

LONE TREE COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

LONE TREE COMMUNITY SCHOOL DISTRICT
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LONE TREE COMMUNITY SCHOOL DISTRICT
 Officials
 June 30, 2005

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2004 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
(After September 2004 Election)		
Jon Ronan	Board President	2007
Carmen Swanson	Board Member	2005
Sally Robbins	Board Member	2005
Jim Lively	Board Member	2006
James Loan	Board Member	2007
School Officials		
Michael Reeves	Superintendent	2005
Kelli D. Forbes	District Secretary/Treasurer	2005
Brian Gruhn	Attorney	2005

KAY L. CHAPMAN, CPA PC

210 Cedar Street
Muscatine, Iowa 52761
563-264-1385

Independent Auditor's Report

To the Board of Education
Lone Tree Community School District

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, 2005, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. 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 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 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, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated August 23, 2005 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, contracts and other matters. The purpose of that report is to describe the scope of my 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 my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 39 through 40 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 required supplementary information. 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 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other 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.

A handwritten signature in black ink that reads "Kay L. Chapman, CPA PC". The signature is written in a cursive, flowing style.

Kay L. Chapman, CPA PC
August 23, 2005

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, 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 \$2,997,545 in fiscal 2004 to \$3,145,114 in fiscal 2005, while General Fund expenditures increased from \$2,894,774 in fiscal 2004 to \$2,941,078 in fiscal 2005. The District's General Fund balance increased from \$1,063,458 in fiscal 2004 to \$1,267,494 in fiscal 2005, a 19% increase.
- The increase in General Fund revenues was attributable to an increase in open enrollment in funds and (REAP) a federal grant received in fiscal 2005. 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 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 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.

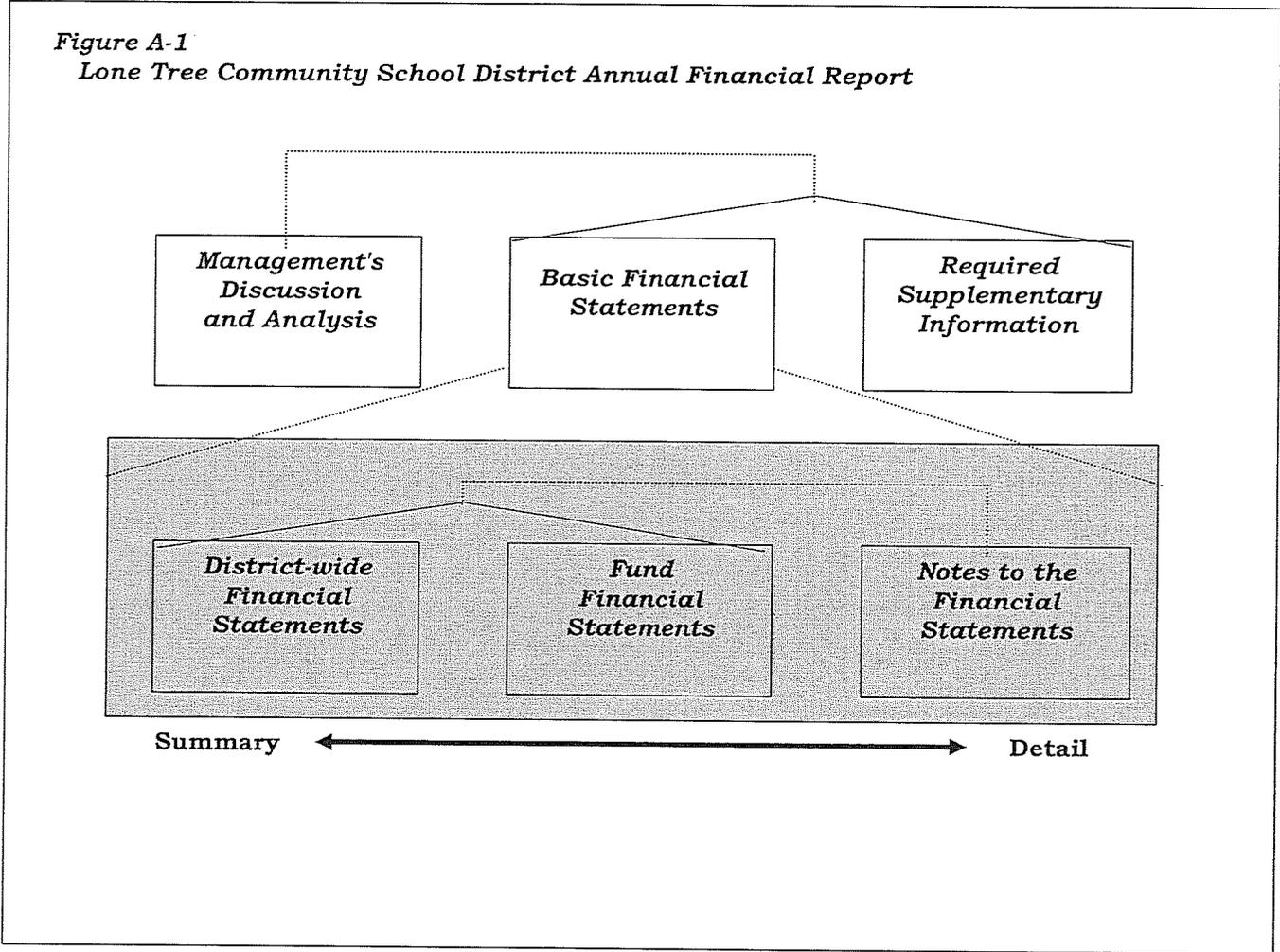


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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, 2005 compared to June 30, 2004.

Figure A-3
Condensed Statement of Net Assets

	Governmental		Business Type		Total		Total Change
	Activities		Activities		School District		
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2004-2005</u>
Current and other assets	\$ 3,427,938	\$ 3,278,015	\$ 20,700	\$ 4,946	\$ 3,448,638	\$ 3,282,961	5.05%
Capital assets	<u>3,530,205</u>	<u>3,621,347</u>	<u>87,255</u>	<u>98,856</u>	<u>3,617,460</u>	<u>3,720,203</u>	-2.76%
Total assets	<u>6,958,143</u>	<u>6,899,362</u>	<u>107,955</u>	<u>103,802</u>	<u>7,066,098</u>	<u>7,003,164</u>	0.90%
Long-term obligations	3,240,000	3,370,000	-	-	3,240,000	3,370,000	-3.86%
Other liabilities	<u>1,457,108</u>	<u>1,488,461</u>	-	-	<u>1,457,108</u>	<u>1,488,461</u>	-2.11%
Total liabilities	<u>4,697,108</u>	<u>4,858,461</u>	-	-	<u>4,697,108</u>	<u>4,858,461</u>	-3.32%
Net assets							
Invested in capital assets, net of related debt	295,891	254,877	87,255	98,856	383,146	353,733	8.32%
Restricted	730,011	754,782	-	-	730,011	754,782	-3.28%
Unrestricted	<u>1,235,133</u>	<u>1,031,242</u>	<u>20,700</u>	<u>4,946</u>	<u>1,255,833</u>	<u>1,036,188</u>	21.20%
Total net assets	<u>\$ 2,261,035</u>	<u>\$ 2,040,901</u>	<u>\$ 107,955</u>	<u>\$ 103,802</u>	<u>\$ 2,368,990</u>	<u>\$ 2,144,703</u>	10.46%

The District's combined net assets increased by approximately 10%, or \$224,287, 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 \$24,771, or approximately 3% from the prior year. The decrease was primarily a result of increased expenditures in the Physical Plant and Equipment Levy Fund due to a purchase of a school bus.

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 \$219,645, or approximately 21%. This increase in unrestricted net assets occurred as a combined result of increased revenue from all sources and controlled increases in spending.

Figure A-4 shows the change in net assets for the years ended June 30, 2005 and 2004.

Figure A-4

	Change in Net Assets					
	Governmental Activities		Business Type Activities		Total District	
	2005	2004	2005	2004	2005	2004
Revenues						
Program revenues						
Charges for service and sales	\$ 615,421	\$ 571,679	\$ 108,823	\$ 99,404	\$ 724,244	\$ 671,083
Operating grants, contributions and restricted interest	360,521	334,216	54,833	46,102	415,354	380,318
General revenues						
Property tax	1,533,946	1,536,929	-	-	1,533,946	1,536,929
Unrestricted state grants	1,161,290	1,109,449	-	-	1,161,290	1,109,449
Unrestricted investment earnings	36,233	32,462	66	30	36,233	32,462
Contributions and donations	8,474	-	-	-	8,474	-
Other	8,948	8,474	-	-	9,014	8,504
Gain on disposal of materials	1,499	-	-	-	1,499	-
Total revenues	<u>3,726,332</u>	<u>3,593,209</u>	<u>163,722</u>	<u>145,536</u>	<u>3,890,054</u>	<u>3,738,745</u>
Program expenses						
Governmental activities						
Instruction	2,056,898	2,038,885	-	-	2,056,898	2,038,885
Support services	951,454	987,000	-	-	951,454	987,000
Non-instructional programs	9,353	18,301	159,569	156,527	168,922	174,828
Other expenses	<u>488,493</u>	<u>1,216,004</u>	<u>-</u>	<u>-</u>	<u>488,493</u>	<u>1,216,004</u>
Total expenses	<u>3,506,198</u>	<u>4,260,190</u>	<u>159,569</u>	<u>156,527</u>	<u>3,665,767</u>	<u>4,416,717</u>
Change in net assets	<u>\$ 220,134</u>	<u>\$ (666,981)</u>	<u>\$ 4,153</u>	<u>\$ (10,991)</u>	<u>\$ 224,287</u>	<u>\$ (677,972)</u>

Property tax and unrestricted state grants account for 69% of the total revenue. The District's expenses primarily relate to instruction and other expenses, which account for 82% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$3,726,332 and expenses were \$3,506,198.

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

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$ 2,056,898	\$ 1,199,724
Support services	951,454	943,796
Non-instructional programs	9,353	9,353
Other expenses	<u>488,493</u>	<u>377,383</u>
Total expenses	<u>\$ 3,506,198</u>	<u>\$ 2,530,256</u>

- The cost financed by users of the District's programs was \$615,421.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$360,521.
- The net cost of governmental activities was financed with \$1,533,946 in property and other taxes and \$1,161,290 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$163,722 and expenses were \$159,569. 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, 2005, the District increased meal prices and decreased one cook. The decrease in one cook offset the increase in salary raises and the School Nutrition fund was able to break even unlike prior years.

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 \$1,989,804, above last year's ending fund balances of \$1,812,598. This was a 9% increase over last year's ending fund balance. The largest increase was in the General Fund. This was a result of increased revenue from all sources and controlled increases in spending.

Governmental Fund Highlights

- The District's General Fund balance increased by \$204,036. A major factor in this was the increase in open enrollment revenue for 2005, and (REAP) a federal grant received.
- The Management Fund balance decreased from \$(7,069) in fiscal year 2004 to \$(9,945) in fiscal year 2005. The major factor in this was from not levying enough taxes to pay the increase in insurance premiums.

- The Capital Projects Fund balance increased from \$566,459 in 2004 to \$584,644 in 2005 due to the completion of a construction project and the interest earned on the balance of funds.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$103,802 at June 30, 2004 to \$107,955 at June 30, 2005 representing an increase of approximately 4%. This change is due primarily to increased meal prices and the cut of one part-time cook.

BUDGETARY HIGHLIGHTS

The District's revenues were \$217,296 more than budgeted receipts, a variance of 6%. Part of the difference in revenues is that nothing was budgeted in Capital Projects Fund but the balance of funds still in capital projects earned close to \$24,000 in interest income. Most of the difference in the General Fund was property taxes and instructional income surtaxes and REAP Grant received.

Total expenditures were \$300,516 less than budgeted, due 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 the actual expenditures for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$3,617,460, 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 approximately 3% 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 \$159,214.

The original cost of the District's capital assets was \$5,747,919. Governmental funds account for \$5,581,739, with the remainder of \$166,180 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year was the depreciation expense.

Figure A-6

	Capital Assets, Net of Depreciation						
	Governmental		Business Type		Total		Total
	Activities		Activities		School District		
	2005	2004	2005	2004	2005	2004	2004-2005
Land	\$ 162,365	\$ 162,365	\$ -	\$ -	\$ 162,365	\$ 162,365	0.00%
Buildings and improvements	3,105,928	3,203,129	-	-	3,105,928	3,203,129	-3.03%
Furniture and equipment	<u>261,912</u>	<u>255,853</u>	<u>87,255</u>	<u>98,856</u>	<u>349,167</u>	<u>354,709</u>	-1.56%
Totals	<u>\$3,530,205</u>	<u>\$3,621,347</u>	<u>\$ 87,255</u>	<u>\$ 98,856</u>	<u>\$3,617,460</u>	<u>\$3,720,203</u>	-2.76%

Long-Term Debt

At June 30, 2005, the District had \$3,240,000 in general obligation debt outstanding. This represents a decrease of approximately 4% 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.

<u>Figure A-7</u>	Outstanding Long-term Obligations		
	Total	Total	
	District	Change	
	<u>2005</u>	<u>2004</u>	<u>2004-2005</u>
General obligation bonds	\$ 3,240,000	\$ 3,370,000	-3.86%

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 decreased which would generate less funding for fiscal year 2007. Future enrollment trends are uncertain.
- Continued evaluation of the condition of transportation vehicles and the rotation for replacement of these vehicles.
- The negotiation of salaries and benefits for all district employees. 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, 2005

Exhibit A

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and cash equivalents	\$2,019,292	\$ 16,604	\$2,035,896
Receivables			
Property tax			
Delinquent	13,590	-	13,590
Succeeding year	1,349,881	-	1,349,881
Accrued interest	4,830	-	4,830
Accounts receivable	2,642	57	2,699
Due from other governments	37,703	-	37,703
Inventories	-	4,039	4,039
Capital assets, net of accumulated depreciation	3,530,205	87,255	3,617,460
Total assets	6,958,143	107,955	7,066,098
 LIABILITIES			
Accounts payable	82,567	-	82,567
Accrued interest payable	24,660	-	24,660
Deferred revenue - succeeding year property tax	1,349,881	-	1,349,881
Long-term liabilities			
Portion due within one year			
Bonds payable	135,000	-	135,000
Portion due after one year			
Bonds payable	3,105,000	-	3,105,000
Total liabilities	4,697,108	-	4,697,108
 NET ASSETS			
Invested in capital assets, net of related debt	295,891	87,255	383,146
Restricted for			
Capital projects	584,644	-	584,644
Physical plant and equipment levy	92,152	-	92,152
Other special revenue purposes	53,215	-	53,215
Unrestricted	1,235,133	20,700	1,255,833
Total net assets	\$2,261,035	\$107,955	\$2,368,990

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

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2005

Exhibit B

<u>Functions/Programs</u>	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Governmental activities	<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>
Instruction						
Regular instruction	\$ 1,390,198	\$ 467,495	\$ 204,260	\$ (718,443)	\$ -	\$ (718,443)
Special instruction	270,118	30,258	36,991	(202,869)	-	(202,869)
Other instruction	396,582	114,770	3,400	(278,412)	-	(278,412)
	2,056,898	612,523	244,651	(1,199,724)	-	(1,199,724)
Support services						
Student services	41,322	-	-	(41,322)	-	(41,322)
Instructional staff services	28,282	-	-	(28,282)	-	(28,282)
Administration services	413,120	-	-	(413,120)	-	(413,120)
Operation and maintenance of plant services	330,765	2,301	-	(328,464)	-	(328,464)
Transportation services	137,965	597	4,760	(132,608)	-	(132,608)
	951,454	2,898	4,760	(943,796)	-	(943,796)
Non-instructional programs	9,353	-	-	(9,353)	-	(9,353)
Other expenditures						
Facilities acquisition	117,243	-	-	(117,243)	-	(117,243)
Long-term debt interest	158,698	-	-	(158,698)	-	(158,698)
AEA flowthrough	111,110	-	111,110	-	-	-
Depreciation (unallocated)*	101,442	-	-	(101,442)	-	(101,442)
	488,493	-	111,110	(377,383)	-	(377,383)
Total governmental activities	3,506,198	615,421	360,521	(2,530,256)	-	(2,530,256)

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

LONE TREE COMMUNITY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2005

Exhibit B

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	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	\$ 108,823	\$ 54,833	\$ -	\$ -	\$ 4,087	\$ 4,087
Total	<u>\$ 3,665,767</u>	<u>\$ 724,244</u>	<u>\$ -</u>	<u>\$ (2,530,256)</u>	<u>\$ 4,087</u>	<u>\$ (2,526,169)</u>
General Revenues						
Property tax levied for						
General purposes				1,123,132	-	1,123,132
Debt service				290,554	-	290,554
Capital outlay				120,260	-	120,260
Unrestricted state grants				1,161,290	-	1,161,290
Unrestricted investment earnings				36,233	66	36,299
Contributions and donations				8,474	-	8,474
Other				8,948	-	8,948
Gain on disposal of materials				1,499	-	1,499
Total general revenues				<u>2,750,390</u>	<u>66</u>	<u>2,750,456</u>
Change in net assets						
Net assets, beginning of year				220,134	4,153	224,287
Net assets, end of year				<u>2,040,901</u>	<u>103,802</u>	<u>2,144,703</u>
				<u>\$ 2,261,035</u>	<u>\$ 107,955</u>	<u>\$ 2,368,990</u>

* 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

Balance Sheet

Governmental Funds

June 30, 2005

Exhibit C

ASSETS

Cash and pooled investments
 Receivables
 Property tax
 Delinquent
 Succeeding year
 Accounts receivable
 Accrued interest
 Due from other governments
 Total assets and other debits

	General	Management Levy	Capital Projects	Nonmajor Governmental Funds	Total
	\$ 1,297,496	\$ -	\$ 577,701	\$ 148,675	\$ 2,023,872
	9,343	321	-	3,926	13,590
	943,164	81,000	-	325,717	1,349,881
	1,143	-	-	1,499	2,642
	4,769	-	-	61	4,830
	30,760	-	6,943	-	37,703
	<u>\$ 2,286,675</u>	<u>\$ 81,321</u>	<u>\$ 584,644</u>	<u>\$ 479,878</u>	<u>\$ 3,432,518</u>

LIABILITIES AND FUND BALANCES

Liabilities
 Bank overdraft
 Accounts payable
 Deferred revenue - Succeeding year property tax
 Total liabilities
 Fund balances
 Reserved for
 Debt service
 Unreserved, undesignated - governmental funds
 Unreserved, undesignated - special revenue funds
 Total fund balances
 Total liabilities and fund balances

	\$ -	\$ 10,266	\$ -	\$ -	\$ 10,266
	76,017	-	-	6,550	82,567
	943,164	81,000	-	325,717	1,349,881
	<u>1,019,181</u>	<u>91,266</u>	<u>-</u>	<u>332,267</u>	<u>1,442,714</u>
	-	-	-	2,244	2,244
	1,267,494	-	584,644	-	1,852,138
	<u>1,267,494</u>	<u>(9,945)</u>	<u>-</u>	<u>145,367</u>	<u>135,422</u>
	<u>\$ 2,286,675</u>	<u>\$ 81,321</u>	<u>\$ 584,644</u>	<u>\$ 479,878</u>	<u>\$ 3,432,518</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, 2005

Exhibit D

Total fund balances of governmental funds	\$ 1,989,804
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.	3,530,205
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.	(24,660)
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.	5,686
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>(3,240,000)</u>
Net assets of governmental activities	<u>\$ 2,261,035</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, 2005

	<u>General</u>	<u>Management Levy</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues					
Local sources					
Local tax	\$ 1,089,823	\$ 32,710	\$ 10,168	\$ 400,391	\$ 1,533,092
Tuition	441,471	-	-	-	441,471
Other	91,430	-	13,575	122,600	227,605
State sources	1,418,193	20	-	255	1,418,468
Federal sources	104,197	-	-	-	104,197
Total revenues	<u>3,145,114</u>	<u>32,730</u>	<u>23,743</u>	<u>523,246</u>	<u>3,724,833</u>
Expenditures					
Current					
Instruction					
Regular instruction	1,376,133	8,572	-	-	1,384,705
Special instruction	270,118	-	-	-	270,118
Other instruction	284,552	-	-	112,030	396,582
	<u>1,930,803</u>	<u>8,572</u>	<u>-</u>	<u>112,030</u>	<u>2,051,405</u>
Support services					
Student support services	41,008	184	-	-	41,192
Instructional staff services	27,917	247	-	-	28,164
Administration services	408,133	4,169	-	-	412,302
Operation and maintenance of plant services	308,517	21,992	-	1,550	332,059
Transportation services	104,324	355	-	50,352	155,031
	<u>889,899</u>	<u>26,947</u>	<u>-</u>	<u>51,902</u>	<u>968,748</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, 2005

	<u>General</u>	<u>Management Levy</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Expenditures (continued)					
Current (continued)					
Non-instructional programs	\$ 9,266	\$ 87	\$ -	\$ -	\$ 9,353
Other expenditures					
Facilities acquisition	-	-	5,558	112,340	117,898
Long-term debt					
Principal	-	-	-	130,000	130,000
Interest and fiscal charges	-	-	-	160,612	160,612
AEA flowthrough	111,110	-	-	-	111,110
	<u>111,110</u>	<u>-</u>	<u>5,558</u>	<u>402,952</u>	<u>519,620</u>
Total expenditures	<u>2,941,078</u>	<u>35,606</u>	<u>5,558</u>	<u>566,884</u>	<u>3,549,126</u>
Excess (deficiency) of revenues over (under) expenditures	204,036	(2,876)	18,185	(43,638)	175,707
Other financing sources					
Compensation for loss of capital assets	-	-	-	1,499	1,499
Net change in fund balances	204,036	(2,876)	18,185	(42,139)	177,206
Fund balance, beginning of year	<u>1,063,458</u>	<u>(7,069)</u>	<u>566,459</u>	<u>189,750</u>	<u>1,812,598</u>
Fund balance, end of year	<u>\$ 1,267,494</u>	<u>\$ (9,945)</u>	<u>\$ 584,644</u>	<u>\$ 147,611</u>	<u>\$ 1,989,804</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, 2005

Exhibit F

Net change in fund balances - total governmental funds \$ 177,206

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	\$ 56,471	
Depreciation expense	<u>(147,613)</u>	(91,142)

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. 2,156

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. 130,000

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. 1,914

Change in net assets of governmental activities \$ 220,134

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

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
Nonmajor Proprietary Funds
June 30, 2005

Exhibit G

	Nonmajor School Nutrition	Governmental Activity Internal Service	Total
ASSETS			
Cash and pooled investments	\$ 16,604	\$ 5,686	\$ 22,290
Accounts receivable	57	-	57
Inventories	4,039	-	4,039
Capital assets, net of accumulated depreciation	87,255	-	87,255
Total assets	107,955	5,686	113,641
LIABILITIES			
	-	-	-
NET ASSETS			
Invested in capital assets	87,255	-	87,255
Unreserved retained earnings	20,700	5,686	26,386
Total net assets	\$ 107,955	\$ 5,686	\$ 113,641

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, 2005

Exhibit H

	Nonmajor School Nutrition	Governmental Activity Internal Service	Total
Operating revenue			
Local sources			
Charges for service	\$ 108,823	\$ -	\$ 108,823
Employee contributions	-	17,099	17,099
Total operating revenue	108,823	17,099	125,922
Operating expenses			
Non-instructional programs			
Salaries	57,041	-	57,041
Benefits	12,475	-	12,475
Purchased services	243	-	243
Supplies	78,209	-	78,209
Other	-	14,943	14,943
Depreciation	11,601	-	11,601
Total operating expenses	159,569	14,943	174,512
Operating income (loss)	(50,746)	2,156	(48,590)
Non-operating revenues			
Interest income	66	-	66
State sources	2,400	-	2,400
Federal sources	52,433	-	52,433
Total non-operating revenues	54,899	-	54,899
Change in net assets	4,153	2,156	6,309
Net assets, beginning of year	103,802	3,530	107,332
Net assets, end of year	\$ 107,955	\$ 5,686	\$ 113,641

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

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005

Exhibit I

	Nonmajor School Nutrition	Governmental Activity Internal Service	Total
Cash flows from operating activities			
Cash received from sale of lunches and breakfasts	\$ 108,823	\$ -	\$ 108,823
Cash received from miscellaneous operating activities	-	17,099	17,099
Cash payments to employees for services	(69,516)	-	(69,516)
Cash payments to suppliers for goods and services	<u>(70,825)</u>	<u>(14,943)</u>	<u>(85,768)</u>
Net cash provided by (used in) operating activities	<u>(31,518)</u>	<u>2,156</u>	<u>(29,362)</u>
Cash flows from non-capital financing activities			
State grants received	2,400	-	2,400
Federal grants received	<u>44,005</u>	<u>-</u>	<u>44,005</u>
Net cash provided by non-capital financing activities	46,405	-	46,405
Cash flows from capital and related financing activities	-	-	-
Cash flows from investing activities			
Interest on investments	<u>66</u>	<u>-</u>	<u>66</u>
Net increase in cash and cash equivalents	14,953	2,156	17,109
Cash and cash equivalents, beginning of year	<u>1,651</u>	<u>3,530</u>	<u>5,181</u>
Cash and cash equivalents, end of year	<u>\$ 16,604</u>	<u>\$ 5,686</u>	<u>\$ 22,290</u>
 Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ (50,746)	\$ 2,156	\$ (48,590)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation	11,601	-	11,601
Commodities used	8,428	-	8,428
(Increase) in accounts receivable	(57)	-	(57)
(Increase) in inventories	<u>(744)</u>	<u>-</u>	<u>(744)</u>
Net cash provided by (used in) operating activities	<u>\$ (31,518)</u>	<u>\$ 2,156</u>	<u>\$ (29,362)</u>

Non-cash investing, capital and financing activities

During the year ended June 30, 2005, the District received \$8,428 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, 2005

Exhibit J

	Private Purpose Trust <u>Scholarships</u>
Assets	
Cash and pooled investments	\$ 5,141
Accrued interest receivable	<u>9</u>
Total assets	5,150
Liabilities	
	<u>-</u>
Net assets	
Reserved for scholarships	<u>\$ 5,150</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, 2005

Exhibit K

	Private Purpose Trust <u>Scholarships</u>
Additions	
Local sources	
Interest	\$ 34
Contributions and donations	<u>500</u>
Total additions	534
 Deductions	
Other instruction	
Scholarships awarded	<u>500</u>
 Change in net assets	(466)
Net assets, beginning of year	<u>5,616</u>
 Net assets, end of year	<u>\$ 5,150</u>

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

LONE TREE COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

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.

Management Levy Fund is a special revenue fund used to account for all financial transactions from the levy authorized by Iowa Code section 298.4. The purpose of this fund is to pay the costs of unemployment or early retirement benefits, and the costs of liability insurance and judgments or settlements relating to liability. This fund cannot be used for employee health, life, or disability insurance, even if the district is self-insured.

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

The District reports no major proprietary funds; however, it reports two nonmajor 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, 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, 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, 2005, expenditures did not exceed the amounts budgeted in any of the four functions, nor did the General Fund expenditures exceed the District's unspent authorized budget.

Note 2. Cash and Pooled Investments

The District's deposits in banks 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>\$ 1,773,576</u>

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

Investment rate risk. The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

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

Note 3. Capital Assets

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

<u>Governmental activities</u>	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
Capital assets not being depreciated:				
Land	\$ 162,365	\$ -	\$ -	\$ 162,365
Total capital assets, not being depreciated	<u>162,365</u>	<u>-</u>	<u>-</u>	<u>162,365</u>
Capital assets being depreciated:				
Buildings and improvements	4,400,787	-	-	4,400,787
Furniture and equipment	<u>962,116</u>	<u>56,471</u>	<u>-</u>	<u>1,018,587</u>
Total capital assets being depreciated	<u>5,362,903</u>	<u>56,471</u>	<u>-</u>	<u>5,419,374</u>
Less accumulated depreciation for:				
Buildings and improvements	1,197,658	97,201	-	1,294,859
Furniture and equipment	<u>706,263</u>	<u>50,412</u>	<u>-</u>	<u>756,675</u>
Total accumulated depreciation	<u>1,903,921</u>	<u>147,613</u>	<u>-</u>	<u>2,051,534</u>
Total capital assets being depreciated, net	<u>3,458,982</u>	<u>(91,142)</u>	<u>-</u>	<u>3,367,840</u>
Governmental activities capital assets, net	<u>\$ 3,621,347</u>	<u>\$ (91,142)</u>	<u>\$ -</u>	<u>\$ 3,530,205</u>
<u>Business type activities</u>				
Furniture and equipment	\$ 166,180	\$ -	\$ -	\$ 166,180
Less accumulated depreciation	<u>67,324</u>	<u>11,601</u>	<u>-</u>	<u>78,925</u>
Business type activities capital assets, net	<u>\$ 98,856</u>	<u>\$ (11,601)</u>	<u>\$ -</u>	<u>\$ 87,255</u>

Depreciation expense was charged to the following functions:

Governmental activities

Instruction		
Regular		\$ 11,563
Support services		
Student support		130
Instructional staff		118
Administration		818
Operation and maintenance of plant		256
Transportation		33,286
Unallocated depreciation		<u>101,442</u>
Total governmental activities depreciation expense		<u>\$ 147,613</u>

Business type activities

Food services		<u>\$ 11,601</u>
---------------	--	------------------

Note 4. Long-term Liabilities

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

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
General obligation bonds	\$ 3,370,000	\$ -	\$(130,000)	\$ 3,240,000	\$ 135,000

General Obligation Bonds Payable

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

Year Ending June 30.	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 3,240,000</u>	<u>\$ 1,473,680</u>	<u>\$ 4,713,680</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, 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 \$107,779, \$102,565 and \$99,031 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 \$111,110 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.

Note 8. Deficit Fund Balance

The District's Special Revenue, Management Fund had an unreserved, undesignated fund deficit of \$9,945 at June 30, 2005.

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 Funds
Required Supplementary Information
For the Year Ended June 30, 2005

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Total Actual	Less Funds Not Required to be Budgeted	Net	Budgeted Amounts <u>Original</u>	Budgeted Amounts <u>Final</u>	Final to Actual <u>Variance</u>
Revenues								
Local sources	\$ 2,202,168	\$ 125,988	\$ 2,328,156	\$(17,099)	\$ 2,311,057	\$ 2,182,508	\$ 2,182,508	\$ 128,549
State sources	1,418,468	2,400	1,420,868	-	1,420,868	1,425,851	1,425,851	(4,983)
Federal sources	104,197	52,433	156,630	-	156,630	62,900	62,900	93,730
Total revenues	<u>3,724,833</u>	<u>180,821</u>	<u>3,905,654</u>	<u>(17,099)</u>	<u>3,888,555</u>	<u>3,671,259</u>	<u>3,671,259</u>	<u>217,296</u>
Expenditures								
Instruction	2,051,405	-	2,051,405	-	2,051,405	2,153,405	2,153,405	102,000
Support services	968,748	-	968,748	-	968,748	1,000,579	1,100,579	131,831
Non-instructional programs	9,353	174,512	183,865	(14,943)	168,922	155,918	190,000	21,078
Other expenditures	519,620	-	519,620	-	519,620	565,227	565,227	45,607
Total expenditures	<u>3,549,126</u>	<u>174,512</u>	<u>3,723,638</u>	<u>(14,943)</u>	<u>3,708,695</u>	<u>3,875,129</u>	<u>4,009,211</u>	<u>300,516</u>
Excess (deficiency) of revenues over (under) expenditures Other financing sources, net	175,707	6,309	182,016	(2,156)	179,860	(203,870)	(337,952)	517,812
	<u>1,499</u>	<u>-</u>	<u>1,499</u>	<u>-</u>	<u>1,499</u>	<u>-</u>	<u>-</u>	<u>1,499</u>
Net change in fund balance Balance, beginning of year Balance, end of year	177,206	6,309	183,515	(2,156)	181,359	(203,870)	(337,952)	519,311
	<u>1,812,598</u>	<u>107,332</u>	<u>1,919,930</u>	<u>(3,530)</u>	<u>1,916,400</u>	<u>1,682,425</u>	<u>1,682,425</u>	<u>233,975</u>
	<u>\$ 1,989,804</u>	<u>\$ 113,641</u>	<u>\$ 2,103,445</u>	<u>\$ (5,686)</u>	<u>\$ 2,097,759</u>	<u>\$ 1,478,555</u>	<u>\$ 1,344,473</u>	<u>\$ 753,286</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, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards 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 Internal Service Funds, Private Purpose Trust Funds 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.

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 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 \$134,082.

During the year ended June 30, 2005, District expenditures did not exceed the amounts budgeted in any of the four functions or the General fund unspent authorized budget.

Other Supplementary Information

LONE TREE COMMUNITY SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005

Schedule 1

	Special Revenue			
		Physical Plant and Equipment	Debt Service	
	Student Activities	Levy		Total
ASSETS				
Cash and pooled investments	\$ 57,001	\$ 92,277	\$ -	\$ 149,278
Receivables				
Property tax				
Current year delinquent	-	1,079	2,847	3,926
Succeeding year	-	36,604	289,113	325,717
Accounts receivable	-	1,499	-	1,499
Interest receivable	61	-	-	61
Total assets	\$ 57,062	\$ 131,459	\$ 291,960	\$ 480,481
 LIABILITIES AND FUND EQUITY				
Liabilities				
Bank overdraft	\$ -	\$ -	\$ 603	\$ 603
Accounts payable	3,847	2,703	-	6,550
Deferred revenue				
Succeeding year property tax	-	36,604	289,113	325,717
Total liabilities	3,847	39,307	289,716	332,870
 Fund Equity				
Reserved for debt service	-	-	2,244	2,244
Unreserved fund balances	53,215	92,152	-	145,367
Total fund equity	53,215	92,152	2,244	147,611
Total liabilities and fund equity	\$ 57,062	\$ 131,459	\$ 291,960	\$ 480,481

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, 2005

Schedule 2

	Special Revenue			
	Student	Physical Plant and Equipment	Debt	
	<u>Activities</u>	<u>Levy</u>	<u>Service</u>	<u>Total</u>
Revenues				
Local sources				
Local tax	\$ -	\$ 110,022	\$ 290,369	\$ 400,391
Other	115,109	7,491	-	122,600
State sources	-	70	185	255
Total revenues	115,109	117,583	290,554	523,246
Expenditures				
Current				
Instruction				
Other instruction	112,030	-	-	112,030
Support services				
Operation and maintenance of plant services	-	1,550	-	1,550
Transportation services	-	50,352	-	50,352
Other expenditures				
Facilities acquisition	-	112,340	-	112,340
Long-term debt				
Principal	-	-	130,000	130,000
Interest and fiscal charges	-	-	160,612	160,612
Total expenditures	112,030	164,242	290,612	566,884
Excess (deficiency) of revenues over (under) expenditures	3,079	(46,659)	(58)	(43,638)
Other financing sources				
Compensation for loss of capital assets	-	1,499	-	1,499
Excess (deficiency) of revenues and other financing sources over (under) expenditures	3,079	(45,160)	(58)	(42,139)
Fund balances, beginning of year	50,136	137,312	2,302	189,750
Fund balances, end of year	\$ 53,215	\$ 92,152	\$ 2,244	\$ 147,611

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, 2005

Schedule 3

Account	Balance, Beginning of Year	<u>Revenues</u>	<u>Expenditures</u>	Balance, End of Year
Drama	\$ 812	\$ 1,674	\$ 1,061	\$ 1,425
Speech	-	-	1,150	(1,150)
Athletics	3,339	38,866	33,242	8,963
Boys' basketball	962	274	1,216	20
Youth boys' basketball	-	2,458	1,245	1,213
Boys' baseball	871	2,582	1,609	1,844
Golf	-	740	738	2
Wrestling	254	1,095	1,032	317
Girls' basketball	527	4,179	3,988	718
Volleyball	-	2,325	2,208	117
Softball	628	2,737	2,845	520
Student council	21	367	453	(65)
Annual	-	5,142	7,716	(2,574)
Newspaper	684	-	-	684
National Honor Society	39	101	91	49
Cheerleading	1,210	1,352	2,655	(93)
Eureka, Future Problem Solving	453	476	468	461
FFA	2,570	24,726	25,855	1,441
FFA projects	24	-	-	24
FCCLA	394	1,162	1,076	480
Elementary play fund	542	-	100	442
Project Pride	455	-	-	455
Band activity	304	202	955	(449)
Vocal choir	194	2,436	2,623	7
Math and science club	454	-	-	454
Art club	777	115	51	841
Art projects	225	-	-	225
Spanish club	3,218	18	32	3,204
Track medals	-	-	74	(74)
Special	2,977	445	612	2,810
Band uniforms	1,343	510	-	1,853

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, 2005

Schedule 3

Account	Balance, Beginning of Year	<u>Revenues</u>	<u>Expenditures</u>	Balance, End of Year
Interest	\$ 10,509	\$ 924	\$ -	\$ 11,433
JH student council	201	500	583	118
Elementary student council	8,289	2,700	1,955	9,034
Music boosters club	648	-	-	648
Dance squad	50	2,035	2,096	(11)
Box tops for education	175	-	-	175
Parent partner activity	1,805	15	-	1,820
Class of 2002	216	-	208	8
Class of 2003	455	-	202	253
Class of 2004	-	-	2	(2)
Class of 2005	1,772	2,495	4,407	(140)
Class of 2006	1,683	8,037	6,671	3,049
Class of 2007	440	2,673	1,725	1,388
Class of 2008	84	65	-	149
Class of 2009	289	-	-	289
Class of 2010	243	-	-	243
Class of 2011	<u>-</u>	<u>2,285</u>	<u>1,688</u>	<u>597</u>
Totals	<u>\$ 50,136</u>	<u>\$ 115,711</u>	<u>\$ 112,632</u>	<u>\$ 53,215</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>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Revenues				
Local sources				
Local tax	\$ 1,533,092	\$ 1,535,975	\$ 1,474,749	\$ 1,171,164
Tuition	441,471	390,859	333,382	276,251
Other	227,605	221,756	266,806	234,673
State sources	1,418,468	1,366,108	1,422,605	2,503,815
Federal sources	104,197	78,511	45,865	52,764
Total revenues	<u>\$ 3,724,833</u>	<u>\$ 3,593,209</u>	<u>\$ 3,543,407</u>	<u>\$ 4,238,667</u>
Expenditures				
Instruction				
Regular instruction	1,384,705	1,351,801	1,289,765	1,279,851
Special instruction	270,118	218,710	253,208	307,813
Other instruction	396,582	441,243	374,042	363,622
Support services				
Student services	41,192	38,859	36,353	33,162
Instructional staff services	28,164	89,936	81,532	74,492
Administration services	412,302	394,132	382,524	360,350
Operation and maintenance of plant services	332,059	318,191	355,797	241,175
Transportation services	155,031	102,842	189,173	139,577
Non-instructional programs	9,353	18,301	15,784	22,817
Other expenditures				
Facilities acquisition	117,898	836,027	2,630,520	841,897
Long-term debt				
Principal	130,000	125,000	85,000	-
Interest and other charges	160,612	166,863	199,631	-
AEA flowthrough	111,110	112,742	120,422	121,487
Total expenditures	<u>\$ 3,549,126</u>	<u>\$ 4,214,647</u>	<u>\$ 6,013,751</u>	<u>\$ 3,786,243</u>

See accompanying Independent Auditor's Report.

KAY L. CHAPMAN, CPA PC

210 Cedar Street
Muscatine, Iowa 52761
563-264-1385

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
Lone Tree Community School District

I have audited the accompanying financial statements 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 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 my report thereon dated August 23, 2005. I conducted my 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 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 opinions on the financial statements and not to provide an opinion 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 the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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, of the reportable conditions described above, I believe item (A) Segregation of Duties, is a material weakness.

Compliance and Other Matters

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, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during 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.

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.



Kay L. Chapman, CPA PC
August 23, 2005

LONE TREE COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2005

Part I. Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE

No matters were noted.

REPORTABLE CONDITIONS

- A. Segregation of Duties - The limited number of accounting personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability. This is not an unusual condition but it is important the District officials are aware that the condition exists.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the District to obtain the maximum internal control possible under the circumstances.

Response - We will review our procedures and implement changes to improve internal control, as we deem necessary.

Conclusion - Response accepted.

- B. Signature Cards - It was noted that the signature cards on file at the bank contained the signature of the previous Board President.

Recommendation - The signature cards should have been updated when a new Board President was elected.

Response - We have updated the bank signature cards to include signatures of only properly authorized individuals.

Conclusion - Response accepted.

LONE TREE COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2005

Part II. Other Findings Related to Statutory Reporting:

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, 2005.
2. Certified Budget - Expenditures for the year ended June 30, 2005 did not exceed the amended amounts budgeted.
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 or employees 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 variances in the basic enrollment data certified to the Iowa 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.

LONE TREE COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2005

11. Financial Condition - The District had unreserved, undesignated deficits in the Special Revenue-Management Fund of \$9,945 at June 30, 2005.

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

Response - We have imposed the Management Levy, which should eliminate this deficit within the next year or two.

Conclusion - Response accepted.

LONE TREE COMMUNITY SCHOOL DISTRICT

Audit Staff

June 30, 2005

This audit was performed by

Kay Chapman, CPA

Christina Chamberlin, staff accountant



Lone Tree Community School

303 South Devoe Street
Lone Tree, Iowa 52755

NEWS RELEASE

FOR RELEASE:

Kay L. Chapman, CPA PC of Muscatine, Iowa today released an audit report on the Lone Tree Community School District in Lone Tree, Iowa.

The District's revenues totaled \$3,890,054 for the year ended June 30, 2005, a 4 percent increase from the prior year. Revenues included \$1,533,946 in local tax, charges for service of \$724,244, operating grants, contributions and restricted interest of \$415,354, unrestricted state grants of \$1,161,290, unrestricted interest of \$36,233 and other general revenues of \$18,987.

Expenses for District operations totaled \$3,665,767, a 17 percent decrease from the prior year. Expenses included \$2,056,898 for instruction, \$951,454 for support services, \$168,922 for non-instructional programs and \$488,493 for other expenses.

A copy of the audit report is available for review in the office of the Auditor of State and the District Secretary's office.