

LENOX COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

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Lenox Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2004 election)		
Chris Christensen	President	2004
Todd Barker	Vice President	2005
Paul Maynes	Board Member	2004
Beverly Kinker	Board Member	2005
Brent Wise	Board Member	2006
Board of Education (After September 2004 election)		
Chris Christensen	President	2007
Paul Maynes	Vice President	2007
Todd Barker	Board Member	2005
Beverly Kinker	Board Member	2005
Brent Wise	Board Member	2006
School Officials		
Bradley Hohensee	Superintendent	2005
Paula Horton	District Secretary/ District Treasurer	2005
Richard Wilson	Attorney	2005

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Lenox 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 the Lenox Community School District, Lenox, Iowa as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 that our audit provides a reasonable basis for our opinions.

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

In accordance with Government Auditing Standards, we have also issued our report dated November 2, 2005 on our consideration of the Lenox Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 35 through 37 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 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 Lenox Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

November 2, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Lenox 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 \$3,021,748 in fiscal 2004 to \$3,157,763 in fiscal 2005, while General Fund expenditures increased from \$2,870,595 in fiscal 2004 to \$3,212,210 in fiscal 2005. This resulted in an increase in the District's General Fund balance from \$467,334 in fiscal 2004 to a balance of \$487,704 in fiscal 2005, a 4.36% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in property tax and federal grant revenue in fiscal 2005. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.
- An increase in interest rates during the past fiscal year, combined with more cash available to be invested, resulted in interest earnings in the General Fund alone to increase from \$3,569 in fiscal year 2004 to \$10,861 in fiscal year 2005.

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 Lenox 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 Lenox 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 Lenox 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.

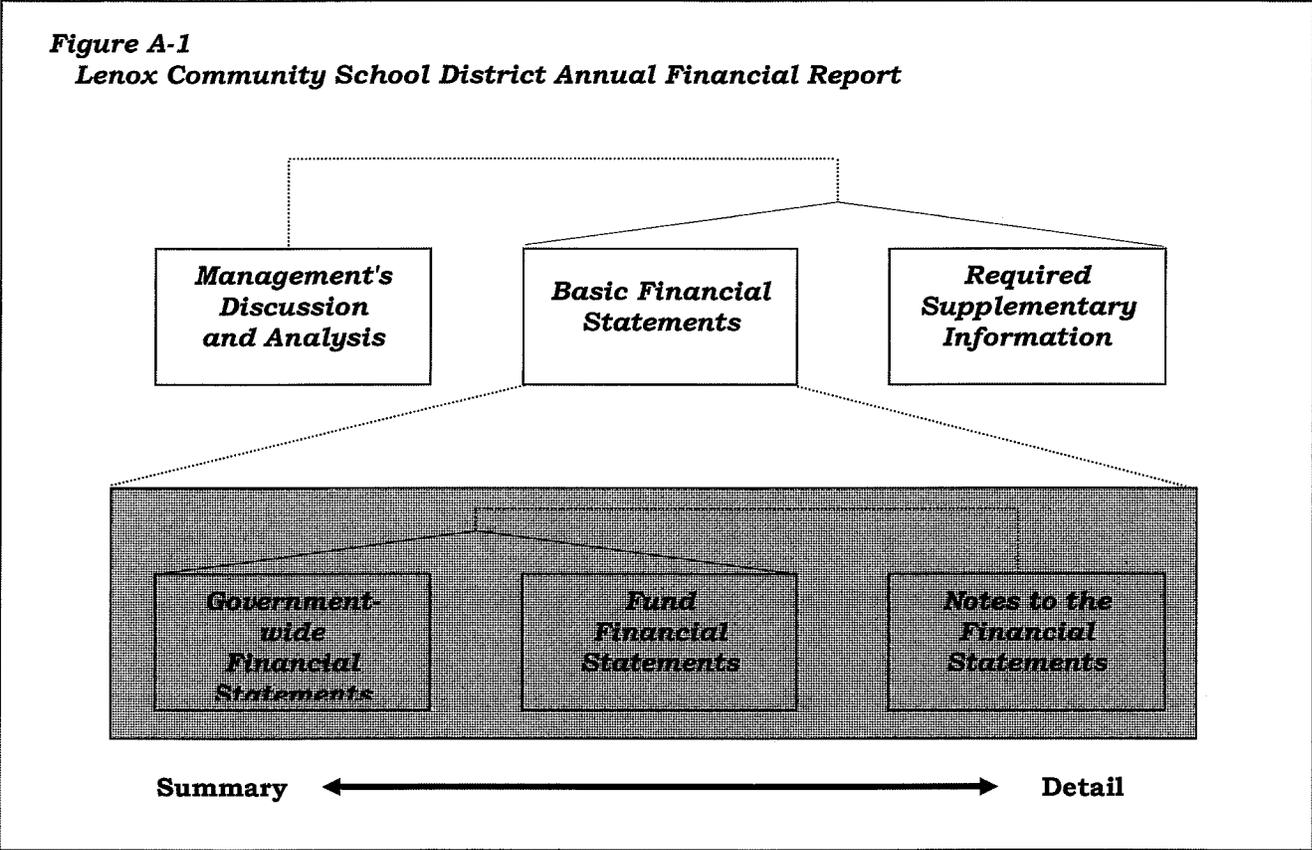


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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 Fund 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 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. These funds include the Agency fund.

- Agency Fund – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring 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 compared to June 30, 2004.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Current and other assets	\$ 2,962,957	5,524,471	8,881	8,392	2,971,838	5,532,863	-46.29%
Capital assets	4,640,796	1,361,039	23,543	9,005	4,664,339	1,370,044	240.45%
Total assets	7,603,753	6,885,510	32,424	17,397	7,636,177	6,902,907	10.62%
Long-term obligations	4,244,175	3,780,000	0	0	4,244,175	3,780,000	12.28%
Other liabilities	1,683,892	1,683,996	715	2,582	1,684,607	1,686,578	-0.12%
Total liabilities	5,928,067	5,463,996	715	2,582	5,928,782	5,466,578	8.46%
Net assets:							
Invested in capital assets, net of related debt	893,406	525,058	23,543	9,005	916,949	534,063	71.69%
Restricted	152,024	302,409	0	0	152,024	302,409	-49.73%
Unrestricted	630,256	594,047	8,166	5,810	638,422	599,857	6.43%
Total net assets	\$ 1,675,686	1,421,514	31,709	14,815	1,707,395	1,436,329	18.87%

The District’s combined net assets increased by 18.87%, or \$271,066, 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 represents 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 \$150,385, or 49.73% over the prior year. The decrease was primarily a result of the District issuing Capital Loan Notes that will be paid out of the Special Revenue, Physical Plant and Equipment Levy (PPEL) Fund, reducing the PPEL fund balance to zero.

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 – increased \$38,565, or 6.43%. This increase in unrestricted net assets was primarily a result of the increase in the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2005 compared to June 30, 2004.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Revenues:							
Program revenues:							
Charges for services	\$ 379,307	364,555	65,168	61,384	444,475	425,939	4.35%
Operating grants and contributions and restricted interest	593,428	485,625	84,393	83,695	677,821	569,320	19.06%
Capital grants and contributions and restricted interest	0	25,000	0	0	0	25,000	-100.00%
General revenues:							
Property tax	1,274,104	1,232,728	0	0	1,274,104	1,232,728	3.36%
Local option sales and services tax	157,474	44,475	0	0	157,474	44,475	254.07%
Unrestricted state grants	1,270,442	1,319,776	0	0	1,270,442	1,319,776	-3.74%
Other	133,504	26,931	12	26	133,516	26,957	395.29%
Total revenues	3,808,259	3,499,090	149,573	145,105	3,957,832	3,644,195	8.61%
Program expenses:							
Governmental activities:							
Instructional	2,483,389	2,252,279	0	0	2,483,389	2,252,279	10.26%
Support services	755,070	717,138	0	0	755,070	717,138	5.29%
Non-instructional programs	16,477	0	149,704	158,339	166,181	158,339	4.95%
Other expenses	299,151	274,934	0	0	299,151	274,934	8.81%
Total expenses	3,554,087	3,244,351	149,704	158,339	3,703,791	3,402,690	8.85%
Changes in net assets before other financing sources	254,172	254,739	(131)	(13,234)	254,041	241,505	5.19%
Other financing sources, net	0	0	17,025	0	17,025	0	100.00%
Changes in net assets	254,172	254,739	16,894	(13,234)	271,066	241,505	12.24%
Beginning net assets	1,421,514	1,166,775	14,815	28,049	1,436,329	1,194,824	20.21%
Ending net assets	\$ 1,675,686	1,421,514	31,709	14,815	1,707,395	1,436,329	18.87%

Property tax, local option sales and services tax and unrestricted state grants account for 68% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 87% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$3,808,259 and expenses were \$3,554,087.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 2,483,389	1,618,545
Support services	755,070	753,629
Non-instructional programs	16,477	16,477
Other expenses	299,151	192,701
Totals	\$ 3,554,087	2,581,352

- The cost financed by users of the District’s programs was \$379,307.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$593,428.
- The net cost of governmental activities was financed with \$1,274,104 in property tax, \$157,474 in local option sales and services tax, \$1,270,442 in state foundation aid, \$76,050 in interest income and \$57,454 in gain on sale of equipment.

Business-Type Activities

Revenues of the District’s business-type activities were \$149,573 and expenses were \$149,704. The District’s business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Lenox Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,147,944, below last year’s ending fund balances of a \$3,711,431. However, the primary reason for the decrease in combined fund balances in fiscal 2005 is due to the capital construction on the elementary.

Governmental Fund Highlights

- The District’s improving General Fund financial position from \$467,334 to \$487,704 is the product of many factors:
 - Increases in federal grants and the increase in tax levy during the year resulted in an increase in revenues.
 - The increase in negotiated salary and benefits, as well as existing expenditure commitments of the District, resulted in an increase in expenditures.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$14,815 at June 30, 2004 to \$31,709 at June 30, 2005, representing an increase of 114.03%.

BUDGETARY HIGHLIGHTS

Over the course of the year, Lenox Community School District amended its annual budget one time to reflect additional expenditures associated with the other expenditures.

The District's revenues were \$144,529 less than budgeted revenues, a variance of 3.57%. 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 \$4.6 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$65,816.

The original cost of the District's capital assets was \$5.84 million. Governmental funds account for \$5.78 million with the remainder of \$0.06 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$4,270,691 at June 30, 2005, compared to \$949,990 reported at June 30, 2004. This increase resulted from the capital construction paid by the District on the Lenox Elementary project.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total Change 2003-04
	Activities		Activities		School District		
	2005	2004	2005	2004	2005	2004	
Land	\$ 50,521	50,521	0	0	50,521	50,521	0.00%
Construction in progress	4,270,691	949,990	0	0	4,270,691	949,990	77.76%
Buildings	247,400	261,900	0	0	247,400	261,900	-5.86%
Machinery and equipment	72,184	98,628	23,543	9,005	95,727	107,633	-12.44%
Total	\$ 4,640,796	1,361,039	23,543	9,005	4,664,339	1,370,044	70.63%

Long-Term Debt

At June 30, 2005, the District had \$4,244,175 in general obligation and other long-term debt outstanding. This represents an increase of 12.3% 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 \$3,680,000 at June 30, 2005.

The District had total outstanding Capital Loan Notes payable from the Special Revenue, Physical Plant and Equipment Levy Fund of \$550,000 at June 30, 2005.

The District had total outstanding Early Retirement payable of \$14,175 at June 30, 2005.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2005	2004	
General Obligation Bonds	\$ 3,680,000	3,780,000	-2.6%
Capital Loan Notes	550,000	0	100.0%
Early Retirement	14,175	0	100.0%
Totals	\$ 4,244,175	3,780,000	12.3%

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:

- 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 Paula Horton, District Secretary, Lenox Community School District, 600 South Locust, Lenox, Iowa, 50851.

BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 1,402,960	3,446	1,406,406
Receivables:			
Property tax:			
Delinquent	32,803	0	32,803
Succeeding year	1,186,059	0	1,186,059
Income surtax	142,552	0	142,552
Accounts	580	0	580
Due from other governments	198,003	0	198,003
Inventories	0	5,435	5,435
Capital assets, net of accumulated depreciation (Note 4)	4,640,796	23,543	4,664,339
TOTAL ASSETS	7,603,753	32,424	7,636,177
LIABILITIES			
Accounts payable	200,754	5	200,759
Salaries and benefits payable	285,648	0	285,648
Interest payable	11,431	0	11,431
Deferred revenue:			
Succeeding year property tax	1,186,059	0	1,186,059
Other	0	710	710
Long-term liabilities (Note 5):			
Portion due within one year:			
General obligation bonds payable	140,000	0	140,000
Early retirement payable	14,175	0	14,175
Portion due after one year:			
General obligation bonds payable	3,540,000	0	3,540,000
Capital loan notes payable	550,000	0	550,000
TOTAL LIABILITIES	5,928,067	715	5,928,782
NET ASSETS			
Investment in capital assets, net of related debt	893,406	23,543	916,949
Restricted for:			
Management levy	114,888	0	114,888
Other special revenue purposes	37,136	0	37,136
Unrestricted	630,256	8,166	638,422
TOTAL NET ASSETS	\$ 1,675,686	31,709	1,707,395

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LENOX 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	\$ 1,372,696	118,399	468,587
Special instruction	783,153	162,936	18,391
Other instruction	327,540	96,531	0
	<u>2,483,389</u>	<u>377,866</u>	<u>486,978</u>
Support services:			
Student services	19,190	0	0
Instructional staff services	45,215	0	0
Administration services	308,807	0	0
Operation and maintenance of plant services	267,729	0	0
Transportation services	114,129	1,441	0
	<u>755,070</u>	<u>1,441</u>	<u>0</u>
Non-instructional programs:			
Food service operations	16,477	0	0
Other expenditures:			
Facilities acquisitions	37,608	0	0
Long-term debt interest and fiscal charges	140,593	0	0
AEA flowthrough	106,450	0	106,450
Depreciation (unallocated)*	14,500	0	0
	<u>299,151</u>	<u>0</u>	<u>106,450</u>
Total governmental activities	3,554,087	379,307	593,428
Business-Type activities:			
Non-instructional programs:			
Nutrition services	149,704	65,168	84,393
Total business-type activities	<u>149,704</u>	<u>65,168</u>	<u>84,393</u>
Total	<u>\$ 3,703,791</u>	<u>444,475</u>	<u>677,821</u>

General Revenues:

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

Total general revenues

Changes in net assets

Other Financing Sources:

 Capital contribution

Changes in net assets

Net assets beginning of year

Net assets end of year

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

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(785,710)	0	(785,710)
(601,826)	0	(601,826)
(231,009)	0	(231,009)
<u>(1,618,545)</u>	<u>0</u>	<u>(1,618,545)</u>
(19,190)	0	(19,190)
(45,215)	0	(45,215)
(308,807)	0	(308,807)
(267,729)	0	(267,729)
(112,688)	0	(112,688)
<u>(753,629)</u>	<u>0</u>	<u>(753,629)</u>
<u>(16,477)</u>	<u>0</u>	<u>(16,477)</u>
(37,608)	0	(37,608)
(140,593)	0	(140,593)
0	0	0
(14,500)	0	(14,500)
<u>(192,701)</u>	<u>0</u>	<u>(192,701)</u>
(2,581,352)	0	(2,581,352)
0	(143)	(143)
<u>0</u>	<u>(143)</u>	<u>(143)</u>
<u>(2,581,352)</u>	<u>(143)</u>	<u>(2,581,495)</u>
\$ 1,017,861	0	1,017,861
126,113	0	126,113
130,130	0	130,130
157,474	0	157,474
1,270,442	0	1,270,442
76,050	12	76,062
57,454	0	57,454
<u>2,835,524</u>	<u>12</u>	<u>2,835,536</u>
254,172	(131)	254,041
<u>0</u>	<u>17,025</u>	<u>17,025</u>
254,172	16,894	271,066
<u>1,421,514</u>	<u>14,815</u>	<u>1,436,329</u>
<u>\$ 1,675,686</u>	<u>31,709</u>	<u>1,707,395</u>

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

	General	Physical Plant and Equipment Levy	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS					
Cash and pooled investments	\$ 768,562	194,395	255,197	184,806	1,402,960
Receivables:					
Property tax:					
Delinquent	24,894	3,188	0	4,721	32,803
Succeeding year	937,818	108,271	0	139,970	1,186,059
Income surtax	126,713	15,839	0	0	142,552
Accounts	0	0	0	580	580
Due from other governments	115,689	0	82,314	0	198,003
TOTAL ASSETS	\$ 1,973,676	321,693	337,511	330,077	2,962,957
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 135,793	0	64,254	707	200,754
Salaries and benefits payable	285,648	0	0	0	285,648
Deferred revenue:					
Succeeding year property tax	937,818	108,271	0	139,970	1,186,059
Income surtax	126,713	15,839	0	0	142,552
Total liabilities	1,485,972	124,110	64,254	140,677	1,815,013
Fund balances:					
Reserved for:					
Debt service	0	0	0	23,201	23,201
Unreserved:					
Designated for special purposes of the board	91,585	0	0	0	91,585
Undesignated:					
General	396,119	0	0	0	396,119
Physical plant and equipment levy	0	197,583	0	0	197,583
Capital projects	0	0	273,257	0	273,257
Management levy	0	0	0	129,063	129,063
Other special revenue purposes	0	0	0	37,136	37,136
Total fund balances	487,704	197,583	273,257	189,400	1,147,944
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,973,676	321,693	337,511	330,077	2,962,957

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LENOX 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 16)	\$	1,147,944
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		4,640,796
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		142,552
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.		(11,431)
Long-term liabilities, including general obligation bonds payable, capital loan notes payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(4,244,175)</u>
Net assets of governmental activites (page 13)	\$	<u>1,675,686</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LENOX 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 Nonmajor Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 988,230	126,113	92,403	159,761	1,366,507
Tuition	281,335	0	0	0	281,335
Other	24,548	1,052	63,501	84,921	174,022
State sources	1,513,700	89	65,071	131	1,578,991
Federal sources	349,950	0	0	0	349,950
Total revenues	<u>3,157,763</u>	<u>127,254</u>	<u>220,975</u>	<u>244,813</u>	<u>3,750,805</u>
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	1,355,730	0	0	10,546	1,366,276
Special instruction	783,153	0	0	0	783,153
Other instruction	244,620	0	0	84,980	329,600
	<u>2,383,503</u>	<u>0</u>	<u>0</u>	<u>95,526</u>	<u>2,479,029</u>
Support services:					
Student services	19,190	0	0	0	19,190
Instructional staff services	45,215	0	0	0	45,215
Administration services	315,065	0	0	3,305	318,370
Operation and maintenance of plant services	253,965	0	0	13,764	267,729
Transportation services	72,345	0	0	13,325	85,670
	<u>705,780</u>	<u>0</u>	<u>0</u>	<u>30,394</u>	<u>736,174</u>
Non-instructional programs:					
Food service operations	16,477	0	0	0	16,477
Other expenditures:					
Facilities acquisitions	0	13,597	3,344,712	0	3,358,309
Long-term debt:					
Principal	0	0	0	100,000	100,000
Interest and fiscal charges	0	0	0	142,670	142,670
AEA flowthrough	106,450	0	0	0	106,450
	<u>106,450</u>	<u>13,597</u>	<u>3,344,712</u>	<u>242,670</u>	<u>3,707,429</u>
Total expenditures	<u>3,212,210</u>	<u>13,597</u>	<u>3,344,712</u>	<u>368,590</u>	<u>6,939,109</u>
Excess(deficiency) of revenues over(under) expenditures	(54,447)	113,657	(3,123,737)	(123,777)	(3,188,304)
OTHER FINANCING SOURCES (USES):					
Transfer in	0	0	0	129,148	129,148
Transfer out	0	(25,051)	(104,097)	0	(129,148)
Compensation for loss of fixed assets	73,747	0	0	0	73,747
Sale of equipment	1,070	0	0	0	1,070
Sale of capital loan notes	0	0	550,000	0	550,000
	<u>74,817</u>	<u>(25,051)</u>	<u>445,903</u>	<u>129,148</u>	<u>624,817</u>
Net change in fund balances	20,370	88,606	(2,677,834)	5,371	(2,563,487)
Fund balance beginning of year	467,334	108,977	2,951,091	184,029	3,711,431
Fund balance end of year	<u>\$ 487,704</u>	<u>197,583</u>	<u>273,257</u>	<u>189,400</u>	<u>1,147,944</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LENOX COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2005

Net change in fund balances - total governmental funds (page 18) \$ (2,563,487)

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. Capital outlay expenditures exceed depreciation expense and loss on disposal in the current year, as follows:

Expenditures for capital assets	\$ 3,360,449	
Depreciation expense	(63,329)	
Loss on disposal of capital assets	<u>(17,363)</u>	3,279,757

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:

Issued	\$ (550,000)	
Repaid	<u>100,000</u>	(450,000)

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 funds, as follows:

Early retirement		(14,175)
------------------	--	----------

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.

2,077

Changes in net assets of governmental activities (page 15) \$ 254,172

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

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

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 3,446
Inventories	5,435
Capital assets, net of accumulated depreciation(Note 5)	<u>23,543</u>
TOTAL ASSETS	<u>32,424</u>
LIABILITIES	
Accounts payable	5
Deferred revenue:	
Other	710
TOTAL LIABILITIES	<u>715</u>
NET ASSETS	
Investment in capital assets	23,543
Unrestricted	8,166
TOTAL NET ASSETS	<u>\$ 31,709</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 65,168
TOTAL OPERATING REVENUES	65,168
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	63,399
Benefits	11,201
Services	821
Supplies	71,796
Depreciation	2,487
TOTAL OPERATING EXPENSES	149,704
OPERATING LOSS	(84,536)
NON-OPERATING REVENUES:	
State sources	2,082
Federal sources	82,311
Interest income	12
TOTAL NON-OPERATING REVENUES	84,405
Change in net assets before other financing sources	(131)
OTHER FINANCING SOURCES:	
Capital contributions	17,025
Change in net assets	16,894
Net assets beginning of year	14,815
Net assets end of year	\$ 31,709

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LENOX 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	\$ 63,327
Cash received from miscellaneous sources	1,672
Cash payments to employees for services	(76,298)
Cash payments to suppliers for goods or services	(64,299)
Net cash used in operating activities	(75,598)
Cash flows from non-capital financing activities:	
State grants received	2,082
Federal grants received	72,297
Net cash provided by non-capital financing activities	74,379
Cash flows from investing financing activities:	
Interest on investments	12
Net cash provided by investing financing activities	12
Net decrease in cash and cash equivalents	(1,207)
Cash and cash equivalents at beginning of year	4,653
Cash and cash equivalents at end of year	\$ 3,446
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (84,536)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	10,014
Depreciation	2,487
Increase in inventories	(1,696)
Increase in accounts payable	5
Decrease in salaries and benefits payable	(1,703)
Decrease in deferred revenue	(169)
Net cash used in operating activities	\$ (75,598)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 3,446

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2005, the District received Federal commodities valued at \$10,014.

During the year ended June 30, 2005, the District received capital contributions valued at \$17,125.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LENOX COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2005

	<u>Agency</u>
ASSETS	
Cash and pooled investments	\$ 274
TOTAL ASSETS	<u>\$ 274</u>
LIABILITIES	
Due to other groups	\$ 274
TOTAL LIABILITIES	<u>\$ 274</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LENOX COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

(1) Summary of Significant Accounting Policies

The Lenox 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 Lenox, Iowa, and the predominate agricultural territory in Adams, Ringgold, Taylor 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, Lenox 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 Lenox 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, Taylor and Union Counties 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 Physical Plant and Equipment Levy Fund is utilized to account for major equipment purchases and capital improvements.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District reports the following proprietary fund:

The District's proprietary funds are the Enterprise, 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 and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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	\$ 1,000
Buildings	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

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
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for the current school year, which is paid in July and August, have been accrued as liabilities.

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

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

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

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

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

Designated Fund Balances - In the governmental fund financial statements, designated funds are not available for appropriation but are set aside for a specific purpose. The designated fund balance is instructional support levy to be used in the 2005-06 year.

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 non-instructional programs functional area exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2005 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.

At June 30, 2005, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	<u>\$ 893,764</u>

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

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

(3) Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Special Revenue, Physical Plant and Equipment Levy	\$ 25,051
Debt Service	Capital Projects	<u>104,097</u>
Total		<u>\$ 129,148</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 Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 43,576	17,025	0	60,601
Less accumulated depreciation	34,571	2,487	0	37,058
Business-type activities capital assets, net	<u>\$ 9,005</u>	<u>14,538</u>	<u>0</u>	<u>23,543</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 50,521	0	0	50,521
Construction in progress	949,990	3,320,701	0	4,270,691
Total capital assets not being depreciated	<u>1,000,511</u>	<u>3,320,701</u>	<u>0</u>	<u>4,321,212</u>
Capital assets being depreciated:				
Buildings	819,578	0	0	819,578
Machinery and equipment	650,608	39,748	53,154	637,202
Total capital assets being depreciated	<u>1,470,186</u>	<u>39,748</u>	<u>53,154</u>	<u>1,456,780</u>
Less accumulated depreciation for:				
Buildings	557,678	14,500	0	572,178
Machinery and equipment	551,980	48,829	35,791	565,018
Total accumulated depreciation	<u>1,109,658</u>	<u>63,329</u>	<u>35,791</u>	<u>1,137,196</u>
Total capital assets being depreciated, net	<u>360,528</u>	<u>(23,581)</u>	<u>17,363</u>	<u>319,584</u>
Governmental activities capital assets, net	<u>\$ 1,361,039</u>	<u>3,297,120</u>	<u>17,363</u>	<u>4,640,796</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 8,665
Other		2,440
Support services:		
Administration		9,265
Transportation		28,459
		<u>48,829</u>
Unallocated depreciation		<u>14,500</u>
Total governmental activities depreciation expense		<u>\$ 63,329</u>
Business-type activities:		
Food services		\$ 2,487
Total business-type activities depreciation expense		<u>\$ 2,487</u>

(5) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2005 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 3,780,000	0	100,000	3,680,000	140,000
Capital Loan Notes	0	550,000	0	550,000	0
Early Retirement	0	14,175	0	14,175	14,175
Total	<u>\$ 3,780,000</u>	<u>564,175</u>	<u>100,000</u>	<u>4,244,175</u>	<u>154,175</u>

General Obligation Bonds Payable

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

Year Ending June 30,	Bond Issue of July 1, 2003			
	Interest Rates	Principal	Interest	Total
2006	4.00 %	\$ 140,000	154,095	294,095
2007	4.00	150,000	148,495	298,495
2008	4.00	155,000	142,495	297,495
2009	4.00	160,000	136,295	296,295
2010	4.00	170,000	129,895	299,895
2011	4.00	175,000	123,095	298,095
2012	3.75	180,000	116,095	296,095
2013	3.80	190,000	109,345	299,345
2014	3.90	195,000	102,125	297,125
2015	4.00	200,000	94,520	294,520
2016	4.10	210,000	86,520	296,520
2017	4.20	220,000	77,910	297,910
2018	4.30	230,000	68,670	298,670
2019	4.40	240,000	58,780	298,780
2020	4.45	250,000	48,220	298,220
2021	4.50	260,000	37,095	297,095
2022	4.55	270,000	25,395	295,395
2023	4.60	285,000	13,110	298,110
Total		\$ 3,680,000	1,672,155	5,352,155

Capital Loan Notes Payable

Details of the District's June 30, 2005 capital loan notes indebtedness are as follows:

Year Ending June 30,	Note Issue of June 30, 2005			
	Interest Rates	Principal	Interest	Total
2006	2.95 %	\$ -	16,865	16,865
2007	2.95	70,000	18,343	88,343
2008	3.05	70,000	16,278	86,278
2009	3.20	75,000	14,143	89,143
2010	3.35	80,000	11,742	91,742
2011	3.45	80,000	9,062	89,062
2012	3.55	85,000	6,302	91,302
2013	3.65	90,000	3,285	93,285
Total		\$ 550,000	96,020	646,020

Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of service to the District. Employees must complete an application which is required to be approved by the Board of Education. A liability

has been recorded in the Statement of Net Assets representing the District's commitment to fund the early retirement incentives.

(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 covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$114,115, \$109,419 and \$110,310 respectively, equal to the required contributions for each year.

(7) Risk Management

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

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-funded 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 for the 2004-2005 and 2005-2006 plan years. The deficit recovery is equal to 2% of the 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 which was paid with the 2004-2005 premiums was \$3,031 and the remainder of the assessment is an unknown liability as of June 30, 2005 and will be paid 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 \$151,571.

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

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

(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 \$106,450 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 Commitment

The District has entered into various contracts totaling \$4,524,678 for construction services on the Lenox Elementary. As of June 30, 2005, costs of \$4,270,691 had been incurred against the contracts. The balance of \$253,987 remaining at June 30, 2005 will be paid as work on the project progresses.

REQUIRED SUPPLEMENTARY INFORMATION

LENOX COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (GAAP BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Revenues:		
Local sources	\$ 1,821,864	65,180
State sources	1,578,991	2,082
Federal sources	349,950	82,311
Total revenues	<u>3,750,805</u>	<u>149,573</u>
Expenditures:		
Instruction	2,414,443	0
Support services	736,174	0
Non-instructional programs	81,063	149,704
Other expenditures	3,707,429	0
Total expenditures	<u>6,939,109</u>	<u>149,704</u>
Excess(deficiency) of revenues over(under) expenditures	(3,188,304)	(131)
Other financing sources, net	<u>624,817</u>	<u>17,025</u>
Excess(deficiency) of revenues and other financing sources over(under) expenditures	(2,563,487)	16,894
Balance beginning of year	<u>3,711,431</u>	<u>14,815</u>
Balance end of year	<u>\$ 1,147,944</u>	<u>31,709</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
1,887,044	1,898,838	1,898,838	(11,794)
1,581,073	1,658,069	1,658,069	(76,996)
432,261	488,000	488,000	(55,739)
<u>3,900,378</u>	<u>4,044,907</u>	<u>4,044,907</u>	<u>(144,529)</u>
2,479,029	3,049,000	3,049,000	569,971
736,174	1,078,000	1,078,000	341,826
166,181	190,164	190,164	23,983
<u>3,707,429</u>	<u>2,401,553</u>	<u>4,500,000</u>	<u>792,571</u>
<u>7,088,813</u>	<u>6,718,717</u>	<u>8,817,164</u>	<u>1,728,351</u>
(3,188,435)	(2,673,810)	(4,772,257)	1,583,822
641,842	0	0	641,842
(2,546,593)	(2,673,810)	(4,772,257)	2,225,664
3,726,246	2,676,793	2,676,793	1,049,453
<u>1,179,653</u>	<u>2,983</u>	<u>(2,095,464)</u>	<u>3,275,117</u>

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

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$2,098,447.

OTHER SUPPLEMENTARY INFORMATION

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

	Special Revenue Funds				Total
	Manage- ment	Student Activity	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
ASSETS					
Cash and pooled investments	\$ 128,187	37,163	165,350	19,456	184,806
Receivables:					
Property tax:					
Current year delinquent	876	0	876	3,845	4,721
Succeeding year	52,000	0	52,000	87,970	139,970
Accounts	0	580	580	0	580
TOTAL ASSETS	\$ 181,063	37,743	218,806	111,271	330,077
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable	\$ 0	607	607	100	707
Deferred revenue:					
Succeeding year property tax	52,000	0	52,000	87,970	139,970
	52,000	607	52,607	88,070	140,677
Fund equity:					
Fund balances:					
Reserved for Debt Service	0	0	0	23,201	23,201
Unreserved:					
Undesignated	129,063	37,136	166,199	0	166,199
Total fund balances	129,063	37,136	166,199	23,201	189,400
TOTAL LIABILITIES AND FUND EQUITY	\$ 181,063	37,743	218,806	111,271	330,077

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LENOX COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2005

	Special Revenue Funds				Total
	Management	Student Activity	Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
REVENUES:					
Local sources:					
Local tax	\$ 29,631	0	29,631	130,130	159,761
Other	1,074	83,797	84,871	50	84,921
State sources	24	0	24	107	131
TOTAL REVENUES	30,729	83,797	114,526	130,287	244,813
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	10,546	0	10,546	0	10,546
Other instruction	0	84,980	84,980	0	84,980
Support services:					
Administration services	3,305	0	3,305	0	3,305
Operation and maintenance of plant services	13,764	0	13,764	0	13,764
Student transportation	13,325	0	13,325	0	13,325
Other expenditures:					
Long-term debt:					
Principal	0	0	0	100,000	100,000
Interest and fiscal charges	0	0	0	142,670	142,670
TOTAL EXPENDITURES	40,940	84,980	125,920	242,670	368,590
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(10,211)	(1,183)	(11,394)	(112,383)	(123,777)
OTHER FINANCING SOURCES:					
Transfer in	0	0	0	129,148	129,148
TOTAL OTHER FINANCING SOURCES	0	0	0	129,148	129,148
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(10,211)	(1,183)	(11,394)	16,765	5,371
FUND BALANCE BEGINNING OF YEAR	139,274	38,319	177,593	6,436	184,029
FUND BALANCE END OF YEAR	\$ 129,063	37,136	166,199	23,201	189,400

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Athletics				
General athletics	\$ 852	5,077	5,553	376
Football	7,060	5,579	8,193	4,446
Volleyball	2,447	2,139	2,354	2,232
Boys Basketball	5,349	3,141	3,870	4,620
Girls Basketball	7,569	3,073	5,420	5,222
Wrestling	(518)	3,754	3,046	190
Girls Track	307	729	1,099	(63)
Boys Track	2,027	1,933	1,155	2,805
Golf	2	37	334	(295)
HS Baseball	(2,356)	6,951	5,837	(1,242)
JH Baseball	209	0	(498)	707
HS Softball	(408)	3,060	2,071	581
JH Softball	202	0	(487)	689
Weight Room	0	0	(368)	368
Bowling	0	753	865	(112)
	<u>22,742</u>	<u>36,226</u>	<u>38,444</u>	<u>20,524</u>
Band/Vocal				
HS Music	2,079	4,139	4,059	2,159
Uniform Fees	1,074	448	1	1,521
Music Supplies	(5,484)	1,230	2,832	(7,086)
	<u>(2,331)</u>	<u>5,817</u>	<u>6,892</u>	<u>(3,406)</u>
Clubs/Organizations:				
Art Club	42	0	0	42
Peer Helpers	74	0	0	74
Football Cheerleaders	2,601	1,972	1,217	3,356
Basketball Cheerleaders	226	0	36	190
Wrestling Cheerleaders	(301)	533	550	(318)
Student Council	28	1,779	1,772	35
National Honor Society	267	0	90	177
Annual Staff	15,009	6,304	6,624	14,689
Drama Club	(4,641)	554	886	(4,973)
Explorer's	31	0	0	31
Foreign Language	81	0	0	81
	<u>13,417</u>	<u>11,142</u>	<u>11,175</u>	<u>13,384</u>

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

Account	Balance End of Year	Revenues	Expendi- tures	Balance End of Year
Class Accounts:				
Class of 2004	1,021	0	207	814
Class of 2005	2,283	9,382	11,397	268
Class of 2006	113	14,619	12,479	2,253
Class of 2007	69	0	50	19
Class of 2008	71	70	60	81
Class of 2009	6	38	47	(3)
Class of 2010	0	13	1	12
	<u>3,563</u>	<u>24,122</u>	<u>24,241</u>	<u>3,444</u>
Elementary Activities:				
Memory Book	981	1,227	1,053	1,155
Student Council	935	1,147	728	1,354
Activities	128	0	0	128
Music	98	131	140	89
	<u>2,142</u>	<u>2,505</u>	<u>1,921</u>	<u>2,726</u>
Miscellaneous:				
Student Pop	(221)	3,383	1,910	1,252
Outdoor Classroom	(605)	0	0	(605)
Interest	0	145	145	0
JH Stand	69	0	252	(183)
Agency Funds	(457)	457	0	0
	<u>(1,214)</u>	<u>3,985</u>	<u>2,307</u>	<u>464</u>
Total	<u>\$ 38,319</u>	<u>83,797</u>	<u>84,980</u>	<u>37,136</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
ASSETS				
Cash and pooled investments	\$ 457	24,413	24,596	274
LIABILITIES				
Due to other groups	\$ 457	24,413	24,596	274

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LENOX 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	\$ 1,366,507	1,294,775	879,478	763,927
Tuition	281,335	263,624	271,605	227,605
Other	174,022	124,466	100,459	130,473
State sources	1,578,991	1,580,030	1,697,675	1,641,321
Federal sources	349,950	250,371	218,928	176,462
Total	\$ 3,750,805	3,513,266	3,168,145	2,939,788
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 1,366,276	1,251,328	1,322,768	1,449,404
Special instruction	783,153	661,963	733,743	640,297
Other instruction	265,014	303,544	304,869	316,015
Support services:				
Student services	19,190	17,791	21,082	42,587
Instructional staff services	45,215	39,274	38,362	45,633
Administration services	318,370	316,205	378,093	368,488
Operation and maintenance of plant services	267,729	232,156	226,526	238,895
Transportation services	85,670	81,062	92,669	74,691
Non-instructional programs:				
Food service operations	81,063	0	0	0
Other expenditures:				
Facilities acquisitions	3,358,309	950,189	23,508	40,553
Long-term debt:				
Principal	100,000	145,715	42,715	42,714
Interest and fiscal charges	142,670	137,862	5,100	7,509
AEA flow-through	106,450	109,086	117,901	116,416
Total	\$ 6,939,109	4,246,175	3,307,336	3,383,202

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

Independent Auditor's Report on 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
Lenox 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 Lenox 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 November 2, 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 Lenox Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a 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 item I-A-05 is a material weakness.

Compliance and Other Matters

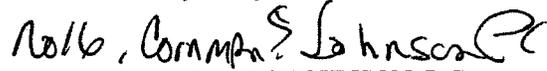
As part of obtaining reasonable assurance about whether Lenox Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a 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 an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

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 Lenox Community School District and other parties to whom Lenox 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 Lenox 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.

November 2, 2005

LENOX COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part I: Findings Related to the Basic Financial Statements:

REPORTABLE CONDITIONS:

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

LENOX COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part II: Other Findings Related to Statutory Reporting

- II-A-05 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
- II-B-05 Certified Budget - District disbursements for the year ended June 30, 2005, did not exceed the amount budgeted.
- II-C-05 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-D-05 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-E-05 Business Transactions - Business transactions between the District and District officials were noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Joyce Sweeney, Secretary Spouse owns Sweeney Repair	Repairs	\$5,259
Tood Barker, Board Member Part owner of Barker Implement	Supplies and Services	\$478
Liz Brown, Teacher Co-owner of Video Magic	Senior Video	\$125

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with the spouse of the secretary do not appear to represent a conflict of interest.

The transactions with the board member do not appear to represent a conflict of interest in accordance with Chapter 279.7A of the Code of Iowa, since the amount was less than \$2,500.

In accordance with the Attorney General's opinion dated July 2, 1992, the above transactions with the teacher do not appear to represent a conflict of interest.

- II-F-05 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-G-05 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

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

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

Conclusion - Response accepted.

II-H-05 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-I-05 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-J-05 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.