, 2005.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Revenues:							
Program revenues:							
Charges for services	\$ 1,340,464	1,105,731	304,278	309,101	1,644,742	1,414,832	16.25%
Operating grants and contributions and restricted interest	1,551,076	1,864,915	364,563	324,044	1,915,639	2,188,959	-12.49%
Capital grants and contributions and restricted interest	0	632,932	0	0	0	632,932	100.00%
General revenues:							
Local tax	3,650,840	3,687,036	0	0	3,650,840	3,687,036	-0.98%
Local option sales and service tax	1,024,628	899,394	0	0	1,024,628	899,394	13.92%
Unrestricted state grants	5,815,229	5,399,217	0	0	5,815,229	5,399,217	7.71%
Other	69,887	364,400	900	878	70,787	365,278	-80.62%
Total revenues	13,452,124	13,953,625	669,741	634,023	14,121,865	14,587,648	-3.19%
Program expenses:							
Governmental activities:							
Instructional	7,720,096	8,367,201	0	0	7,720,096	8,367,201	-7.73%
Support services	3,575,226	2,756,146	0	0	3,575,226	2,756,146	29.72%
Non-instructional programs	0	0	662,678	596,077	662,678	596,077	11.17%
Other expenses	1,735,394	1,725,401	0	0	1,735,394	1,725,401	0.58%
Total expenses	13,030,716	12,848,748	662,678	596,077	13,693,394	13,444,825	1.85%
Net income before restatement and capital contributions	421,408	1,104,877	7,063	37,946	428,471	1,142,823	-62.51%
Capital asset restatement (Note 10)	0	4,477,692	0	0	0	4,477,692	-100.00%
Capital contributions	0	0	181,014	0	181,014	0	100.00%
	0	4,477,692	181,014	0	181,014	4,477,692	-95.96%
Change in net assets	421,408	5,582,569	188,077	37,946	609,485	5,620,515	-89.16%
Net assets beginning of year, as restated (Note 10)	10,917,171	5,334,602	234,481	196,535	11,151,652	5,531,137	101.62%
Net assets end of year	\$ 11,338,579	10,917,171	422,558	234,481	11,761,137	11,151,652	5.47%

Property tax, local option sales and service tax and unrestricted state grants account for 74% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 82% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$13,452,124 and expenses were \$13,030,716.

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	\$ 7,720,096	5,288,933
Support services	3,575,226	3,536,022
Other expenses	1,735,394	1,314,221
Totals	<u>\$ 13,030,716</u>	<u>10,139,176</u>

- The cost financed by users of the District’s programs was \$1,340,464.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,551,076.
- The net cost of governmental activities was financed with \$3,650,840 in local tax, \$1,024,628 in local option sales and service tax, \$5,815,229 in unrestricted state grants, and \$69,301 in interest income.

Business-Type Activities

Revenues of the District’s business-type activities were \$669,741 and expenses were \$662,678. 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. The School Nutrition also received \$181,014 in contributed capital from the PPEL Fund.

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 \$2,351,631, below last year’s ending fund balances of a \$4,349,875. However, the primary reason for the decrease was the increased expenditures in the Capital Projects Fund due to the completion of the elementary/middle school project.

Governmental Fund Highlights

- The District’s deteriorating General Fund financial position is the product of many factors. Increase in the state revenue during the year resulted in an increase in revenues. Normal increases in insurance and transportation and maintenance costs allowed for an increase in expenditures during the year. The increase in expenditures was more than the increase in revenues ensuring a decrease in the financial position of the District.
- The Physical Plant and Equipment Levy (PPEL) fund balance decreased from \$901,231 to \$374,375. This was a result of the increased expenditures, due to an purchases made for concrete work and playground equipment during the year.
- Due to the completion of the new elementary/middle school, the Capital Projects fund balance decreased during the current year, from \$1,703,471 to \$394 632.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$234,481 at June 30, 2004 to \$422,558 at June 30, 2005, representing an increase of approximately 80%. As discussed earlier, the increase in fund balance was due to the contributed capital from the PPEL Fund.

BUDGETARY HIGHLIGHTS

The District's revenues were \$1,400,017 less than budgeted revenues, a variance of 8.7%. 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.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$23,744,981, 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 10% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$731,343.

The original cost of the District's capital assets was \$30,479,778. Governmental funds account for \$29,971,691 with \$502,087 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the improvements other than buildings category. The District's improvements other than buildings totaled \$727,497 at June 30, 2005, compared to \$76,458 reported at June 30, 2004. This increase resulted from the purchases made for concrete work during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
	Land	\$ 340,140	340,140	0	0	340,140	340,140
Construction in progress	403,358	14,994,539	0	0	403,358	14,994,539	-97.31%
Buildings	21,732,285	5,680,549	0	0	21,732,285	5,680,549	282.57%
Improvements other than buildings	727,497	76,458	0	0	727,497	76,458	851.50%
Machinery and equipment	265,378	346,483	276,323	110,780	541,701	457,263	18.47%
Total	\$ 23,468,658	21,438,169	276,323	110,780	23,744,981	21,548,949	10.19%

Long-Term Debt

At June 30, 2005, the District had long-term debt outstanding of \$14,376,836 in general obligation bonds, capital loan notes and early retirement. This represents a decrease of approximately 2.7% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had total outstanding general obligation bonds payable of \$12,650,000 at June 30, 2005.

Capital loan notes were issued in March, 2004 in the amount of \$1,500,000. The first payment on these notes will be paid in FY06; therefore at June 30, 2005 the District still has \$1,500,000 as a liability.

The District also had total outstanding early retirement payable of \$226,836 at June 30, 2005.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2005	2004	
General obligation bonds	\$ 12,650,000	13,110,000	-3.5%
Capital loan notes	1,500,000	1,500,000	0.0%
Early retirement	226,836	161,147	40.8%
Total	<u>\$ 14,376,836</u>	<u>14,771,147</u>	<u>-2.7%</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:

- The District experienced a decline in enrollment again this year, which will affect the funding received from the state in the future..
- 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, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 2,062,658	131,132	2,193,790
Receivables:			
Property tax:			
Delinquent	65,709	0	65,709
Succeeding year	3,716,813	0	3,716,813
Accounts	0	628	628
Accrued interest	5,053	0	5,053
Due from other governments	499,317	0	499,317
Inventories	0	21,594	21,594
Capital assets, net of accumulated depreciation (Note 4)	23,468,658	276,323	23,744,981
TOTAL ASSETS	29,818,208	429,677	30,247,885
LIABILITIES			
Accounts payable	281,106	161	281,267
Interest payable	104,874	0	104,874
Deferred revenue:			
Succeeding year property tax	3,716,813	0	3,716,813
Other	0	6,958	6,958
Long-term liabilities (Note 5):			
Portion due within one year:			
General obligation bonds	480,000	0	480,000
Capital loan notes	130,000	0	130,000
Early retirement	151,165	0	151,165
Portion due after one year:			
General obligation bonds	12,170,000	0	12,170,000
Capital loan notes	1,370,000	0	1,370,000
Early retirement	75,671	0	75,671
TOTAL LIABILITIES	18,479,629	7,119	18,486,748
NET ASSETS			
Investment in capital assets, net of related debt	9,980,813	276,323	10,257,136
Restricted for:			
Early intervention	122,842	0	122,842
Talented and gifted	77,075	0	77,075
Teacher quality	3,893	0	3,893
Wellness	7,755	0	7,755
Other	4,679	0	4,679
Other special revenue purposes	123,194	0	123,194
Unrestricted	1,018,328	146,235	1,164,563
TOTAL NET ASSETS	\$ 11,338,579	422,558	11,761,137

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 4,514,941	241,080	1,014,031
Special instruction	1,689,582	176,638	82,134
Other instruction	1,515,573	917,280	0
	<u>7,720,096</u>	<u>1,334,998</u>	<u>1,096,165</u>
Support services:			
Student services	318,548	0	0
Instructional staff services	426,140	0	0
Administration services	1,204,908	0	0
Operation and maintenance of plant services	1,192,925	0	0
Transportation services	432,705	5,466	33,738
	<u>3,575,226</u>	<u>5,466</u>	<u>33,738</u>
Other expenditures:			
Facilities acquisitions	57,812	0	0
Long-term debt interest	679,060	0	0
AEA flowthrough	421,173	0	421,173
Depreciation(unallocated) *	577,349	0	0
	<u>1,735,394</u>	<u>0</u>	<u>421,173</u>
Total governmental activities	13,030,716	1,340,464	1,551,076
Business-Type activities:			
Non-instructional programs:			
Nutrition services	662,678	304,278	364,563
Total business-type activities	<u>662,678</u>	<u>304,278</u>	<u>364,563</u>
Total	<u>\$ 13,693,394</u>	<u>1,644,742</u>	<u>1,915,639</u>

General Revenues:

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

Total general revenues

Excess of revenues over expenses before capital contributions

Capital contributions

Changes in net assets

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

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(3,259,830)	0	(3,259,830)
(1,430,810)	0	(1,430,810)
(598,293)	0	(598,293)
<u>(5,288,933)</u>	<u>0</u>	<u>(5,288,933)</u>
(318,548)	0	(318,548)
(426,140)	0	(426,140)
(1,204,908)	0	(1,204,908)
(1,192,925)	0	(1,192,925)
(393,501)	0	(393,501)
<u>(3,536,022)</u>	<u>0</u>	<u>(3,536,022)</u>
(57,812)	0	(57,812)
(679,060)	0	(679,060)
0	0	0
(577,349)	0	(577,349)
<u>(1,314,221)</u>	<u>0</u>	<u>(1,314,221)</u>
(10,139,176)	0	(10,139,176)
0	6,163	6,163
<u>0</u>	<u>6,163</u>	<u>6,163</u>
<u>(10,139,176)</u>	<u>6,163</u>	<u>(10,133,013)</u>
\$ 2,922,846	0	2,922,846
475,745	0	475,745
252,249	0	252,249
1,024,628	0	1,024,628
5,815,229	0	5,815,229
69,301	900	70,201
586	0	586
<u>10,560,584</u>	<u>900</u>	<u>10,561,484</u>
421,408	7,063	428,471
0	181,014	181,014
421,408	188,077	609,485
<u>10,917,171</u>	<u>234,481</u>	<u>11,151,652</u>
<u>\$ 11,338,579</u>	<u>422,558</u>	<u>11,761,137</u>

CRESTON COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	Physical Plant and Equipment Levy	Capital Projects	Other Governmental Funds	Total
ASSETS					
Cash and pooled investments	\$ 950,520	449,839	401,293	271,431	2,073,083
Receivables:					
Property tax					
Delinquent	51,525	4,478	0	9,706	65,709
Succeeding year	2,890,748	258,813	0	567,252	3,716,813
Accrued interest	3,687	1,124	242	0	5,053
Due from other governments	341,877	0	157,440	0	499,317
TOTAL ASSETS	\$ 4,238,357	714,254	558,975	848,389	6,359,975
LIABILITIES AND FUND BALANCES					
Liabilities:					
Excess of warrants issued over bank balance	\$ 0	0	0	10,425	10,425
Accounts payable	35,697	81,066	164,343	0	281,106
Deferred revenue:					
Succeeding year property tax	2,890,748	258,813	0	567,252	3,716,813
Total liabilities	2,926,445	339,879	164,343	577,677	4,008,344
Fund balances:					
Reserved for:					
Early intervention	122,842	0	0	0	122,842
Talented and gifted	77,075	0	0	0	77,075
Teacher quality	3,893	0	0	0	3,893
Wellness	7,755	0	0	0	7,755
Other	4,679	0	0	0	4,679
Unreserved:					
Designated for special purpose	99,031	0	0	0	99,031
Undesignated	996,637	374,375	394,632	270,712	2,036,356
Total fund balances	1,311,912	374,375	394,632	270,712	2,351,631
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,238,357	714,254	558,975	848,389	6,359,975

SEE NOTES TO FINANCIAL STATEMENTS.

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

Total fund balances of governmental funds (page 17)	\$	2,351,631
 <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 report as assets in in the governmental funds.		23,468,658
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.		(104,874)
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>(14,376,836)</u>
Net assets of governmental activites (page 14)	\$	<u>11,338,579</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, 2005

	General	Physical Plant and Equipment Levy	Capital Projects	Other Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 2,853,111	252,249	0	545,480	3,650,840
LOSST	0	0	1,024,628	0	1,024,628
Tuition	417,718	0	0	0	417,718
Other	260,167	22,830	298,997	410,053	992,047
State sources	6,563,671	201	0	435	6,564,307
Federal sources	801,998	0	0	0	801,998
Total revenues	10,896,665	275,280	1,323,625	955,968	13,451,538
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	4,492,302	0	0	0	4,492,302
Special instruction	1,689,582	0	0	0	1,689,582
Other instruction	1,071,958	0	0	408,017	1,479,975
	7,253,842	0	0	408,017	7,661,859
Support services:					
Student services	318,548	0	0	0	318,548
Instructional staff services	419,125	0	0	0	419,125
Administration services	1,155,829	0	0	59,079	1,214,908
Operation and maintenance of plant services	1,083,922	30,000	0	64,844	1,178,766
Transportation services	355,322	0	0	0	355,322
	3,332,746	30,000	0	123,923	3,486,669
Other expenditures:					
Facilities acquisitions	0	523,211	2,223,544	0	2,746,755
Long-term debt:					
Principal	0	0	0	460,000	460,000
Interest and fiscal charges	0	0	0	673,912	673,912
AEA flowthrough	421,173	0	0	0	421,173
	421,173	523,211	2,223,544	1,133,912	4,301,840
Total expenditures	11,007,761	553,211	2,223,544	1,665,852	15,450,368
Deficiency of revenues under expenditures	(111,096)	(277,931)	(899,919)	(709,884)	(1,998,830)
Other financing sources(uses):					
Transfers in	0	0	200,000	657,845	857,845
Transfers out	0	(248,925)	(608,920)	0	(857,845)
Sale of equipment	586	0	0	0	586
Total other financing sources(uses)	586	(248,925)	(408,920)	657,845	586
Net change in fund balances	(110,510)	(526,856)	(1,308,839)	(52,039)	(1,998,244)
Fund balance beginning of year, as restated (Note 10)	1,422,422	901,231	1,703,471	322,751	4,349,875
Fund balance end of year	\$ 1,311,912	374,375	394,632	270,712	2,351,631

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, 2005

Net change in fund balances - total governmental funds (page 19) \$ (1,998,244)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlays expenditures exceeded depreciation expense in the current year, as follows:

Capital expenditures	\$ 2,727,416	
Depreciation expense	<u>(696,927)</u>	2,030,489

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. 460,000

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. (5,148)

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	<u>(65,689)</u>
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Changes in net assets of governmental activities (page 16) \$ 421,408

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
ASSETS	
Cash and cash equivalents	\$ 131,132
Accounts receivable	628
Inventories	21,594
Capital assets, net of accumulated depreciation	276,323
TOTAL ASSETS	429,677
 LIABILITIES	
Accounts payable	161
Deferred revenues	6,958
TOTAL LIABILITIES	7,119
 NET ASSETS	
Invested in capital assets, net of related debt	276,323
Unrestricted	146,235
TOTAL NET ASSETS	\$ 422,558

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, 2005

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Other local sources:	
Sale of lunches and breakfasts:	
Students	\$ 202,246
Adults	12,136
A la carte	71,849
Miscellaneous	18,047
TOTAL OPERATING REVENUES	304,278
OPERATING EXPENSES:	
Food service operations:	
Salaries	236,841
Benefits	54,392
Services	54,764
Supplies	278,609
Depreciation	34,416
TOTAL OPERATING EXPENSES	659,022
OPERATING LOSS	(354,744)
NON-OPERATING REVENUES (EXPENSES):	
Loss on disposal of assets	(3,656)
Interest	900
State sources	8,341
Federal sources	356,222
TOTAL NON-OPERATING REVENUES	361,807
Net income before capital contributions	7,063
Capital contributions	181,014
Change in net assets	188,077
Net assets at beginning of year	234,481
Net assets end of year	\$ 422,558

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 286,580
Cash received from miscellaneous operating activities	18,047
Cash payments to employees for services	(291,233)
Cash payments to suppliers for goods or services	(290,782)
Net cash used in operating activities	(277,388)
Cash flows from non-capital financing activities:	
State grants received	8,341
Federal grants received	312,808
Net cash provided by non-capital financing activities	321,149
Cash flows from investing activities:	
Interest on investments	900
Net cash provided by investing activities	900
Cash flows from capital financing activities:	
Purchase of assets	(22,601)
Net cash used by financing activities	(22,601)
Net increase in cash and cash equivalents	22,060
Cash and cash equivalents at beginning of year	109,072
Cash and cash equivalents at end of year	\$ 131,132
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (354,744)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	43,414
Depreciation	34,416
Decrease in inventories	823
Increase in accounts receivable	(126)
Decrease in accounts payable	(1,646)
Increase in deferred revenue	475
Net cash used in operating activities	\$ (277,388)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 131,132

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2005, the District received Federal commodities valued at \$43,414.

During the year ended June 30, 2005, the District received contributed capital of \$181,014 from the Physical Plant and Equipment Levy Fund.

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2005

	<u>Agency</u>
ASSETS	
Cash and pooled investments	<u>\$ 2,073</u>
LIABILITIES	
Due to other groups	<u>\$ 2,073</u>

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

(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 fund is the School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

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

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

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

Asset Class	Amount
Land	\$ 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 Lives (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, 2005, disbursements in the other expenditures program area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

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

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

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

	<u>Amortized Cost</u>
Iowa Schools Joint Investment Trust	<u>\$ 2,484,651</u>

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

(3) Interfund Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 608,920
Debt Service	Special Revenue- Physical Plant and Equipment Levy	48,925
Capital Projects	Special Revenue- Physical Plant and Equipment Levy	<u>200,000</u>
Total		<u>\$ 857,845</u>

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

(4) Capital Assets

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

	Balance			Balance
	Beginning of			End
	Year, As Restated	Increases	Decreases	of Year
	(Note 10)			
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 340,140	0	0	340,140
Construction in progress	14,994,539	1,983,819	16,575,000	403,358
Total capital assets not being depreciated	<u>15,334,679</u>	<u>1,983,819</u>	<u>16,575,000</u>	<u>743,498</u>
Capital assets being depreciated:				
Buildings	9,806,214	16,575,000	0	26,381,214
Land improvements	600,740	705,124	0	1,305,864
Machinery and equipment	1,508,642	38,473	0	1,547,115
Total capital assets being depreciated	<u>11,915,596</u>	<u>17,318,597</u>	<u>0</u>	<u>29,234,193</u>
Less accumulated depreciation for:				
Buildings	4,125,665	523,264	0	4,648,929
Land improvements	524,282	54,085	0	578,367
Machinery and equipment	1,162,159	119,578	0	1,281,737
Total accumulated depreciation	<u>5,812,106</u>	<u>696,927</u>	<u>0</u>	<u>6,509,033</u>
Total capital assets being depreciated, net	<u>6,103,490</u>	<u>16,621,670</u>	<u>0</u>	<u>22,725,160</u>
Governmental activities capital assets, net	<u>\$ 21,438,169</u>	<u>18,605,489</u>	<u>16,575,000</u>	<u>23,468,658</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 313,033	203,615	14,561	502,087
Less accumulated depreciation	202,253	34,416	10,905	225,764
Business-type activities capital assets, net	\$ 110,780	169,199	3,656	276,323

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 5,416
Other	15,598
Support services:	
Instructional staff services	18,389
Operation and maintenance of plant services	14,644
Transportation	65,531
	<u>119,578</u>
Unallocated depreciation	<u>577,349</u>
Total governmental activities depreciation expense	<u>\$ 696,927</u>
Business-type activities:	
Food services	<u>\$ 34,416</u>

(5) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation	\$ 13,110,000	0	460,000	12,650,000	480,000
Capital loan notes	1,500,000	0	0	1,500,000	130,000
Early retirement	161,147	151,343	85,654	226,836	151,165
Total	<u>\$ 14,771,147</u>	<u>151,343</u>	<u>545,654</u>	<u>14,376,836</u>	<u>761,165</u>

General Obligation

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

Year Ending June 30,	Bond Issue of June 1, 2000			Bond Issue of April 1, 2003		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2006	5.20 % \$	340,000	27,300	1.85 % \$	125,000	4,952
2007	5.20	185,000	9,620	2.20	120,000	2,640
2008		-	-		-	-
2009		-	-		-	-
2010		-	-		-	-
2011		-	-		-	-
2012		-	-		-	-
2013		-	-		-	-
2014		-	-		-	-
2015		-	-		-	-
2016		-	-		-	-
2017		-	-		-	-
2018		-	-		-	-
2019		-	-		-	-
2020		-	-		-	-
2021		-	-		-	-
2022		-	-		-	-
2023		-	-		-	-
Total		\$ 525,000	36,920		\$ 245,000	7,592

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
2006	4.00 % \$	5,000	481,840	5.00 % \$	10,000	89,680	\$ 480,000	603,772
2007	4.00	120,000	481,640	5.00	75,000	89,180	500,000	583,080
2008	5.00	455,000	476,840	5.00	65,000	85,430	520,000	562,270
2009	5.00	480,000	454,090	5.20	70,000	82,050	550,000	536,140
2010	5.25	500,000	430,090	5.20	80,000	78,410	580,000	508,500
2011	5.25	530,000	403,840	5.20	80,000	74,250	610,000	478,090
2012	5.25	555,000	376,015	5.20	85,000	70,090	640,000	446,105
2013	4.40	580,000	346,877	3.75	90,000	65,670	670,000	412,547
2014	4.50	610,000	321,357	3.90	95,000	62,295	705,000	383,652
2015	4.60	635,000	293,907	4.00	100,000	58,590	735,000	352,497
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		\$ 9,875,000	5,184,949		\$ 2,005,000	1,060,375	\$ 12,650,000	6,289,836

Capital Loan Notes

In March, 2004, the District issued capital loan notes of \$1,500,000. These notes will be paid from the Physical Plant and Equipment Levy (PPEL) Fund until the year 2015. The first payment of these notes is not until the 2005-06 school year. The District only paid interest on these notes during the current year. Details of the District's June 30, 2005 Capital Loan Notes indebtedness is as follows:

Year Ending June 30,	Note Issue of March 1, 2004			
	Interest Rates		Principal	Interest
2006	1.55	% \$	130,000	41,593
2007	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
	Total		<u>\$ 1,500,000</u>	<u>267,098</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, 2005, totaled \$85,654. A liability has been recorded in the Government-wide financial statements representing the District's commitment to fund non-current early retirement.

(6) 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, 2005, 2004, and 2003 were \$416,329, \$418,678, and

\$420,069 respectively, equal to the required contributions for each year.

(7) Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: dental, life and long-term disability.

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members continuing membership in the Association had their deficit recovery assessment included in their annual premium. The total amount of the deficit recoveries of current members is estimated to \$2.2 million. The District's share of this assessment is going to be 2% of the 2004-05 and 2005-06 premiums. As of June 30, 2005 the District had paid \$15,242 of the assessment. The remainder if the 2% assessment will be paid on a monthly basis along with the 2005-2006 premiums. Since the program is now fully insured, there will be no additional assessments due to claims exceeding premiums charged to members.

The District's contributions, which include deficit recovery assessments, 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, 2005 were \$762,115.

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.

The 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.

(8) 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 \$421,173 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Construction Commitments

The District entered into various contract totaling \$701,389 for various projects of the Districts. At June 30, 2005, \$403,358 of the contracts were completed. The remaining amounts of the contracts will be paid as work on the project progresses.

(10) Restatements

There are two restatements that will affect the governmental funds. The first one is the restatement of the June 30, 2004 Student Activity fund balance, and the other is to restate the capital assets for a change in the construction in progress.

This restatement of the Student Activity fund balance is due to the fact that the District was not accounting for the activities in the middle school on their software system. At June 30, 2004 the middle school activity accounts had an ending balance of \$30,802. Shown below are the details of the affects of the restatement to both the governmental funds and the Student Activity Fund.

Combined governmental fund balance, June 30, 2004	
as previously reported	\$ 4,319,073
Adjustments	30,802
Fund balance, July 1, 2004, as restated for governmental funds	<u>\$ 4,349,875</u>
Student Activity fund balance, June 30, 2004	
as previously reported	\$ 92,883
Adjustments	30,802
Fund balance, July 1, 2004, as restated for the Student Activity Fund	<u>\$ 123,685</u>

The other restatement is due to a change in construction in progress. It is being restated \$4,446,890 due to the non-recognition of the appropriate amount of expenditures in previous years for the construction of the new elementary/middle school. The restatement of the capital assets is shown as follows:

	Balance 6/30/2004 as Previously Reported			Balance 7/1/2004 as Restated	
		Increases	Decreases		
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 340,140	0	0	340,140	
Construction in progress	10,547,649	4,446,890	0	14,994,539	
Total capital assets not being depreciated	<u>10,887,789</u>	<u>4,446,890</u>	<u>0</u>	<u>15,334,679</u>	
Capital assets being depreciated:					
Buildings	9,806,214	0	0	9,806,214	
Improvements other than buildings	600,740	0	0	600,740	
Machinery and equipment	1,508,642	0	0	1,508,642	
Total capital assets being depreciated	<u>11,915,596</u>	<u>0</u>	<u>0</u>	<u>11,915,596</u>	
Less accumulated depreciation for:					
Buildings	4,125,665	0	0	4,125,665	
Improvements other than buildings	524,282	0	0	524,282	
Machinery and equipment	1,162,159	0	0	1,162,159	
Total accumulated depreciation	<u>5,812,106</u>	<u>0</u>	<u>0</u>	<u>5,812,106</u>	
Total capital assets being depreciated, net	<u>6,103,490</u>	<u>0</u>	<u>0</u>	<u>6,103,490</u>	
Governmental activities capital assets, net	<u>\$ 16,991,279</u>	<u>4,446,890</u>	<u>0</u>	<u>21,438,169</u>	

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

Net assets, June 30, 2004, as previously reported	\$ 6,439,479
Student Activity adjustment	30,802
Capital assets adjustment	<u>4,446,890</u>
Net assets, July 1, 2004, as restated for governmental funds	<u>\$ 10,917,171</u>

(11) Deficit Net Assets

The Debt Service Fund had deficit net assets of \$1,978 at June 30, 2005.

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, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 6,076,245	305,527
State sources	6,559,481	8,341
Federal sources	1,342,733	356,222
Total receipts	<u>13,978,459</u>	<u>670,090</u>
Disbursements:		
Instruction	8,104,393	0
Support services	3,183,527	0
Non-instructional programs	0	648,030
Other expenditures	4,222,408	0
Total disbursements	<u>15,510,328</u>	<u>648,030</u>
Excess(deficiency) of receipts over(under) disbursements	(1,531,869)	22,060
Other financing sources, net	<u>586</u>	<u>0</u>
Excess(deficiency) of receipts and other financing sources over(under) disbursements	(1,531,283)	22,060
Balance beginning of year(as restated)	<u>3,593,941</u>	<u>109,072</u>
Balance end of year	<u>\$ 2,062,658</u>	<u>131,132</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
6,381,772	7,201,105	7,201,105	(819,333)
6,567,822	6,602,461	6,602,461	(34,639)
1,698,955	2,245,000	2,245,000	(546,045)
<u>14,648,549</u>	<u>16,048,566</u>	<u>16,048,566</u>	<u>(1,400,017)</u>
8,104,393	9,275,441	9,275,441	1,171,048
3,183,527	4,181,484	3,481,484	297,957
648,030	0	700,000	51,970
4,222,408	9,414,137	9,414,137	5,191,729
<u>16,158,358</u>	<u>22,871,062</u>	<u>22,871,062</u>	<u>6,712,704</u>
(1,509,809)	(6,822,496)	(6,822,496)	5,312,687
586	1,500,000	1,500,000	(1,499,414)
(1,509,223)	(5,322,496)	(5,322,496)	3,813,273
3,703,013	5,102,848	5,102,848	(1,399,835)
<u>2,193,790</u>	<u>(219,648)</u>	<u>(219,648)</u>	<u>2,413,438</u>

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

	Governmental Fund Types		
	Accrual		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 13,978,459	(526,921)	13,451,538
Expenses	15,510,328	(59,960)	15,450,368
Net	(1,531,869)	(466,961)	(1,998,830)
Other financing sources, net	586	0	586
Beginning fund balances (as restated)	3,593,941	755,934	4,349,875
Ending fund balances	\$ 2,062,658	288,973	2,351,631

	Proprietary Fund Type		
	Enterprise		
	Accrual		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 670,090	(349)	669,741
Expenses	648,030	14,648	662,678
Net	22,060	(14,997)	7,063
Other financing sources, net	0	181,014	181,014
Beginning net assets	109,072	125,409	234,481
Ending net assets	\$ 131,132	291,426	422,558

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

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

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

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

OTHER SUPPLEMENTAL INFORMATION

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

	<u>Special Revenue Funds</u>				Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Total Special Revenue	Debt Service	
ASSETS					
Cash and pooled investments	\$ 148,237	123,194	271,431	0	271,431
Receivables:					
Property tax:					
Current year delinquent	1,259	0	1,259	8,447	9,706
Succeeding year	70,000	0	70,000	497,252	567,252
TOTAL ASSETS	\$ 219,496	123,194	342,690	505,699	848,389
LIABILITIES AND FUND EQUITY					
Liabilities:					
Excess of warrants issued over bank balance	\$ 0	0	0	10,425	10,425
Deferred revenue:					
Succeeding year property tax	70,000	0	70,000	497,252	567,252
	70,000	0	70,000	507,677	577,677
Fund equity:					
Fund balances:					
Unreserved:					
Undesignated	149,496	123,194	272,690	(1,978)	270,712
Total fund balances	149,496	123,194	272,690	(1,978)	270,712
TOTAL LIABILITIES AND FUND EQUITY	\$ 219,496	123,194	342,690	505,699	848,389

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, 2005

	Special Revenue				Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Total Special Revenue	Debt Service	
REVENUES:					
Local sources:					
Local tax	\$ 69,735	0	69,735	475,745	545,480
Other	1,953	407,526	409,479	574	410,053
State sources	56	0	56	379	435
TOTAL REVENUES	<u>71,744</u>	<u>407,526</u>	<u>479,270</u>	<u>476,698</u>	<u>955,968</u>
EXPENDITURES:					
Current:					
Instruction:					
Other instruction	0	408,017	408,017	0	408,017
Support services:					
Administration services	59,079	0	59,079	0	59,079
Operation and maintenance of plant services	64,844	0	64,844	0	64,844
	<u>123,923</u>	<u>0</u>	<u>123,923</u>	<u>0</u>	<u>123,923</u>
Other expenditures:					
Long-term debt:					
Principal	0	0	0	460,000	460,000
Interest and fiscal charges	0	0	0	673,912	673,912
	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,133,912</u>	<u>1,133,912</u>
TOTAL EXPENDITURES	<u>123,923</u>	<u>408,017</u>	<u>531,940</u>	<u>1,133,912</u>	<u>1,665,852</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(52,179)	(491)	(52,670)	(657,214)	(709,884)
Other financing sources:					
Operating transfers in	0	0	0	657,845	657,845
EXCESS(DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES	(52,179)	(491)	(52,670)	631	(52,039)
Fund balance beginning of year, as restated (Note 10)	201,675	123,685	325,360	(2,609)	322,751
Fund balance end of year	<u>\$ 149,496</u>	<u>123,194</u>	<u>272,690</u>	<u>(1,978)</u>	<u>270,712</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year, as restated (Note 10)	Revenues	Expendi- tures	Balance End of Year
Thespians	\$ 391	2,314	2,705	0
Speech	7	0	7	0
Vocal	147	5,659	3,106	2,700
Frosh-Soph festival	614	180	351	443
Band	41	18,058	12,645	5,454
Band uniforms	17,191	21,034	30,367	7,858
National honor society	20	0	20	0
Industrial arts	0	2,231	2,228	3
Special olympics	42	2,649	827	1,864
Boys basketball	79	3,308	2,308	1,079
Football	1	2,649	2,650	0
Special football	3,988	10	1,300	2,698
Baseball	69	1,917	1,986	0
Boys track	59	700	759	0
Cross country	61	1,160	1,221	0
Tennis	21	1,054	669	406
Golf	33	1,193	849	377
Wrestling	18	348	289	77
Girls basketball	24	2,446	1,312	1,158
Volleyball	2,229	891	1,970	1,150
Softball	335	10,549	10,884	0
Girls track	1	20	20	1
Soccer	28	0	28	0
Middle school	1,759	2,956	4,715	0
Elementary library	1,143	0	0	1,143
Alternative school	1,265	0	0	1,265
Alumni	3,949	500	3,949	500
Class of 04	3,273	0	3,128	145
Class of 05	3,355	0	428	2,927
Class of 06	120	6,910	5,450	1,580
Class of 07	91	64	155	0
Student government	2,696	7,053	5,339	4,410
Trees	7,457	4,503	8,460	3,500
SADD	40	13,513	11,932	1,621
Peppers	2,676	4,985	4,042	3,619
Cheerleaders	70	4,828	4,467	431
Y-Teens	50	0	0	50
Big sister/little sister	1,510	0	0	1,510
FHA	752	922	299	1,375
Spanish club	36	0	0	36

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

Account	Balance Beginning of Year, as restated (Note 10)	Revenues	Expendi- tures	Balance End of Year
FFA general account	1,039	3,475	4,514	0
FFA fruit	14,868	24,378	36,289	2,957
FFA livestock	98	338	0	436
FFA special projects	3,119	1,487	2,940	1,666
FFA juice machine	1,107	290	0	1,397
Crest/yearbook	1,489	8,680	8,957	1,212
Student pop machine	1	0	0	1
Teachers lounge	1,886	0	0	1,886
JDC	41	21	14	48
Towel fund	45	1,079	0	1,124
Concessions	533	3,240	1,295	2,478
Activity accounts	2,891	90,773	94,153	(489)
Activity maintenance	145	0	0	145
Interest	770	1,004	0	1,774
Administrative account	96	61,278	51,544	9,830
Coca Cola achievement	642	1,030	750	922
Capital improvements	(719)	80	0	(639)
Hawkeye 10 conference	9,191	4,540	5,242	8,489
Elementary 1-5th grades	13,281	40,047	47,281	6,047
6th grade	1,718	15	427	1,306
7th grade	2,008	15	133	1,890
8th grade	1,436	25	859	602
Band/vocal MS	8,870	13,195	13,660	8,405
MS athletics	29	1,789	1,842	(24)
MS store	657	241	140	758
Lounge	911	0	0	911
MS special ed	69	0	0	69
MS yearbook	1,621	2,480	2,315	1,786
Target	133	57	159	31
Yoder grant	69	0	0	69
Ace	0	208	0	208
MS gym	0	12	0	12
MS library	0	5,633	4,317	1,316
Planter fund	0	1,000	321	679
Courtney WM grant	0	1,000	0	1,000
Elementary activity	0	15,512	0	15,512
Total	\$ 123,685	407,526	408,017	123,194

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,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 4,675,468	4,586,430	4,112,321	3,421,706
Tuition	417,718	544,102	691,682	650,950
Other	992,047	697,535	742,885	619,216
State sources	6,564,307	6,252,892	6,281,847	5,872,888
Federal sources	801,998	1,644,172	487,491	442,850
Total	\$ 13,451,538	13,725,131	12,316,226	11,007,610
Expenditures:				
Instruction:				
Regular instruction	\$ 4,492,302	4,566,081	4,362,639	4,386,977
Special instruction	1,689,582	2,434,811	2,081,776	2,083,865
Other instruction	1,479,975	1,173,527	1,053,002	989,479
Support services:				
Student services	318,548	264,642	265,203	269,359
Instructional staff services	419,125	274,942	218,851	204,261
Administration services	1,214,908	940,627	902,311	856,941
Operation and maintenance of plant service	1,178,766	710,303	797,819	673,828
Transportation services	355,322	359,042	342,906	313,243
Central support services	0	105,806	98,706	88,848
Non-instructional:				
Food service	0	0	0	1,152
Other expenditures:				
Facilities acquisitions	2,746,755	10,856,929	2,788,560	503,521
Long Term Debt:				
Principal	460,000	445,000	475,000	355,000
Interest	673,912	644,876	607,126	134,025
AEA flow-through	421,173	421,480	452,020	443,976
Total	\$ 15,450,368	23,198,066	14,445,919	11,304,475

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CRESTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION (non-cash)	10.550	FY 05	\$ <u>43,414</u>
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 05	82,501
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 05	<u>219,553</u>
			<u>302,054</u>
FRESH FRUIT AND VEGETABLE PROGRAM	10.582	FY 05	<u>10,754</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1503-G	266,724
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1503-GC	<u>2,400</u>
			<u>269,124</u>
MIGRANT EDUCATION - BASIC STATE GRANTS PROGRAM (TITLE I MIGRANTS)	84.011	FY 05	<u>20,640</u>
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)	84.298	FY 05	<u>8,079</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 05	<u>9,023</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 04	56,547
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 05	<u>44,705</u>
			<u>101,252</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 05	<u>8,850</u>
FUNDS FOR THE IMPROVEMENT OF EDUCATION - (HARKIN GRANT)	84.215	FY 05	<u>367,068</u>
TITLE III - ENGLISH LANGUAGE ACQUISITION STATE GRANTS	84.357	FY 05	<u>504</u>

CRESTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2005

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
AREA EDUCATION AGENCY: VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.058	FY 05	<u>17,635</u>
SPECIAL EDUCATION - GRANTS TO STATES (SUCCESS 4)	84.027	FY 04	<u>3,667</u>
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 05	<u>82,134</u>
DATA DRIVEN LEADERSHIP	84.348	FY 05	<u>2,700</u>
TOTAL			<u>\$ 1,246,898</u>

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 50208-3050

Telephone (641) 792-1910

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Creston Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 27, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

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

Compliance and Other Matters

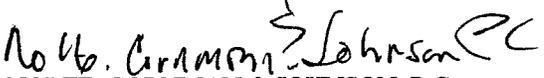
As part of obtaining reasonable assurance about whether Creston Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements non-compliance with which could have a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

Members American Institute & Iowa Society of Certified Public Accountants

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

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of 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 27, 2005

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
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Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance
in Accordance with OMB Circular A-133

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, 2005. 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 agreements 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, 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 OMB Circular A-133 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, 2005.

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 grant agreements 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.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with

applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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 27, 2005

CRESTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

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, 2005

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

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-05 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. 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-05 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-05 Student Activity Fund Interest - 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-D-05 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.

II-E-05 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over a year.

Recommendation - The District should forward any unclaimed property to the Great Iowa Treasure Hunt and remove the outstanding checks over one year.

Response - We will comply and send unclaimed property to the Great Iowa Treasure Hunt.

Conclusion - Response accepted.

II-F-05 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Examples of these instances are as follows:

Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. More specifically, the towel, administrative, ACE, gym, library, lounge, 6th grade, 7th grade, 8th grade, MS band/vocal, MS athletics, MS school store and special education grant accounts appear to be more appropriately taken care of in the general fund. Also in the elementary 1st-5th grade account, the purchase of playground equipment would more appropriately have been recorded through the PPEL or PERL fund, and the remainder should have been recorded in the general fund.

Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended from. The fundraiser for the playground equipment should have been placed in the PPEL or PERL fund, since they are the funds that can make the purchases. Also the Box Tops for Education and Target donations do not specify the purpose, other than instructional supplies; therefore, they should be received into the General fund for use in all instructional supplies/services.

The District had employees who were maintaining records of student activity accounts which were not included in the District records. (See note 10 for the restatement of the Student Activity Fund.) These employees were also recording receipts from the bank statements after the deposits had been made.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281--12.6(1). The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear that some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended.

Also, in Iowa, all funds collected through school activities are under the financial control of the school board. Prudent and proper accounting of all receipts and expenditures in these accounts is, therefore, the responsibility of the board. The board may delegate to others the responsibility of keeping the records but, before the law, the board is responsible. Districts may maintain subsidiary records for students activities, however,

all official records of the student activity fund shall be maintained on the Uniform Financial Accounting system, and all subsidiary records must be reconciled to the official records on a monthly basis.

Response - The MS activity fund has been closed and transferred to the General Fund.

Conclusion - Response accepted.

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

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

Response - We will pay from invoices.

Conclusion - Response accepted.

CRESTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

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: 2005
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: 2005
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-05 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. 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, 2005

Part IV: Other Findings Related to Statutory Reporting

- IV-A-05 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
- IV-B-05 Certified Budget - District disbursements for the year ended June 30, 2005, did not exceed the amount budgeted.
- IV-C-05 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-D-05 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-E-05 Business Transactions - No business transactions between the District and District officials were noted.
- IV-F-05 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-G-05 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- IV-H-05 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- IV-I-05 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- IV-J-05 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.
- IV-K-05 Financial Condition - During our audit we noted that the District had a few negative account balances in the Student Activity Fund, and a deficit fund balance of \$1,978 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