

LONE TREE COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2004

LONE TREE COMMUNITY SCHOOL DISTRICT

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June 30, 2004

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LONE TREE COMMUNITY SCHOOL DISTRICT
 Officials
 June 30, 2004

Name	Title	Term Expires
Board of Education		
(Before September 2003 Election)		
Carmen Swanson	Board President	2005
Jim Lively	Board Member	2003
James Sladek	Board Member	2004
Jon Ronan	Board Member	2004
Sally Robbins	Board Member	2005
(After September 2003 Election)		
James Sladek	Board President	2004
Jon Ronan	Board Member	2004
Carmen Swanson	Board Member	2005
Sally Robbins	Board Member	2005
Jim Lively	Board Member	2006
School Officials		
Michael Reeves	Superintendent	2004
Kelli D. Forbes	District Secretary/Treasurer	2004
Brian Gruhn	Attorney	2004

KAY L. CHAPMAN, CPA PC

119 Sycamore Street, Suite 100

Muscatine, Iowa 52761

563-264-1385

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Lone Tree Community School District
Lone Tree, Iowa

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

I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I 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. I believe my audit provides a reasonable basis for my opinions.

In my 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 Lone Tree Community School District as of June 30, 2004, 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.

As described in Note 8 to the financial statements, during the year ended June 30, 2004, Lone Tree Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosure; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, I have also issued my reports dated August 17, 2004 on my consideration of Lone Tree Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations and contracts. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 14 and 41 through 42 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lone Tree Community School District's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 4, 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 my audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.



Kay L. Chapman, CPA PC
August 17, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$2,942,707 in fiscal 2003 to \$2,997,545 in fiscal 2004, while General Fund expenditures increased from \$2,866,432 in fiscal 2003 to \$2,894,774 in fiscal 2004. The District's General Fund balance increased from \$960,687 in fiscal 2003 to \$1,063,458 in fiscal 2004, an 11% increase.
- The increase in General Fund revenues was attributable to an increase in property tax and federal grant revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures. One reason the General Fund balance increased is because the negotiated salary and benefits settlement was less than the District's increase in General Fund revenue for fiscal 2004.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Lone Tree 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 Lone Tree 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 Lone Tree Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

Notes to 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 Governmental Funds.

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

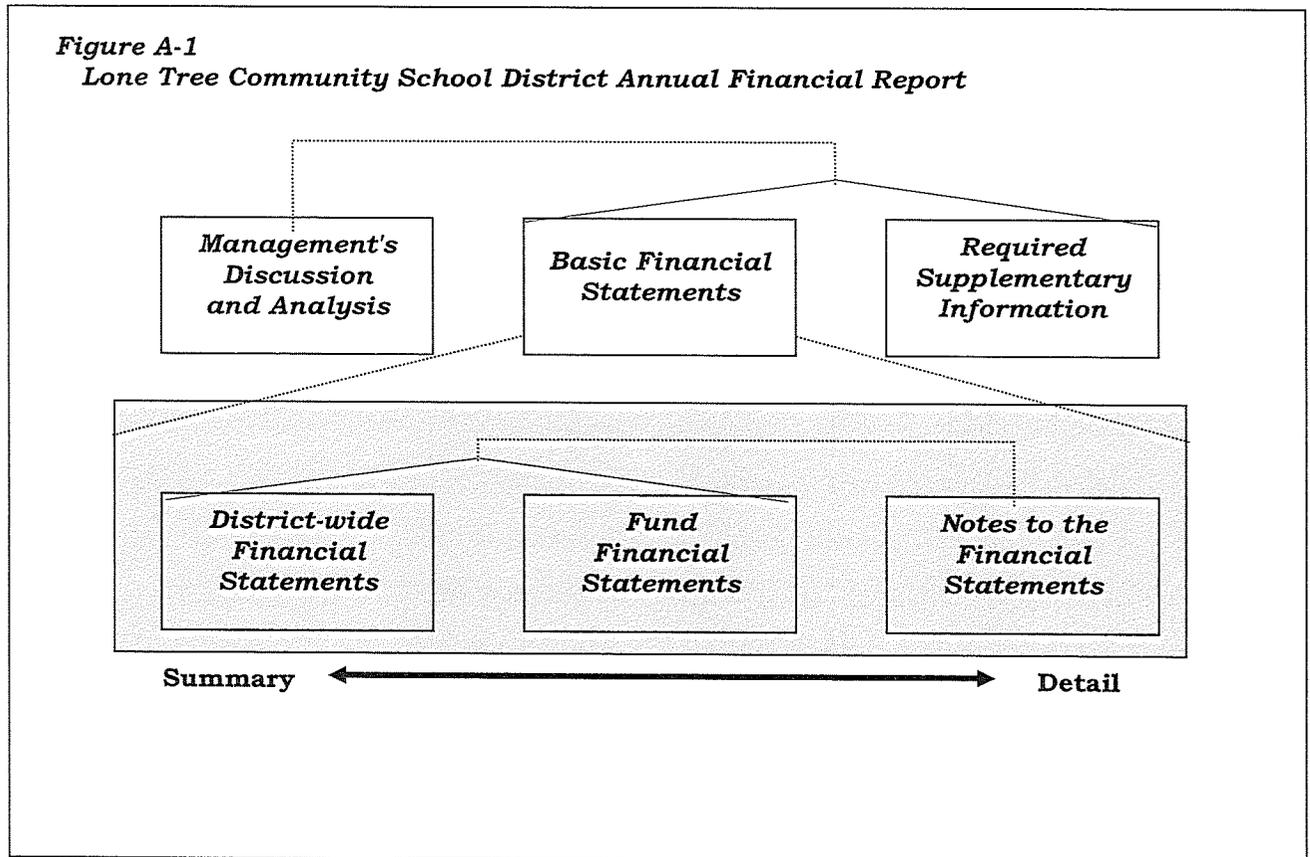


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2				
Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund 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, 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 financial 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 Fund and Capital Projects Fund.

The required financial statements for 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 also account for the District's Internal Service Fund, which is an accounting device used to accumulate and allocate costs internally among the District's various functions. 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 and one Internal Service Fund, Flex-benefit fund.

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

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Fund.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2004 compared to June 30, 2003.

	Condensed Statement of Net Assets						
	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2004	2003	2004	2003	2004	2003	2003-2004
Current and other assets	\$ 3,278,015	\$ 3,983,028	\$ 4,946	\$ 4,336	\$ 3,282,961	\$ 3,987,364	-17.67%
Capital assets	<u>3,621,347</u>	<u>3,792,524</u>	<u>98,856</u>	<u>110,457</u>	<u>3,720,203</u>	<u>3,902,981</u>	-4.68%
Total assets	<u>6,899,362</u>	<u>7,775,552</u>	<u>103,802</u>	<u>114,793</u>	<u>7,003,164</u>	<u>7,890,345</u>	-11.24%
Long-term obligations	3,370,000	3,495,000	-	-	3,370,000	3,495,000	-3.58%
Other liabilities	<u>1,488,461</u>	<u>1,572,670</u>	<u>-</u>	<u>-</u>	<u>1,488,461</u>	<u>1,572,670</u>	-3.66%
Total liabilities	<u>4,858,461</u>	<u>5,067,670</u>	<u>-</u>	<u>-</u>	<u>4,858,461</u>	<u>5,067,670</u>	-3.60%
Net assets							
Invested in capital assets, net of related debt	817,806	976,074	98,856	110,457	916,662	1,086,531	-15.63%
Restricted	188,323	652,528	-	-	188,323	652,528	-71.14%
Unrestricted	<u>1,034,772</u>	<u>1,079,280</u>	<u>4,946</u>	<u>4,336</u>	<u>1,039,718</u>	<u>1,083,616</u>	-4.05%
Total net assets	<u>\$ 2,040,901</u>	<u>\$ 2,707,882</u>	<u>\$103,802</u>	<u>\$ 114,793</u>	<u>\$ 2,144,703</u>	<u>\$ 2,822,675</u>	-24.02%

The District's combined net assets decreased by approximately 24%, or \$677,972, from the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$464,205, or 71% from the prior year. The decrease was primarily a result of increased expenditures in the Physical Plant and Equipment Levy Fund due to a construction project,

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$43,898, or 4%. This reduction in unrestricted net assets was a result of the District using prior year bond proceeds to complete a building project during the year.

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

Figure A-4

	<u>Change in Net Assets</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total School District</u>
Revenues			
Program revenues			
Charges for service and sales	\$ 571,679	\$ 99,404	\$ 671,083
Operating grants, contributions and restricted interest	334,216	46,102	380,318
Capital grants, contributions and restricted interest	-	-	-
General revenues			
Property tax	1,536,929	-	1,536,929
Unrestricted state grants	1,109,449	-	1,109,449
Unrestricted investment earnings	32,462	30	32,492
Other	<u>8,474</u>	<u>-</u>	<u>8,474</u>
Total revenues	<u>3,593,209</u>	<u>145,536</u>	<u>3,738,745</u>
Program expenses			
Governmental activities			
Instruction	2,038,885	-	2,038,885
Support services	987,000	-	987,000
Non-instructional programs	18,301	156,527	174,828
Other expenses	<u>1,216,004</u>	<u>-</u>	<u>1,216,004</u>
Total expenses	<u>4,260,190</u>	<u>156,527</u>	<u>4,416,717</u>
Change in net assets	<u>\$ (666,981)</u>	<u>\$ (10,991)</u>	<u>\$ (677,972)</u>

Property tax and unrestricted state grants account for 71% of the total revenue. The District's expenses primarily relate to instruction and other expenses, which account for 74% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$3,593,209 and expenses were \$4,260,190. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues. Expenditures exceeded the revenues due to bond proceeds being issued in the prior year and expenditures for the construction project in the current year.

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

	<u>Total and Net Cost of Governmental Activities</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$ 2,038,885	\$ 1,252,787
Support services	987,000	979,945
Non-instructional programs	18,301	18,301
Other expenses	<u>1,216,004</u>	<u>1,103,262</u>
Total expenses	<u>\$ 4,260,190</u>	<u>\$ 3,354,295</u>

- The cost financed by users of the District's programs was \$571,679.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$334,216.
- The net cost of governmental activities was financed with \$1,536,929 in property and other taxes and \$1,109,449 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$145,536 and expenses were \$156,527. 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.

During the year ended June 30, 2004, the District did not increase meal prices despite increasing supply and salary costs. Also, depreciation expense was more than in prior years due to additional equipment being reported in the School Nutrition Fund in fiscal 2004.

INDIVIDUAL FUND ANALYSIS

As previously noted, Lone Tree 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 a combined fund balance of 1,812,598, well below last year's ending fund balances of \$2,434,036. This was partially a result of a building project that was financed by proceeds of a bond issue. The bonds were issued during fiscal 2002 and the building project started in fiscal 2003. Approximately \$2 million was expended during fiscal 2003 and \$270,000 in fiscal 2004.

Governmental Fund Highlights

- The District's General Fund balance increased by \$102,771. A major factor in this was the increase in open enrollment revenue for 2004, and a Star Schools Grant being received.
- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from \$582,599 in fiscal year 2003 to \$137,312 in fiscal year 2004. The major factor in this was from a Vision Iowa Grant of \$1,000,000 that the district had received in February of 2002 while expenditures were not completed until the fiscal year 2004.
- The Capital Projects Fund balance decreased from \$820,821 to \$566,459 due to the completion of a construction project.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$114,793 at June 30, 2003 to \$103,802 at June 30, 2004 representing a decrease of approximately 10%. This change is due primarily to increased food and salary costs and not increasing the school lunch fees.

BUDGETARY HIGHLIGHTS

The District's revenues were \$114,430 more than budgeted receipts, a variance of 4%. The biggest difference in revenues was the Star Schools grant of \$25,000, and more open enrollment revenue budgeted. Also the Student Activity Fund did more fund raising than expected.

Total expenditures were more than budgeted, due primarily to the PPEL and Capital Projects Fund. The Vision Iowa Grant and construction project were finished in fiscal 2004 and not budgeting.

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional programs and other expenditures functional areas.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$3,621,347, 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 represents a net decrease of 4.68% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$215,832.

The original cost of the District's capital assets was \$5,691,448. Governmental funds account for \$5,525,268 (note 3 162365+5362903), with the remainder of \$166,180 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress and buildings categories. The District's construction in progress totaled \$2,816,450 at June 30, 2003, compared to \$0 reported at June 30, 2004. The buildings and improvements increased from \$1,584,337 at June 30, 2003 to \$4,400,787 at June 30, 2004. This significant change resulted from construction activity financed by the issuance of voter approved general obligation bonds in fiscal 2003 for construction of improvements and additional classrooms. This construction project was in progress at June 30, 2003 but was completed during the year ended

June 30, 2004. At June 30, 2004 the cost of this capital asset was reclassified from Construction in Progress to Buildings and Improvements.

Figure A-6

	<u>Capital Assets, Net of Depreciation</u>						
	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>		<u>Total</u>
	<u>Activities</u>		<u>Activities</u>		<u>School District</u>		
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2003-2004</u>
Land	\$ 162,365	\$ 162,365	\$ -	\$ -	\$ 162,365	\$ 162,365	0.00%
Construction in progress	-	2,816,450	-	-	-	2,816,450	-100.00%
Buildings and improvements	3,203,129	483,880	-	-	3,203,129	483,880	561.97%
Furniture and equipment	<u>255,853</u>	<u>329,829</u>	<u>98,856</u>	<u>110,457</u>	<u>354,709</u>	<u>440,286</u>	-19.44%
Totals	<u>\$3,621,347</u>	<u>\$3,792,524</u>	<u>\$ 98,856</u>	<u>\$110,457</u>	<u>\$3,720,203</u>	<u>\$3,902,981</u>	-4.68%

Long-Term Debt

At June 30, 2004, the District had \$3,370,000 in general obligation debt outstanding. This represents a decrease of approximately 3.5% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 4 to the financial statements.

In September of 2001, the District's voters authorized an amount not exceeding \$3,800,000 in general obligation bonds to pay for construction of an addition to the District's school building, including a cafeteria, library and three classrooms; installing new windows in the building; and resurfacing the athletic track. Planning for the project started in fiscal 2001 and bonds in the amount of \$3,580,000 were sold during fiscal 2002.

Figure A-7

	<u>Outstanding Long-term Obligations</u>		
	<u>Total</u>		<u>Total</u>
	<u>School District</u>		
	<u>2004</u>	<u>2003</u>	<u>2003-2004</u>
General obligation bonds	\$ 3,370,000	\$ 3,495,000	-3.58%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District's 2005 Certified Enrollment increased which would generate additional funding for fiscal year 2006.
- The District has evaluated the condition of its transportation vehicles and determined, due to the age of some of the District's buses, one bus would be replaced during fiscal 2005 at a cost of \$50,352. To pay for this bus, the District will use resources from the Physical Plant and Equipment Levy Fund.
- The District will be replacing the bleachers on the upper floor of the new gym at a cost of around \$40,000. The District will use resources from the Physical Plant and Equipment Levy.
- Fiscal 2004 was the last year of a two-year contract with the Lone Tree Teacher Association (LTEA). The District will negotiate a new agreement during fiscal 2005. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.

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 Kelli Forbes, District Secretary/Treasurer and Business Manager, Lone Tree Community School District, 303 S Devoe Street, Lone Tree, Iowa, 52755.

Basic Financial Statements

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2004

Exhibit A

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 1,909,564	\$ 1,651	\$ 1,911,215
Receivables			
Property tax			
Delinquent	7,468	-	7,468
Succeeding year	1,337,425	-	1,337,425
Accrued interest	24	-	24
Accounts receivable	3,429	-	3,429
Due from other governments	20,105	-	20,105
Inventories	-	3,295	3,295
Capital assets, net of accumulated depreciation	<u>3,621,347</u>	<u>98,856</u>	<u>3,720,203</u>
Total assets	<u>6,899,362</u>	<u>103,802</u>	<u>7,003,164</u>
 LIABILITIES			
Accounts payable	124,462	-	124,462
Accrued interest payable	26,574	-	26,574
Deferred revenue - succeeding year property tax	1,337,425	-	1,337,425
Long-term liabilities			
Portion due within one year			
Notes payable	130,000	-	130,000
Portion due after one year			
Notes payable	<u>3,240,000</u>	<u>-</u>	<u>3,240,000</u>
Total liabilities	<u>4,858,461</u>	<u>-</u>	<u>4,858,461</u>
 NET ASSETS			
Invested in capital assets, net of related debt	817,806	98,856	916,662
Restricted for			
Phase III	875	-	875
Physical plant and equipment levy	137,312	-	137,312
Other special revenue purposes	50,136	-	50,136
Unrestricted	<u>1,034,772</u>	<u>4,946</u>	<u>1,039,718</u>
Total net assets	<u>\$ 2,040,901</u>	<u>\$ 103,802</u>	<u>\$ 2,144,703</u>

See notes to financial statements and Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2004

Exhibit B

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental activities							
Instruction							
Regular instruction	\$ 1,375,908	\$ 402,787	\$ 168,807	\$ -	\$ (804,314)	\$ -	\$ (804,314)
Special instruction	220,206	28,883	41,792	-	(149,531)	-	(149,531)
Other instruction	442,771	137,603	6,226	-	(298,942)	-	(298,942)
	<u>2,038,885</u>	<u>569,273</u>	<u>216,825</u>	<u>-</u>	<u>(1,252,787)</u>	<u>-</u>	<u>(1,252,787)</u>
Support services							
Student services	39,743	-	-	-	(39,743)	-	(39,743)
Instructional staff services	95,556	-	-	-	(95,556)	-	(95,556)
Administration services	397,965	-	-	-	(397,965)	-	(397,965)
Operation and maintenance of plant services	319,334	2,304	-	-	(317,030)	-	(317,030)
Transportation services	134,402	102	4,649	-	(129,651)	-	(129,651)
	<u>987,000</u>	<u>2,406</u>	<u>4,649</u>	<u>-</u>	<u>(979,945)</u>	<u>-</u>	<u>(979,945)</u>
Non-instructional programs	<u>18,301</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(18,301)</u>	<u>-</u>	<u>(18,301)</u>
Other expenditures							
Facilities acquisition	836,027	-	-	-	(836,027)	-	(836,027)
Long-term debt interest	165,827	-	-	-	(165,827)	-	(165,827)
AEA flowthrough	112,742	-	112,742	-	-	-	-
Depreciation (unallocated)*	101,408	-	-	-	(101,408)	-	(101,408)
	<u>1,216,004</u>	<u>-</u>	<u>112,742</u>	<u>-</u>	<u>(1,103,262)</u>	<u>-</u>	<u>(1,103,262)</u>
Total governmental activities	<u>4,260,190</u>	<u>571,679</u>	<u>334,216</u>	<u>-</u>	<u>(3,354,295)</u>	<u>-</u>	<u>(3,354,295)</u>

See notes to financial statements and Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2004

Exhibit B

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-type Activities	Total
Business-type activities							
Non-instructional programs							
Food service operations	\$ 156,527	\$ 99,404	\$ 46,102	\$ -	\$ -	\$ (11,021)	\$ (11,021)
Total	\$ 4,416,717	\$ 671,083	\$ 380,318	\$ -	\$ (3,354,295)	\$ (11,021)	\$ (3,365,316)
 <u>General Revenues</u>							
Property tax levied for							
General purposes					1,130,711	-	1,130,711
Debt service					291,310	-	291,310
Capital outlay					114,908	-	114,908
Unrestricted state grants					1,109,449	-	1,109,449
Unrestricted investment earnings					32,462	30	32,492
Other					8,474	-	8,474
Total general revenues					2,687,314	30	2,687,344
Change in net assets					(666,981)	(10,991)	(677,972)
Net assets, beginning of year, as restated					2,707,882	114,793	2,822,675
Net assets, end of year					\$ 2,040,901	\$ 103,802	\$ 2,144,703

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

See notes to financial statements and Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT

Exhibit C

Balance Sheet
Governmental Funds
June 30, 2004

	General	Student Activities	Physical Plant and Equipment Levy	Capital Projects	Nonmajor Governmental Funds	Total
ASSETS						
Cash and pooled investments	\$ 1,144,103	\$ 61,586	\$ 140,446	\$ 566,459	\$ 663	\$ 1,913,257
Receivables						
Property tax						
Delinquent	5,028	-	647	-	1,793	7,468
Succeeding year	903,810	-	110,152	-	323,463	1,337,425
Accounts receivable	1,143	2,286	-	-	-	3,429
Accrued interest	-	24	-	-	-	24
Due from other governments	20,105	-	-	-	-	20,105
Total assets and other debits	<u>\$ 2,074,189</u>	<u>\$ 63,896</u>	<u>\$ 251,245</u>	<u>\$ 566,459</u>	<u>\$ 325,919</u>	<u>\$ 3,281,708</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Warrants issued in excess of bank balance	\$ -	\$ -	\$ -	\$ -	\$ 7,223	\$ 7,223
Accounts payable	106,921	13,760	3,781	-	-	124,462
Deferred revenue - Succeeding year property tax	903,810	-	110,152	-	323,463	1,337,425
Total liabilities	<u>1,010,731</u>	<u>13,760</u>	<u>113,933</u>	<u>-</u>	<u>330,686</u>	<u>1,469,110</u>
Fund balances						
Reserved for						
Phase III	875	-	-	-	-	875
Debt service	-	-	-	-	2,302	2,302
Unreserved, undesignated - governmental funds	1,062,583	-	-	566,459	-	1,629,042
Unreserved, undesignated - special revenue funds	-	50,136	137,312	-	(7,069)	180,379
Total fund balances	<u>1,063,458</u>	<u>50,136</u>	<u>137,312</u>	<u>566,459</u>	<u>(4,767)</u>	<u>1,812,598</u>
Total liabilities and fund balances	<u>\$ 2,074,189</u>	<u>\$ 63,896</u>	<u>\$ 251,245</u>	<u>\$ 566,459</u>	<u>\$ 325,919</u>	<u>\$ 3,281,708</u>

See notes to financial statements and Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2004

Exhibit D

Total fund balances of governmental funds	\$ 1,812,598
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	3,621,347
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(26,574)
The Internal Service Fund is used by the District to charge the costs of the flex-benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the Statement of Net Assets.	3,530
Long-term liabilities, including bonds payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds	<u>(3,370,000)</u>
Net assets of governmental activities	<u>\$ 2,040,901</u>

See notes to financial statements and Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2004

Exhibit E

	<u>General</u>	<u>Student Activities</u>	<u>Physical Plant and Equipment Levy</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues						
Local sources						
Local tax	\$ 1,100,145	\$ -	\$ 114,833	\$ -	\$ 320,997	\$ 1,535,975
Tuition	390,859	-	-	-	-	390,859
Other	62,206	138,080	5,001	16,469	-	221,756
State sources	1,365,824	-	75	-	209	1,366,108
Federal sources	78,511	-	-	-	-	78,511
Total revenues	<u>2,997,545</u>	<u>138,080</u>	<u>119,909</u>	<u>16,469</u>	<u>321,206</u>	<u>3,593,209</u>
Expenditures						
Current						
Instruction						
Regular instruction	1,348,712	-	-	-	3,089	1,351,801
Special instruction	218,710	-	-	-	-	218,710
Other instruction	291,197	149,959	-	-	87	441,243
	<u>1,858,619</u>	<u>149,959</u>	<u>-</u>	<u>-</u>	<u>3,176</u>	<u>2,011,754</u>
Support services						
Student support services	38,784	-	-	-	75	38,859
Instructional staff services	79,611	-	-	-	10,325	89,936
Administration services	393,658	-	-	-	474	394,132
Operation and maintenance of plant services	303,592	-	-	-	14,599	318,191
Transportation services	90,931	-	-	-	11,911	102,842
	<u>906,576</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,384</u>	<u>943,960</u>

See notes to financial statements and Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2004

Exhibit E

	<u>General</u>	<u>Student Activities</u>	<u>Physical Plant and Equipment Levy</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Expenditures (continued)						
Current (continued)						
Non-instructional programs	\$ 16,837	\$ -	\$ -	\$ -	\$ 1,464	\$ 18,301
Other expenditures						
Facilities acquisition	-	-	565,196	270,831	-	836,027
Long-term debt						
Principal	-	-	-	-	125,000	125,000
Interest and fiscal charges	-	-	-	-	166,863	166,863
AEA flowthrough	112,742	-	-	-	-	112,742
	<u>112,742</u>	<u>-</u>	<u>565,196</u>	<u>270,831</u>	<u>291,863</u>	<u>1,240,632</u>
Total expenditures	<u>2,894,774</u>	<u>149,959</u>	<u>565,196</u>	<u>270,831</u>	<u>333,887</u>	<u>4,214,647</u>
Excess (deficiency) of revenues over (under) expenditures	102,771	(11,879)	(445,287)	(254,362)	(12,681)	(621,438)
Fund balance, beginning of year	<u>960,687</u>	<u>62,015</u>	<u>582,599</u>	<u>820,821</u>	<u>7,914</u>	<u>2,434,036</u>
Fund balance, end of year	<u>\$ 1,063,458</u>	<u>\$ 50,136</u>	<u>\$ 137,312</u>	<u>\$ 566,459</u>	<u>\$ (4,767)</u>	<u>\$ 1,812,598</u>

See notes to financial statements and Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT
 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances-
 Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2004

Exhibit F

Net change in fund balances - total governmental funds \$ (621,438)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 33,054	
Depreciation expense	<u>(204,231)</u>	(171,177)

The Internal Service Fund is used by the District to charge the costs of the flex-benefit plan to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities. (402)

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. 125,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 1,036

Change in net assets of governmental activities \$ (666,981)

See notes to financial statements and Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
Proprietary Funds
June 30, 2004

Exhibit G

	<u>Business-type</u>	<u>Governmental</u>	
	<u>Activity</u>	<u>Activity</u>	
	School	Internal	
	<u>Nutrition</u>	<u>Service</u>	<u>Total</u>
ASSETS			
Cash and pooled investments	\$ 1,651	\$ 3,530	\$ 5,181
Inventories	3,295	-	3,295
Capital assets, net of accumulated depreciation	<u>98,856</u>	<u>-</u>	<u>98,856</u>
Total assets	<u>103,802</u>	<u>3,530</u>	<u>107,332</u>
LIABILITIES			
	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS			
Invested in capital assets, net of related debt	98,856	-	98,856
Unreserved retained earnings	<u>4,946</u>	<u>3,530</u>	<u>8,476</u>
Total net assets	<u>\$ 103,802</u>	<u>\$ 3,530</u>	<u>\$ 107,332</u>

See notes to financial statements and Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2004

Exhibit H

	Business-type Activity School Nutrition	Governmental Activity Internal Service	Total
Operating revenue			
Local sources			
Charges for service	\$ 99,404	\$ 15,753	\$ 115,157
Operating expenses			
Non-instructional programs			
Salaries	58,273	-	58,273
Benefits	9,331	-	9,331
Purchased services	-	16,155	16,155
Supplies	77,322	-	77,322
Depreciation	11,601	-	11,601
Total operating expenses	156,527	16,155	172,682
Operating loss	(57,123)	(402)	(57,525)
Non-operating revenues			
Interest income	30	-	30
State sources	2,266	-	2,266
Federal sources	43,836	-	43,836
Total non-operating revenues	46,132	-	46,132
Change in net assets	(10,991)	(402)	(11,393)
Net assets, beginning of year, as restated	114,793	3,932	118,725
Net assets, end of year	\$ 103,802	\$ 3,530	\$ 107,332

See notes to financial statements and Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT

Exhibit I

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2004

	Business-type Activity <u>School</u> <u>Nutrition</u>	Governmental Activity <u>Internal</u> <u>Service</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from sale of lunches and breakfasts	\$ 99,404	\$ -	\$ 99,404
Cash received from sale of services	-	15,753	15,753
Cash payments to employees for services	(67,604)	-	(67,604)
Cash payments to suppliers for goods and services	<u>(67,052)</u>	<u>(16,155)</u>	<u>(83,207)</u>
Net cash used in operating activities	<u>(35,252)</u>	<u>(402)</u>	<u>(35,654)</u>
Cash flows from non-capital financing activities			
State grants received	2,266	-	2,266
Federal grants received	<u>33,801</u>	<u>-</u>	<u>33,801</u>
Net cash provided by non-capital financing activities	36,067	-	36,067
Cash flows from capital and related financing activities	-	-	-
Cash flows from investing activities			
Interest on investments	<u>30</u>	<u>-</u>	<u>30</u>
Net increase (decrease) in cash and cash equivalents	845	(402)	443
Cash and cash equivalents, beginning of year	<u>806</u>	<u>3,932</u>	<u>4,738</u>
Cash and cash equivalents, end of year	<u>\$ 1,651</u>	<u>\$ 3,530</u>	<u>\$ 5,181</u>
Reconciliation of operating loss to net cash used in operating activities			
Operating loss	\$ (57,123)	\$ (402)	\$ (57,525)
Adjustments to reconcile operating loss to net cash used in operating activities			
Depreciation	11,601	-	11,601
Commodities used	10,035	-	10,035
Decrease in inventories	<u>235</u>	<u>-</u>	<u>235</u>
Net cash used in operating activities	<u>\$ (35,252)</u>	<u>\$ (402)</u>	<u>\$ (35,654)</u>

Non-cash investing, capital and financing activities

During the year ended June 30, 2004, the District received \$10,035 of federal commodities.

See notes to financial statements and Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2004

Exhibit J

	<u>Private Purpose Trust Scholarships</u>
Assets	
Cash and pooled investments	\$ 5,516
Liabilities	<u> -</u>
Net assets	
Reserved for scholarships	<u><u>\$ 5,516</u></u>

See notes to financial statements and Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Year Ended June 30, 2004

Exhibit K

	Private Purpose Trust <u>Scholarships</u>
Additions	
Local sources	
Interest	\$ 39
Deductions	<u>-</u>
Change in net assets	39
Net assets, beginning of year	<u>5,477</u>
Net assets, end of year	<u>\$ 5,516</u>

See notes to financial statements and Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2004

Note 1. Summary of Significant Accounting Policies

The Lone Tree Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. The geographic area served includes the City of Lone Tree, Iowa, and the agricultural territory in Johnson and Louisa 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, Lone Tree Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. The Lone Tree Community School District has no component units, which meet the Governmental Accounting Standards Board criteria.

The District does not participate in any jointly governed organizations for which the District is financially accountable or that the nature and significance of the relationship with the District are such that exclusion would cause the District's financial statements to be misleading.

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 service.

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 asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which 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 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 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 revenues 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 expenditures, including instructional, support and other costs.

The Student Activity Fund is a special revenue fund used to account for money received from student-related cocurricular or extracurricular activities. Moneys in this fund must be used to support only the program defined in the administrative rules of the Department of Education.

The Physical Plant & Equipment Levy (PPEL) Fund is a special revenue fund used to account for all financial transactions from the levy authorized, whether regular or voter-approved, by Iowa Code section 298.2. This fund is created to deposit and expend money from the PPEL levy. The purpose of the fund is to pay the costs of specified major expenditures related to real property and equipment.

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

The District reports the following major proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund and Internal Service Fund. The Enterprise, School Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the flex-benefit plan for District employees.

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 Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

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

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt and claims and judgments 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 the 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 funds 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 non-operating 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 non-operating 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 governmental funds is 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 year 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 property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

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

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

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

Capital Assets - Capital assets, which include property, furniture 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.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 500
Buildings	\$ 500
Improvements other than buildings	\$ 500
Furniture and equipment:	
School Nutrition Fund equipment	\$ 500
Other furniture and equipment	\$ 500

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Useful Life</u>
Buildings & Improvements	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 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 represents 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 property tax 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 Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, expenditures exceeded the amounts budgeted in the Non-instructional Programs and Other Expenditures functions; however, the District did not exceed its General Fund unspent authorized budget.

Note 2. Cash and Pooled Investments

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

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

The District had investments in the Iowa Schools Joint Investment Trust, which are valued at an amortized cost of \$761,134 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement Number 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

Note 3. Capital Assets

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

	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 162,365	\$ -	\$ -	\$ 162,365
Construction in progress	2,816,450	-	(2,816,450)	-
Total capital assets not being depreciated	<u>2,978,815</u>	<u>-</u>	<u>(2,816,450)</u>	<u>162,365</u>
Capital assets being depreciated:				
Buildings and improvements	1,584,337	2,816,450	-	4,400,787
Furniture and equipment	929,062	33,054	-	962,116
Total capital assets being depreciated	<u>2,513,399</u>	<u>2,849,504</u>	<u>-</u>	<u>5,362,903</u>
Less accumulated depreciation for:				
Buildings and improvements	1,100,457	97,201	-	1,197,658
Furniture and equipment	599,233	107,030	-	706,263
Total accumulated depreciation	<u>1,699,690</u>	<u>204,231</u>	<u>-</u>	<u>1,903,921</u>
Total capital assets being depreciated, net	<u>813,709</u>	<u>2,645,273</u>	<u>-</u>	<u>3,458,982</u>
Governmental activities capital assets, net	<u>\$ 3,792,524</u>	<u>\$ 2,645,273</u>	<u>\$(2,816,450)</u>	<u>\$ 3,621,347</u>
<u>Business-type activities</u>				
Furniture and equipment	\$ 166,180	\$ -	\$ -	\$ 166,180
Less accumulated depreciation	55,723	11,601	-	67,324
Business-type activities capital assets, net	<u>\$ 110,457</u>	<u>\$ (11,601)</u>	<u>\$ -</u>	<u>\$ 98,856</u>

Depreciation expense was charged to the following functions:

Governmental activities

Instruction		
Regular	\$ 45,881	
Special	2,046	
Other	11,856	
Support services		
Student	884	
Instructional staff	5,620	
Administration	3,833	
Operation and maintenance of plant	1,143	
Transportation	31,560	
Unallocated depreciation	<u>101,408</u>	
Total governmental activities depreciation expense		<u>\$ 204,231</u>

Business-type activities

Food services		<u>\$ 11,601</u>
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During the year ended June 30, 2004, the District hired an outside company to perform a physical inventory of its capital assets. Also during the year ended June 30, 2004 the District changed its criteria for determining capitalized assets. Prior to the fiscal year ended June 30, 2004 the District included all assets costing more than \$500 in the General Fixed Asset Account Group. However, beginning in FY04 the District only includes items costing in excess of the limits summarized in Note 1, item D as capital assets. Due to these two changes, the District's beginning balance of capital assets in the year ended June 30, 2004 is less than the amounts reported on the financial statements of the prior fiscal year by \$1,369,248.

Note 4. Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2004 are summarized as follows:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
General obligation bonds	\$ 3,495,000	\$ -	\$(125,000)	\$ 3,370,000	\$ 130,000

General Obligation Bonds Payable

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

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 130,000	\$ 160,313	\$ 290,313
2006	135,000	153,812	288,812
2007	145,000	147,063	292,063
2008	150,000	139,812	289,812
2009	160,000	132,313	292,313
2010	165,000	124,313	289,313
2011	175,000	117,300	292,300
2012	185,000	109,775	294,775
2013	195,000	101,635	296,635
2014	200,000	92,860	292,860
2015	210,000	83,660	293,660
2016	225,000	73,947	298,947
2017	235,000	63,260	298,260
2018	245,000	51,980	296,980
2019	260,000	40,220	300,220
2020	270,000	27,480	297,480
2021	<u>285,000</u>	<u>14,250</u>	<u>299,250</u>
	<u>\$ 3,370,000</u>	<u>\$ 1,633,993</u>	<u>\$ 5,003,993</u>

Note 5. 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, IA, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$102,565, \$99,031 and \$92,794 respectively, equal to the required contributions for each year.

Note 6. Risk Management

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.

Note 7. 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 \$112,742 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 8. Accounting Change and Restatements

Governmental Accounting Standards Board (GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the District’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements separate the District’s programs between governmental and business type activities. The beginning net assets for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Fund					Total
	<u>General</u>	Student <u>Activities</u>	<u>PPEL</u>	Capital <u>Projects</u>	Nonmajor <u>Governmental</u>	
Net assets June 30, 2003, as previously reported	\$ 960,687	\$ 62,015	\$ 582,599	\$ 820,821	\$ 7,914	\$ 2,434,036
GASB Interpretation 6 adjustments	-	-	-	-	-	-
Net assets July 1, 2003, as restated for governmental funds	<u>\$ 960,687</u>	<u>\$ 62,015</u>	<u>\$ 582,599</u>	<u>\$ 820,821</u>	<u>\$ 7,914</u>	2,434,036
GASB 34 adjustments:						
Capital assets, net of accumulated depreciation of \$1,699,690						3,792,524
Long-term liabilities:						
Bonds and notes						(3,495,000)
Internal Service Fund						3,932
Accrued interest payable						<u>(27,610)</u>
Net assets July 1, 2003, as restated						<u>\$ 2,707,882</u>

Note 9. Correction of Beginning Balance

During the year ended June 30, 2004 an error in the Enterprise, School Nutrition Fund was noted. Of the \$166,180 of capital assets reported in the School Nutrition Fund, \$110,457 were purchased by other funds, resulting in contributed capital, which had not been previously reported. This resulted in a net increase in the beginning fund balance of \$110,457.

Note 10. Deficit Fund Balance

The District's Special Revenue, Management Fund had an unreserved, undesignated fund deficit of \$7,069 at June 30, 2004.

Required Supplementary Information

LONE TREE COMMUNITY SCHOOL DISTRICT
 Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual
 All Governmental Funds and Proprietary Fund
 Required Supplementary Information
 For the Year Ended June 30, 2004

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Funds	Fund		Original	Final	
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>			
Revenues						
Local sources	\$ 2,148,590	\$ 99,434	\$ 2,248,024	\$ 2,160,169	\$ 2,160,169	\$ 87,855
State sources	1,366,108	2,266	1,368,374	1,410,696	1,410,696	(42,322)
Federal sources	78,511	43,836	122,347	53,450	53,450	68,897
Total revenues	<u>3,593,209</u>	<u>145,536</u>	<u>3,738,745</u>	<u>3,624,315</u>	<u>3,624,315</u>	<u>114,430</u>
Expenditures						
Instruction	2,011,754	-	2,011,754	2,111,495	2,111,495	99,741
Support services	943,960	-	943,960	1,054,115	1,054,115	110,155
Non-instructional programs	18,301	156,527	174,828	132,575	132,575	(42,253)
Other expenditures	1,240,632	-	1,240,632	537,174	537,174	(703,458)
Total expenditures	<u>4,214,647</u>	<u>156,527</u>	<u>4,371,174</u>	<u>3,835,359</u>	<u>3,835,359</u>	<u>(535,815)</u>
Deficiency of revenues under expenditures	(621,438)	(10,991)	(632,429)	(211,044)	(211,044)	(421,385)
Balance, beginning of year	<u>2,434,036</u>	<u>114,793</u>	<u>2,548,829</u>	<u>1,062,478</u>	<u>1,062,478</u>	<u>1,486,351</u>
Balance, end of year	<u>\$ 1,812,598</u>	<u>\$ 103,802</u>	<u>\$ 1,916,400</u>	<u>\$ 851,434</u>	<u>\$ 851,434</u>	<u>\$ 1,064,966</u>

See accompanying Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
For the Year Ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Internal Service funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a basis consistent with U.S. generally accepted accounting principles.

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 did not adopt any budget amendments.

During the year ended June 30, 2004, District expenditures exceeded the amounts budgeted in the non-instructional programs and other expenditures functions; however, the General Fund expenditures did not exceed the unspent authorized budget.

Other Supplementary Information

LONE TREE COMMUNITY SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004

Schedule 1

	<u>Special Revenue</u>		
	<u>Management</u>	<u>Debt</u>	<u>Total</u>
	<u>Levy</u>	<u>Service</u>	
ASSETS			
Cash and pooled investments	\$ -	\$ 663	\$ 663
Receivables			
Property tax			
Current year delinquent	154	1,639	1,793
Succeeding year	<u>32,750</u>	<u>290,713</u>	<u>323,463</u>
 Total assets	 <u>\$ 32,904</u>	 <u>\$ 293,015</u>	 <u>\$ 325,919</u>
 LIABILITIES AND FUND EQUITY			
Liabilities			
Warrants issued in excess of bank balance	\$ 7,223	\$ -	\$ 7,223
Deferred revenue			
Succeeding year property tax	<u>32,750</u>	<u>290,713</u>	<u>323,463</u>
Total liabilities	39,973	290,713	330,686
 Fund Equity			
Unreserved fund balances	<u>(7,069)</u>	<u>2,302</u>	<u>(4,767)</u>
 Total liabilities and fund equity	 <u>\$ 32,904</u>	 <u>\$ 293,015</u>	 <u>\$ 325,919</u>

See accompanying Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2004

Schedule 2

	Special Revenue Management	Debt Service	Total
	Levy		
Revenues			
Local sources			
Local tax	\$ 29,876	\$ 291,121	\$ 320,997
State sources	20	189	209
Total revenues	29,896	291,310	321,206
Expenditures			
Current			
Instruction			
Regular program instruction	3,089	-	3,089
Other instruction	87	-	87
Support services			
Student support services	75	-	75
Instructional staff services	10,325	-	10,325
Administration services	474	-	474
Operation and maintenance of plant services	14,599	-	14,599
Transportation services	11,911	-	11,911
Non-instructional programs			
Food service operations	1,277	-	1,277
Community education operations	187	-	187
Other expenditures			
Long-term debt			
Principal	-	125,000	125,000
Interest and fiscal charges	-	166,863	166,863
Total expenditures	42,024	291,863	333,887
Deficiency of revenues under expenditures	(12,128)	(553)	(12,681)
Fund balances, beginning of year	5,059	2,855	7,914
Fund balances, end of year	\$ (7,069)	\$ 2,302	\$ (4,767)

See accompanying Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
For the Year Ended June 30, 2004

Schedule 3

Account	Balance, End of Year	Revenues	Expenditures	Balance, End of Year
Drama	\$ 50	\$ 2,694	\$ 1,932	\$ 812
Speech	-	4,474	4,474	-
Athletics	9,910	32,655	39,226	3,339
Boys' basketball	(164)	6,774	5,648	962
Boys' baseball	(278)	3,765	2,616	871
Wrestling	73	1,892	1,711	254
Girls' basketball	757	5,877	6,107	527
Softball	1,334	5,914	6,620	628
Student council	302	461	742	21
Annual	(196)	5,216	5,020	-
Newspaper	74	1,099	489	684
National Honor Society	-	189	150	39
Cheerleading	-	4,827	3,617	1,210
Eureka, Future Problem Solving	676	679	902	453
Leaders	123	-	123	-
FFA	1,649	17,963	17,042	2,570
FFA projects	24	-	-	24
FCCLA	374	1,176	1,156	394
Elementary play fund	887	285	630	542
Project Pride	455	-	-	455
Band activity	517	942	1,155	304
Vocal choir	1,734	520	2,060	194
Math and science club	454	-	-	454
Art club	758	19	-	777
Art projects	225	-	-	225
Spanish club	3,670	24	476	3,218
Track medals	875	-	875	-
Elementary	15	-	15	-
Special	2,824	1,187	1,034	2,977
Band uniforms	-	5,040	3,697	1,343

See accompanying Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
For the Year Ended June 30, 2004

Schedule 3

Account	Balance, Beginning of Year	Revenues	Expenditures	Balance, End of Year
Math club	\$ 58	\$ -	\$ 58	\$ -
Interest	10,371	344	206	10,509
Space camp	438	-	438	-
JH student council	316	663	778	201
Elementary student council	9,225	12,671	13,607	8,289
Music boosters club	677	-	29	648
Dance squad	657	6,594	7,201	50
Box tops for education	175	-	-	175
Parent partner activity	3,663	-	1,858	1,805
Class of 2000	702	-	702	-
Class of 2001	1,383	-	1,383	-
Class of 2002	2,037	-	1,821	216
Class of 2003	516	-	61	455
Class of 2004	657	3,161	3,818	-
Class of 2005	738	7,074	6,040	1,772
Class of 2006	2,467	716	1,500	1,683
Class of 2007	440	-	-	440
Class of 2008	84	900	900	84
Class of 2009	289	-	-	289
Class of 2010	-	2,285	2,042	243
Totals	<u>\$ 62,015</u>	<u>\$ 138,080</u>	<u>\$ 149,959</u>	<u>\$ 50,136</u>

See accompanying Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT
Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds
For the Last Four Years

Schedule 4

	Modified Accrual Basis			
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues				
Local sources				
Local tax	\$ 1,535,975	\$ 1,474,749	\$ 1,171,164	\$ 1,100,217
Tuition	390,859	333,382	276,251	236,365
Other	221,756	266,806	234,673	194,298
State sources	1,366,108	1,422,605	2,503,815	1,312,915
Federal sources	<u>78,511</u>	<u>45,865</u>	<u>52,764</u>	<u>20,278</u>
Total revenues	<u>\$ 3,593,209</u>	<u>\$ 3,543,407</u>	<u>\$ 4,238,667</u>	<u>\$ 2,864,073</u>
Expenditures				
Instruction				
Regular instruction	1,351,801	1,289,765	1,279,851	1,213,329
Special instruction	218,710	253,208	307,813	281,893
Other instruction	441,243	374,042	363,622	355,488
Support services				
Student services	38,859	36,353	33,162	14,550
Instructional staff services	89,936	81,532	74,492	70,859
Administration services	394,132	382,524	360,350	388,203
Operation and maintenance of plant services	318,191	355,797	241,175	291,274
Transportation services	102,842	189,173	139,577	133,810
Non-instructional programs	18,301	15,784	22,817	12,634
Other expenditures				
Facilities acquisition	836,027	2,630,520	841,897	39,851
Long-term debt				
Principal	125,000	85,000	-	-
Interest and other charges	166,863	199,631	-	-
AEA flowthrough	<u>112,742</u>	<u>120,422</u>	<u>121,487</u>	<u>111,904</u>
Total expenditures	<u>\$ 4,214,647</u>	<u>\$ 6,013,751</u>	<u>\$ 3,786,243</u>	<u>\$ 2,913,795</u>

See accompanying Independent Auditor's Report.

KAY L. CHAPMAN, CPA PC

119 Sycamore Street, Suite 100

Muscatine, Iowa 52761

563-264-1385

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING

To the Board of Education
Lone Tree Community School District
Lone Tree, Iowa

I have audited the financial statements of the Lone Tree Community School District as of and for the year ended June 30, 2004, and have issued my report thereon dated August 17, 2004. I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Lone Tree Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of noncompliance that are described below.

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

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

2. Certified Budget - Expenditures for the year ended June 30, 2004, exceeded the amounts budgeted in the Non-instructional Programs and Other Expenditures functions.

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

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

Conclusion - Response accepted.

3. Questionable Disbursements - I noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
4. 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.
5. Business Transactions - No business transactions between the District and District officials were noted.
6. 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.
7. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
8. Certified Enrollment - No variance in the basic enrollment data certified to the Department of Education were noted.
9. Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
10. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely and I noted no significant deficiencies in the amounts reported.
11. Financial Condition - The District had an unreserved, undesignated fund deficit in the Special Revenue, Management Fund of \$7,069 at June 30, 2004.

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

Response - We will investigate possible alternatives to eliminate this deficit.

Conclusion - Response accepted.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Lone Tree Community School District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Lone Tree Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Prior year reportable conditions have not been resolved. Current year reportable conditions are as follows:

- A. 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. I noted that the bank deposits, bank reconciliations, the posting of cash journals, payroll and payroll records are all done by the same person.

Recommendation - I 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 deemed necessary.

Conclusion - Response accepted.

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

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

I would like to acknowledge the many courtesies and assistance extended to me by the personnel of the Lone Tree Community School District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

A handwritten signature in cursive script that reads "Kay L. Chapman, CPA PC".

Kay L. Chapman, CPA PC
August 17, 2004

LONE TREE COMMUNITY SCHOOL DISTRICT
Audit Staff
June 30, 2004

This audit was performed by

Kay Chapman, CPA