LONE TREE COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2008

LONE TREE COMMUNITY SCHOOL DISTRICT
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LONE TREE COMMUNITY SCHOOL DISTRICT
Officials
June 30, 2008

Name	Title	Term Expires
	Board of Education	
	(Before September 2007 Election)	
Sally Robbins	Board President	2008
James Loan	Board Member	2007
Jon Ronan	Board Member	2007
Carmen Swanson	Board Member	2008
Randy Rayner	Board Member	2009
	(After September 2007 Election)	
Randy Rayner	Board President	2009
Sheila Burr	Board Member	2008
Joel Yedlik	Board Member	2008
Gary Feldman	Board Member	2009
James Loan	Board Member	2009
	School Officials	
Michael Reeves	Superintendent	2008
Kelli D. Forbes	District Secretary/Treasurer	2008
Brian Gruhn	Attorney	2008

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, 2008, 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, 2008, 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 February 17, 2009 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 41 through 42 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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. Other supplementary information included in Schedules 1 through 6, 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. 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, 2007 (which are not presented herein) and expressed unqualified opinions on those financial statements. In my opinion, the information set forth in the supplementary information for each of the four years in the period ended June 30, 2008, appearing in Schedule 7, is fairly stated, in all material respects in relation to the basic financial statements from which it has been derived.

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
February 17, 2009

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, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from $3,478,889 in fiscal 2007 to $3,624,047 in fiscal 2008, while General Fund expenditures increased from $3,652,890 in fiscal 2007 to $3,854,657 in fiscal 2008. The District's General Fund balance decreased from $1,106,007 in fiscal 2007 to $876,700 in fiscal 2008, a 21% decrease.

- The increase in General Fund revenues was attributable to increase in local tax revenues and state sources in 2008. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.

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 the District.

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 and enterprise funds.

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

Figure A-1
Lone Tree Community School District Annual Financial Report

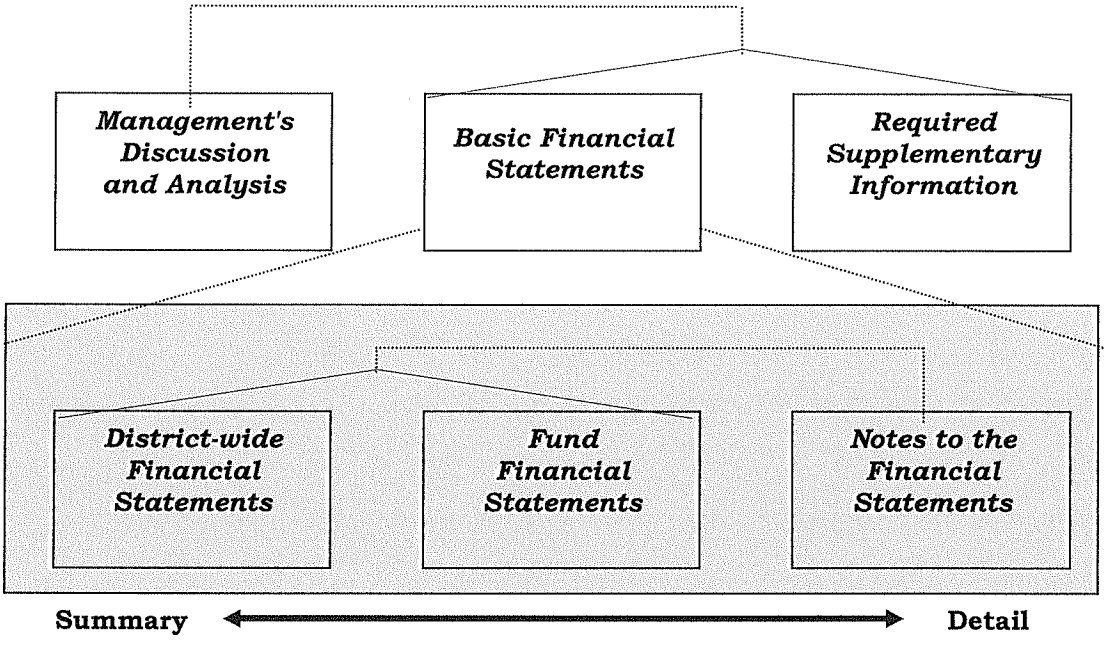

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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 preschool program	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	• Statement of net assets • Statement of activities	• Balance sheet • Statement of revenues, expenditures and changes in fund balances	• Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows	• 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 and preschool program are 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 two enterprise funds, the School Nutrition Fund and Preschool Fund and one internal service fund, Flex-benefit fund.

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

3) *Fiduciary fund*: The District is the trustee, or fiduciary, for assets that belong to others. This fund consists of the 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 fund 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 fund 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, 2008 compared to June 30, 2007.

Figure A-3

Condensed Statement of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change
	2008	2007	2008	2007	2008	2007	2007-2008
Current and other assets	$ 3,469,565	$ 3,545,320	$ 9,348	$ 24,278	$ 3,478,913	$ 3,569,598	-2.54%
Capital assets	3,538,043	3,309,611	54,629	64,942	3,592,672	3,374,553	6.46%
Total assets	7,007,608	6,854,931	63,977	89,220	7,071,585	6,944,151	1.84%
Long-term liabilities	2,833,121	2,971,518	-	-	2,833,121	2,971,518	-4.66%
Other liabilities	1,693,391	1,596,186	13,581	5,657	1,706,972	1,601,843	6.56%
Total liabilities	4,526,512	4,567,704	13,581	5,657	4,540,093	4,573,361	-0.73%
Net assets							
Invested in capital assets, net of related debt	728,043	349,611	54,629	64,942	782,672	414,553	88.80%
Restricted	752,319	717,451	-	-	752,319	717,451	4.86%
Unrestricted	1,000,734	1,220,165	(4,233)	18,621	996,501	1,238,786	-19.56%
Total net assets	$ 2,481,096	$ 2,287,227	$ 50,396	$ 83,563	$ 2,531,492	$ 2,370,790	6.78%

The District's combined net assets increased by approximately 7%, or $160,702, from the prior year. The largest portion of the District's net assets is the unrestricted net 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 increased $34,868, or approximately 5% from the prior year. The increase is due primarily to a decreased spending in the PPEL fund this fiscal year and increased fund raising in the student activity account.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased $242,285, or approximately 20%. The decrease was due to increase in salaries and benefits.

Figure A-4 shows the changes in net assets for the year ended June 30, 2008 compared to the year ended June 30, 2007.

Figure A-4

Change in Net Assets

	Governmental Activities		Business Type Activities		Total District		Total Change
Revenues	2008	2007	2008	2007	2008	2007	2007-2008
Program revenues							
Charges for service and sales	$ 736,996	$ 740,921	$ 151,427	$ 159,434	$ 888,423	$ 900,355	-1.33%
Operating grants	501,215	429,927	62,215	56,097	563,430	486,024	15.93%
General revenues							
Property tax	1,610,066	1,677,998	-	-	1,610,066	1,677,998	-4.05%
Local option sales and service tax	401,262	4,303	-	-	401,262	4,303	9225.17%
Unrestricted state grants	1,385,792	1,322,552	-	-	1,385,792	1,322,552	4.78%
Contributions and donations	8,474	63,595	-	-	8,474	63,595	-86.68%
Unrestricted investment earnings	62,628	92,127	88	126	62,716	92,253	-32.02%
Other	5,263	4,518	-	-	5,263	4,518	16.49%
Total revenues	4,711,696	4,335,941	213,730	215,657	4,925,426	4,551,598	8.21%
Program expenses							
Governmental activities							
Instruction	2,715,979	2,585,709	-	-	2,715,979	2,585,709	5.04%
Support services	1,284,918	1,197,979	-	-	1,284,918	1,197,979	7.26%
Non-instructional programs	21,914	25,602	246,897	237,462	268,811	263,064	2.18%
Other expenses	494,150	475,549	-	-	494,150	475,549	3.91%
Total expenses	4,516,961	4,284,839	246,897	237,462	4,763,858	4,522,301	5.34%
Excess (deficiency) before special items	194,735	51,102	(33,167)	(21,805)	161,568	29,297	451.48%
Special item - gain on sale of assets	(866)	2,774	-	-	(866)	2,774	-131.22%
Increase (decrease) in net assets	$ 193,869	$ 53,876	$ (33,167)	$ (21,805)	$ 160,702	$ 32,071	401.08%

In fiscal 2008, property tax and unrestricted state grants account for approximately 64% of the revenue from governmental activities while charges for service and sales and operating grants and contributions accounts for approximately 99% of the revenue from business type activities.

The District's total revenues were $4,925,426 of which $4,711,696 was for governmental activities and $213,730 was for business type activities.

As shown in Figure A-4, the District as a whole experienced an 8% increase in revenues and a 5% increase in expenses. The increase in revenues is primarily because of the start of the local option sales and service tax in the Capital Projects Fund and the increase in state aid because of the increase in enrollment. The increase in expenses is related to increases in the negotiated salary and benefits.

Governmental Activities

Revenues for governmental activities were $4,711,696 and expenses were $4,516,961 for the year ended June 30, 2008. With the increased enrollment this helped to increase our revenues.

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, for the year ended June 30, 2008 compared to the year ended June 30, 2007.

Figure A-5

Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2008	2007	Change 2007-2008	2008	2007	Change 2007-2008
Instruction	$ 2,715,979	$ 2,585,709	5.0%	$ 1,614,486	$ 1,541,014	4.8%
Support services	1,284,918	1,197,979	7.3%	1,276,411	1,192,461	7.0%
Non-instructional programs	21,914	25,602	-14.4%	21,914	25,227	-13.1%
Other expenses	494,150	475,549	3.9%	365,939	355,289	3.0%
Total expenses	$ 4,516,961	$ 4,284,839	5.4%	$ 3,278,750	$ 3,113,991	5.3%

For the year ended June 30, 2008:

- The cost financed by users of the District's programs was $736,996.
- Federal and state governments subsidized certain programs with grants and contributions totaling $501,215.
- The net cost of governmental activities was financed with $2,011,328 in property and other taxes and $1,385,792 in unrestricted state grants.

Business Type Activities

Revenues for business type activities during the year ended June 30, 2008 were $213,730, representing a 1% decrease from the prior year while expenses were $246,897, a 4% increase over the prior year. The District's business type activities include the School Nutrition Fund and Preschool Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

The increase in expenses is due to negotiated salary and benefits in the Lone Tree Preschool program.

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 $1,644,963, below last year's ending fund balances of $1,830,341. This was a 10% decrease from last year's ending fund balance. The decrease was due to increase in salaries and benefits, use of reserved funds to reduce cash balance and increased spending in the Capital Projects Fund with the addition of a Vo Ag Classroom.

Governmental Fund Highlights

- The District's General Fund balance decreased by $229,307. There were no major changes in the General Fund. However there were increased expenditures due to negotiated salary and benefits.

- The Capital Projects Fund balance decreased from $631,583 in 2007 to $570,095 in 2008 due to the addition of our Vo Ag Classroom.

- The Debt Service Fund balance increased from $3,181 in fiscal year 2007 to $3,218 in fiscal year 2008. There were no major changes in the Debt Service Fund.

Proprietary Fund Highlights

Enterprise Funds net assets decreased from $83,563 at June 30, 2007 to $50,396 at June 30, 2008 representing a decrease of approximately 40%. This change is due primarily to the increase in salaries.

BUDGETARY HIGHLIGHTS

Over the course of the year, Lone Tree Community School District amended its annual budget one time to reflect additional expenditures associated with re-estimated costs.

The District's revenues were $573,200 more than budgeted revenue, a variance of 13%. The variance was mostly due to not budgeting for the local option sales and service tax.

Total expenditures were $240,972 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.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services functional area due to not amending the budget to a sufficient amount in the support services function. The District purchased many new computers and a new server, underestimating the support services.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the District had invested $3,592,672, 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 increase of approximately 6% over last year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was $176,106.

The original cost of the District's capital assets was $6,110,066. Governmental funds account for $5,944,663, with the remainder of $165,403 accounted for 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 category increased from $0 at June 30, 2007 to $42,291 at June 30, 2008 due to starting the addition of new administrative offices.

Figure A-6

Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total School District		Total Change
	2008	2007	2008	2007	2008	2007	2007-2008
Land	$ 162,365	$ 162,365	$ -	$ -	$ 162,365	$ 162,365	0.00%
Construction in progress	42,291	-	-	-	42,291	-	100.00%
Improvements other than buildings	97,974	114,303	-	-	97,974	114,303	-14.29%
Buildings and improvements	2,981,646	2,791,089	-	-	2,981,646	2,791,089	6.83%
Furniture and equipment	253,767	241,854	54,629	64,942	308,396	306,796	0.52%
Totals	$3,538,043	$3,309,611	$ 54,629	$ 64,942	$3,592,672	$3,374,553	6.46%

Long-Term Debt

At June 30, 2008, the District had $2,833,121 in general obligation debt and other long-term debt outstanding. This represents a decrease of approximately 5% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

Figure A-7
Outstanding Long-term Obligations

	Total School District		Total Change
	2008	2007	2007-2008
General obligation bonds	$ 2,810,000	$ 2,960,000	-5.07%
Early retirement	23,121	11,518	100.74%
Total	$ 2,833,121	$ 2,971,518	-4.66%

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 continues to evaluate 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

Exhibit A

Statement of Net Assets

June 30, 2008

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents	$ 1,652,171	$ 4,010	$ 1,656,181
Receivables			
Property tax			
Delinquent	19,762	-	19,762
Succeeding year	1,528,228	-	1,528,228
Accounts receivable	4,701	-	4,701
Accrued interest	71	-	71
Income surtax	146,597	-	146,597
Due from other governments	104,454	42	104,496
Due from other fund	13,581	-	13,581
Inventories	-	5,296	5,296
Non-depreciable capital assets	204,656	-	204,656
Capital assets, net of accumulated depreciation	3,333,387	54,629	3,388,016
Total assets	7,007,608	63,977	7,071,585
Liabilities			
Accounts payable	143,111	-	143,111
Accrued interest payable	22,052	-	22,052
Due to other fund	-	13,581	13,581
Deferred revenue			
Succeeding year property tax	1,528,228	-	1,528,228
Long-term liabilities			
Portion due within one year			
General obligation bonds payable	160,000	-	160,000
Early retirement payable	3,767	-	3,767
Portion due after one year			
General obligation bonds payable	2,650,000	-	2,650,000
Early retirement payable	19,354	-	19,354
Total liabilities	4,526,512	13,581	4,540,093
Net Assets			
Invested in capital assets, net of related debt	728,043	54,629	782,672
Restricted for			
Physical plant and equipment levy	88,503	-	88,503
Other special revenue purposes	93,721	-	93,721
Capital projects	570,095	-	570,095
Unrestricted	1,000,734	(4,233)	996,501
Total net assets	$ 2,481,096	$ 50,396	$ 2,531,492

See notes to financial statements.

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2008

Exhibit B

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants, Contributions and Restricted Interest	Program Revenues: Capital Grants, Contributions and Restricted Interest	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Business Type Activities	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Total
Primary Government							
Governmental activities							
Instruction							
Regular instruction	$ 1,758,307	$ 663,647	$ 299,753	$ -	$ (794,907)	$ -	$ (794,907)
Special instruction	433,192	70,170	58,133	-	(304,889)	-	(304,889)
Other instruction	524,480	-	9,790	-	(514,690)	-	(514,690)
	2,715,979	733,817	367,676	-	(1,614,486)	-	(1,614,486)
Support services							
Student	68,675	-	-	-	(68,675)	-	(68,675)
Instructional staff	106,088	-	-	-	(106,088)	-	(106,088)
Administration	527,045	-	-	-	(527,045)	-	(527,045)
Operation and maintenance of plant	415,986	1,140	-	-	(414,846)	-	(414,846)
Transportation	167,124	2,039	5,328	-	(159,757)	-	(159,757)
	1,284,918	3,179	5,328	-	(1,276,411)	-	(1,276,411)
Non-instructional programs	21,914	-	-	-	(21,914)	-	(21,914)
Other expenses							
Facilities acquisition	130,292	-	-	-	(130,292)	-	(130,292)
Long-term debt interest	138,862	-	-	-	(138,862)	-	(138,862)
AEA flowthrough	128,211	-	128,211	-	-	-	-
Depreciation (unallocated) *	96,785	-	-	-	(96,785)	-	(96,785)
	494,150	-	128,211	-	(365,939)	-	(365,939)
Total governmental activities	4,516,961	736,996	501,215	-	(3,278,750)	-	(3,278,750)

See notes to financial statements.

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2008

Exhibit B

Functions/Programs (continued)	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants, Contributions and Restricted Interest	Program Revenues: Capital Grants, Contributions and Restricted Interest	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Business Type Activities	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Total
Primary Government (continued)							
Business type activities							
Non-instructional programs							
Food service operations	$ 208,762	$ 109,938	$ 62,215	$ -	$ -	$ (36,609)	$ (36,609)
Preschool program	38,135	41,489	-	-	-	3,354	3,354
Total business type activities	246,897	151,427	62,215	-	-	(33,255)	(33,255)
Total primary government	$ 4,763,858	$ 888,423	$ 563,430	$ -	(3,278,750)	(33,255)	(3,312,005)
General Revenues							
Property tax levied for							
General purposes					1,200,709	-	1,200,709
Debt service					290,149	-	290,149
Capital outlay					119,208	-	119,208
Local option sales and service tax					401,262	-	401,262
Unrestricted state grants					1,385,792	-	1,385,792
Contributions and donations					8,474	-	8,474
Unrestricted investment earnings					62,628	88	62,716
Other					5,263	-	5,263
Special item - loss on sale of assets					(866)	-	(866)
Total general revenues and special items					3,472,619	88	3,472,707
Change in net assets					193,869	(33,167)	160,702
Net assets, beginning of year					2,287,227	83,563	2,370,790
Net assets, end of year					$ 2,481,096	$ 50,396	$ 2,531,492

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

See notes to financial statements.

LONE TREE COMMUNITY SCHOOL DISTRICT

Exhibit C

Balance Sheet
Governmental Funds
June 30, 2008

	General	Capital Projects	Debt Service	Nonmajor Special Revenue Funds	Total
Assets					
Cash and pooled investments	$ 867,130	$586,693	$ 66	$191,616	$1,645,505
Receivables					
Property tax					
Delinquent	13,574	-	3,935	2,253	19,762
Succeeding year	1,048,536	-	292,613	187,079	1,528,228
Accounts receivable	1,153	-	-	3,548	4,701
Accrued interest	-	-	-	71	71
Income surtax	146,597	-	-	-	146,597
Due from other governments	61,999	37,493	-	4,962	104,454
Due from other funds	14,364	-	-	-	14,364
Total assets and other debits	$2,153,353	$624,186	$296,614	$389,529	$3,463,682
Liabilities and Fund Balances					
Liabilities					
Accounts payable	$ 81,520	$ 54,091	$ -	$ 7,500	$ 143,111
Due to other fund	-	-	783	-	783
Deferred revenue					
Succeeding year property tax	1,048,536	-	292,613	187,079	1,528,228
Income surtax	146,597	-	-	-	146,597
Total liabilities	1,276,653	54,091	293,396	194,579	1,818,719
Fund balances					
Reserved for					
Debt service	-	-	3,218	-	3,218
Beginning Teacher Program	4,583	-	-	-	4,583
Administrative Mentoring Program	363	-	-	-	363
Unreserved					
Designated for					
Miscellaneous programs	14,178	-	-	-	14,178
Undesignated for					
Governmental funds	857,576	570,095	-	-	1,427,671
Special revenue funds	-	-	-	194,950	194,950
Total fund balances	876,700	570,095	3,218	194,950	1,644,963
Total liabilities and fund balances	$2,153,353	$624,186	$296,614	$389,529	$3,463,682

See notes to financial statements.

LONE TREE COMMUNITY SCHOOL DISTRICT
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2008

Exhibit D

Total fund balances of governmental funds	$1,644,963
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.	3,538,043
Accounts receivable from income surtaxes are not yet available to finance expenditures of the current fiscal period.	146,597
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.	(22,052)
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.	6,666
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.	(2,833,121)
Net assets of governmental activities	$2,481,096

See notes to financial statements.

LONE TREE COMMUNITY SCHOOL DISTRICT Exhibit E

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2008

Revenues	General	Capital Projects	Debt Service	Nonmajor Special Revenue Funds	Total
Local sources					
Local tax	$1,140,039	$401,262	$ 289,992	$ 165,123	$1,996,416
Tuition	500,922	-	-	-	500,922
Other	95,575	23,943	-	172,847	292,365
State sources	1,782,369	-	157	89	1,782,615
Federal sources	105,142	-	-	-	105,142
Total revenues	3,624,047	425,205	290,149	338,059	4,677,460
Expenditures					
Current					
Instruction					
Regular	1,696,542	23,529	-	20,098	1,740,169
Special	433,192	-	-	-	433,192
Other	373,544	-	-	150,936	524,480
	2,503,278	23,529	-	171,034	2,697,841
Support services					
Student	111,538	-	-	313	111,851
Instructional staff	71,276	30,047	-	4,104	105,427
Administration	517,993	6,410	-	5,729	530,132
Operation and maintenance of plant	390,157	3,561	-	24,349	418,067
Transportation	132,204	-	-	10,791	142,995
	1,223,168	40,018	-	45,286	1,308,472
Non-instructional programs	-	-	-	149	149
Other expenditures					
Facilities acquisition	-	423,146	-	16,210	439,356
Long-term debt					
Principal	-	-	150,000	-	150,000
Interest and fiscal charges	-	-	140,112	-	140,112
AEA flowthrough	128,211	-	-	-	128,211
	128,211	423,146	290,112	16,210	857,679
Total expenditures	3,854,657	486,693	290,112	232,679	4,864,141

See notes to financial statements.

LONE TREE COMMUNITY SCHOOL DISTRICT Exhibit E

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2008

	General	Capital Projects	Debt Service	Nonmajor Special Revenue Funds	Total
Excess (deficiency) of revenues over (under) expenditures	$ (230,610)	$ (61,488)	$ 37	$ 105,380	$ (186,681)
Other financing sources					
Sale of equipment and materials	1,303	-	-	-	1,303
Net change in fund banlances	(229,307)	(61,488)	37	105,380	(185,378)
Fund balance, beginning of year	1,106,007	631,583	3,181	89,570	1,830,341
Fund balance, end of year	$ 876,700	$570,095	$ 3,218	$ 194,950	$1,644,963

See notes to financial statements.

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, 2008

Exhibit F

Net change in fund balances - total governmental funds		$(185,378)
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 not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures and depreciation expense are as follows:		
Expenditures for capital assets	$ 395,674	
Loss on disposal of capital assets	(866)	
Depreciation expense	(166,376)	228,432
Certain revenues not collected for several months after year-end are not considered available revenue and are deferred in the governmental funds.		14,162
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.		(2,994)
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.		150,000
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 governmental funds, as follows:		
Early retirement		(11,603)
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.		1,250
Change in net assets of governmental activities		$ 193,869

See notes to financial statements.

LONE TREE COMMUNITY SCHOOL DISTRICT

Exhibit G

Statement of Net Assets
Proprietary Funds
June 30, 2008

	Business Type Activities Nonmajor Enterprise	Governmental Activity Internal Service
Assets		
Cash and pooled investments	$ 4,010	$ 6,666
Due from other governments	42	-
Inventories	5,296	-
Capital assets, net of accumulated depreciation	54,629	-
Total assets	63,977	6,666
Liabilities		
Due to other funds	13,581	-
Net Assets		
Invested in capital assets	54,629	-
Unrestricted	(4,233)	6,666
Total net assets	$ 50,396	$ 6,666

See notes to financial statements.

LONE TREE COMMUNITY SCHOOL DISTRICT

Exhibit H

Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2008

	Business Type Activities	Governmental Activity
	Nonmajor	Internal
Operating revenue	Enterprise	Service
Local sources		
Charges for service	$151,427	$ 18,771
Operating expenses		
Instruction		
Other		
Salaries	31,336	-
Benefits	6,799	-
	38,135	-
Support services		
Administration		
Salaries	9,345	-
Benefits	1,281	-
	10,626	-
Non-instructional programs		
Food service operations		
Salaries	67,025	-
Benefits	17,600	-
Supplies	103,199	-
Miscellaneous	582	-
Depreciation	9,730	-
	198,136	-
Other enterprise operations		
Purchased services	-	21,765
Total operating expenses	246,897	21,765
Operating loss	(95,470)	(2,994)
Non-operating revenue		
Interest income	88	-
State sources	2,296	-
Federal sources	59,919	-
Total non-operating revenue	62,303	-
Net loss	(33,167)	(2,994)
Net assets, beginning of year	83,563	9,660
Net assets, end of year	$ 50,396	$ 6,666

See notes to financial statements.

LONE TREE COMMUNITY SCHOOL DISTRICT

Exhibit I

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2008

	Business Type Activities	Governmental Activity
	Nonmajor Enterprise	Internal Service
Cash flows from operating activities		
Cash received from sale of services	$ 109,938	$ -
Cash received from other operations	41,489	18,771
Cash payments to employees for services	(124,305)	-
Cash payments to suppliers for goods and services	(94,311)	(21,765)
Net cash used in operating activities	(67,189)	(2,994)
Cash flows from non-capital financing activities		
State grants received	2,296	-
Federal grants received	48,673	-
Net cash provided by non-capital financing activities	50,969	-
Cash flows from capital and related financing activities	-	-
Cash flows from investing activities		
Interest on investments	88	-
Net decrease in cash and cash equivalents	(16,132)	(2,994)
Cash and cash equivalents, beginning of year	20,142	9,660
Cash and cash equivalents, end of year	$ 4,010	$ 6,666
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (95,470)	$ (2,994)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	9,730	-
Commodities used	11,204	-
Increase in due from other government	(42)	-
Increase in due from other fund	(1,692)	-
Increase in due to other funds	9,081	-
Net cash used in operating activities	$ (67,189)	$ (2,994)

Non-cash investing, capital and financing activities

During the year ended June 30, 2008, the District received $11,204 of federal commodities.

See notes to financial statements.

LONE TREE COMMUNITY SCHOOL DISTRICT

Exhibit J

Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2008

	Private Purpose Trust Scholarships
Assets	
Cash and pooled investments	$5,645
Accrued interest receivable	13
Total assets	5,658
Liabilities	-
Net assets	
Reserved for scholarships	$5,658

See notes to financial statements.

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Year Ended June 30, 2008

Exhibit K

	Private Purpose Trust Scholarships
Additions	
Local sources	
Gifts and contributions	$1,000
Interest	94
Total additions	1,094
Deductions	
Instruction, regular	
Scholarships	1,200
Change in net assets	(106)
Net assets, beginning of year	5,764
Net assets, end of year	$5,658

See notes to financial statements.

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.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does 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 Johnson County Assessor's 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 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 not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

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

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The District reports no major proprietary funds; however, it reports the following proprietary funds.

The District's proprietary funds are the Enterprise, School Nutrition Fund and Preschool Fund. These funds are used to account for the food service operations and preschool program of the District. Additionally, the District reports an Internal Service Fund which is used to account for the flex-benefit plan for District employees.

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District's fiduciary fund consists of 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, claims and judgments and termination benefits 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 apply 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 are 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 financial statements:

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, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2007.

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.

Asset Class	Amount
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:

Asset Class	Useful Life
Buildings & Improvements	50 years
Improvements other than buildings	20 years
Furniture and equipment	5-20 years

Early Retirement - District employees meeting certain requirements are eligible for early retirement benefits. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2008. The early retirement liability attributable to the governmental activities will be paid primarily from the Management Fund.

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 and income surtaxes 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 Balance - 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 Balance - The District has designated a portion of its fund balance for specific programs.

Net Assets - Invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets consist of net assets with constraints placed on the use either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports $88,503 of restricted net assets which is restricted by 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, 2008, expenditures in the Support Services function exceeded the amount budgeted; however, General Fund expenditures did not exceed the District's unspent authorized budget.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2008 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, 2008, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	$ 1,508,780

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.

Note 3. Due From and Due To Other Funds

The detail of interfund receivables and payables at June 30, 2008 is as follows:

Receivable Fund	Payable Fund	Amount
General	Debt Service	$ 783
General	Nonmajor School Nutrition	13,581
Totals		$ 14,364

The Debt Service Fund had a negative cash balance at June 30, 2008; however, since Debt Service Fund monies are pooled in the same bank account as the General Fund, this negative cash balance is reported as payable from the Debt Service Fund to the General Fund. The School Nutrition Fund borrowed from the General Fund to cover salary expenses until money is received from students for meals. The balances will be repaid during the year ending June 30, 2008.

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2008 was as follows:

Governmental activities	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
Capital assets not being depreciated:				
Land	$ 162,365	$ -	$ -	$ 162,365
Construction in progress	-	42,291	-	42,291
Total capital assets, not being depreciated	162,365	42,291	-	204,656
Capital assets being depreciated:				
Buildings & improvements	4,067,008	266,773	-	4,333,781
Improvements other than buildings	326,579	-	-	326,579
Furniture and equipment	1,064,072	86,610	(71,035)	1,079,647
Total capital assets being depreciated	5,457,659	353,383	(71,035)	5,740,007
Less accumulated depreciation for:				
Buildings and improvements	1,275,919	76,216	-	1,352,135
Improvements other than buildings	212,276	16,329	-	228,605
Furniture and equipment	822,218	73,831	(70,169)	825,880
Total accumulated depreciation	2,310,413	166,376	(70,169)	2,406,620
Total capital assets being depreciated, net	3,147,246	187,007	(866)	3,333,387
Governmental activities capital assets, net	$ 3,309,611	$ 229,298	$ (866)	$ 3,538,043
Business type activities				
Furniture and equipment	$ 167,151	$ -	$ (1,748)	$ 165,403
Less accumulated depreciation	102,209	9,730	(1,165)	110,774
Business type activities capital assets, net	$ 64,942	$ (9,730)	$ (583)	$ 54,629

Depreciation expense was charged to the following functions:

Governmental activities	
Instruction	
Regular	$ 34,766
Support services	
Student support	481
Instructional staff	661
Administration	4,173
Operation and maintenance of plant	1,481
Transportation	28,029
Unallocated depreciation	96,785
Total governmental activities depreciation expense	$ 166,376

Business type activities	
Food services	$ 9,730

Note 5. Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2008 are summarized as follows:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
General obligation bonds	$ 2,960,000	$ -	$ (150,000)	$ 2,810,000	$ 160,000
Early retirement	11,518	15,000	(3,397)	23,121	3,767
Totals	$ 2,971,518	$ 15,000	$ (153,397)	$ 2,833,121	$ 163,767

Interest costs incurred and charged to expense on all long-term debt was $138,862 for the year ended June 30, 2008. During the year ended June 30, 2008, the District made principal payments on total long-term debt of $150,000.

General Obligation Bonds Payable

Details of the District's June 30, 2008 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2009	5.000%	$ 160,000	$ 132,313	$ 292,313
2010	4.250%	165,000	124,313	289,313
2011	4.300%	175,000	117,300	292,300
2012	4.400%	185,000	109,775	294,775
2013	4.500%	195,000	101,635	296,635
2014-2018	4.6%-4.8%	1,115,000	365,707	1,480,707
2019-2021	4.9%-5.0%	815,000	81,950	896,950
		$ 2,810,000	$ 1,032,993	$ 3,842,993

Payments on the bonds are made directly by the Debt Service Fund.

Note 6. Termination Benefits

The District offered a voluntary early retirement plan to its full-time licensed employees. Eligible employees must have completed at least thirty years of full-time service to the District and must have attained the age of fifty-five years on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education. The Board makes a determination of whether or not to offer the plan by January 15 of each year.

Participating employees are given a $15,000 credit to pay their health insurance premiums. The District uses the participating retiree's credit to pay for the retiree's single or family health insurance premiums under the District's current health insurance plan or any subsequent plan, for as long as the retiree meets the insurer's qualifications. The participating retiree receives the same level of coverage that they received for the last two years of employment with the District; however the participating retiree can choose to receive single coverage if they previously received family coverage. The District uses the participating retiree's credit to pay for health insurance coverage until the earliest of the following:

1) The amount of the participating retiree's credit is exhausted;
2) The insurer no longer permits the participating employee to be covered; or
3) The participating retiree dies.

At June 30, 2008, the District had obligations to two participants with a total liability of $23,121. Actual early retirement expenditures for the year ended June 30, 2008 totaled $3,397.

Note 7. Pension and Retirement Benefits

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

Plan members were required to contribute 3.90% of their annual covered salary and the District was required to contribute 6.05% of annual covered payroll for the year ended June 30, 2008. Plan members were required to contribute 3.70% of their annual covered salary and the District was required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007 and 2006. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 were $147,734, $132,189 and $118,129 respectively, equal to the required contributions for each year.

Note 8. 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 9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled $128,211 for the year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 10. Deficit Unrestricted Net Assets

The District's enterprise fund, School Nutrition Fund had an unrestricted net assets deficit of $5,767 and the total enterprise funds had an unrestricted net assets deficit of $4,233 at June 30, 2008.

Note 11. Flexible Fringe Benefits Plan

The District sponsors a flexible fringe benefit plan as part of its contractual obligation with its employees. The benefit available under the plan is insurance. Each participating employee can choose among medical, life, and dental insurance. The District contributes $345.00 per month for full-time staff and $1,061.09 for administrative staff. The difference between the District's contribution and the amount of programs selected by the employee is added or subtracted from the employee's salary. There were 27 participants in the plan for the year ended June 30, 2008.

Note 12. Contingencies

Grant Funding - The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2008, significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

Note 13. Construction Commitment

The District has entered into contracts totaling $224,290 for the remodeling of administrative offices and classrooms. As of June 30, 2008, costs of $42,291 had been incurred against the contract. The balance of $181,999 remaining at June 30, 2008 will be paid as work on the project progresses. The project was started in June 2008 and is expected to be completed in the fall of 2008.

Required Supplementary Information

LONE TREE COMMUNITY SCHOOL DISTRICT
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual
All Governmental Funds and Enterprise Funds
Required Supplementary Information
For the Year Ended June 30, 2008

	Governmental Funds Actual	Enterprise Funds Actual	Total Actual	Budgeted Amounts Original	Budgeted Amounts Final	Final to Actual Variance
Revenues						
Local sources	$2,789,703	$151,515	$2,941,218	$2,419,953	$2,419,953	$ 521,265
State sources	1,782,615	2,296	1,784,911	1,738,037	1,738,037	46,874
Federal sources	105,142	59,919	165,061	160,000	160,000	5,061
Total revenues	4,677,460	213,730	4,891,190	4,317,990	4,317,990	573,200
Expenditures/Expenses						
Instruction	2,697,841	38,135	2,735,976	2,535,290	2,900,000	164,024
Support services	1,308,472	10,626	1,319,098	1,287,010	1,302,010	(17,088)
Non-instructional programs	149	198,136	198,285	224,150	250,000	51,715
Other expenditures	857,679	-	857,679	522,621	900,000	42,321
Total expenditures/expenses	4,864,141	246,897	5,111,038	4,569,071	5,352,010	240,972
Excess (deficiency) of revenues over (under) expenditures/expenses	(186,681)	(33,167)	(219,848)	(251,081)	(1,034,020)	814,172
Net other financing sources	1,303	-	1,303	-	-	1,303
Excess (deficiency) revenues over (under) expenditures/expenses	(185,378)	(33,167)	(218,545)	(251,081)	(1,034,020)	815,475
Balance, beginning of year	1,830,341	83,563	1,913,904	1,821,155	1,821,155	92,749
Balance, end of year	$1,644,963	$ 50,396	$1,695,359	$1,570,074	$ 787,135	$ 908,224

See accompanying Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
For the Year Ended June 30, 2008

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 the Internal Service and Private Purpose Trust 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. 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 function 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 expenditures by $782,939.

During the year ended June 30, 2008, District expenditures exceeded the amount budgeted in the Support Services function; however, General Fund expenditures did not exceed the District's unspent authorized budget.

Other Supplementary Information

LONE TREE COMMUNITY SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2008

Schedule 1

	Management Levy	Student Activity	Physical Plant and Equipment Levy	Total
Assets				
Cash and pooled investments	$12,090	$89,654	$ 89,872	$191,616
Receivables				
Property tax				
Delinquent	636	-	1,617	2,253
Succeeding year	58,000	-	129,079	187,079
Accounts receivable	-	3,548	-	3,548
Accrued interest	-	71	-	71
Due from other governments	-	4,962	-	4,962
Total assets	$70,726	$98,235	$220,568	$389,529
Liabilities and Fund Balances				
Liabilities				
Accounts payable	$ -	$ 4,514	$ 2,986	$ 7,500
Deferred revenue				
Succeeding year property tax	58,000	-	129,079	187,079
Total liabilities	58,000	4,514	132,065	194,579
Fund balances				
Unreserved fund balances	12,726	93,721	88,503	194,950
Total liabilities and fund balances	$70,726	$98,235	$220,568	$389,529

See accompanying Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT Schedule 2

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Special Revenue Funds

For the Year Ended June 30, 2008

Revenues	Management Levy	Student Activity	Physical Plant and Equipment Levy	Total
Local sources				
Local taxes	$ 45,980	$ -	$119,143	$165,123
Other	-	171,942	905	172,847
State sources	24	-	65	89
Total revenues	46,004	171,942	120,113	338,059
Expenditures				
Current				
Instruction				
Regular	20,098	-	-	20,098
Other	-	150,936	-	150,936
Total instruction	20,098	150,936	-	171,034
Support services				
Student	313	-	-	313
Instructional staff	420	-	3,684	4,104
Administration	5,729	-	-	5,729
Operation and maintenance of plant	24,349	-	-	24,349
Transportation	6,891	-	3,900	10,791
Total support services	37,702	-	7,584	45,286
Non-instructional programs	149	-	-	149
Other expenditures				
Facilities acquisition	-	-	16,210	16,210
Total expenditures	57,949	150,936	23,794	232,679
Excess (deficiency) of revenues over (under) expenditures	(11,945)	21,006	96,319	105,380
Fund balances, beginning of year	24,671	72,715	(7,816)	89,570
Fund balances, end of year	$ 12,726	$93,721	$ 88,503	$194,950

See accompanying Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT

Schedule 3

Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2008

	School Nutrition	Preschool	Total
Assets			
Cash and cash equivalents	$ 2,476	$ 1,534	$ 4,010
Due from other governments	42	-	42
Inventories	5,296	-	5,296
Capital assets, net of accumulated depreciation	54,629	-	54,629
Total assets	62,443	1,534	63,977
Liabilities			
Due to other funds	13,581	-	13,581
Net Assets			
Invested in capital assets	54,629	-	54,629
Unrestricted	(5,767)	1,534	(4,233)
Total net assets	$48,862	$ 1,534	$50,396

See accompanying Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT Schedule 4

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets

Nonmajor Enterprise Funds

For the Year Ended June 30, 2008

	School Nutrition	Preschool	Total
Operating revenue			
Local sources			
Charges for service	$109,938	$41,489	$151,427
Operating expenses			
Instruction			
Other			
Salaries	-	31,336	31,336
Benefits	-	6,799	6,799
	-	38,135	38,135
Support services			
Administration			
Salaries	9,345	-	9,345
Benefits	1,281	-	1,281
	10,626	-	10,626
Non-instructional programs			
Food service operations			
Salaries	67,025	-	67,025
Benefits	17,600	-	17,600
Supplies	103,199	-	103,199
Miscellaneous	582	-	582
Depreciation	9,730	-	9,730
	198,136	-	198,136
Total operating expenses	208,762	38,135	246,897
Operating income (loss)	(98,824)	3,354	(95,470)
Non-operating revenue			
Interest income	69	19	88
State sources	2,296	-	2,296
Federal sources	59,919	-	59,919
Total non-operating revenue	62,284	19	62,303
Net income (loss)	(36,540)	3,373	(33,167)
Net assets, beginning of year	85,402	(1,839)	83,563
Net assets, end of year	$ 48,862	$ 1,534	$ 50,396

See accompanying Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT Schedule 5
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2008

	School Nutrition	Preschool	Total
Cash flows from operating activities			
Cash received from sale of services	$109,938	$ -	$109,938
Cash received from other operations	-	41,489	41,489
Cash payments to employees for services	(81,670)	(42,635)	(124,305)
Cash payments to suppliers for goods and services	(94,311)	-	(94,311)
Net cash used in operating activities	(66,043)	(1,146)	(67,189)
Cash flows from non-capital financing activities			
State grants received	2,296	-	2,296
Federal grants received	48,673	-	48,673
Net cash provided by non-capital financing activities	50,969	-	50,969
Cash flows from capital and related financing activities	-	-	-
Cash flows from investing activities			
Interest on investments	69	19	88
Net decrease in cash and cash equivalents	(15,005)	(1,127)	(16,132)
Cash and cash equivalents, beginning of year	17,481	2,661	20,142
Cash and cash equivalents, end of year	$ 2,476	$ 1,534	$ 4,010
Reconciliation of operating income (loss) to net cash used in operating activities			
Operating income (loss)	$ (98,824)	$ 3,354	$ (95,470)
Adjustments to reconcile operating income (loss) to net cash used in operating activities			
Depreciation	9,730	-	9,730
Commodities used	11,204	-	11,204
(Increase) in due from other governments	(42)	-	(42)
(Increase) in due from other fund	(1,692)	-	(1,692)
Increase (decrease) in due to other funds	13,581	(4,500)	9,081
Net cash used in operating activities	$ (66,043)	$ (1,146)	$ (67,189)

Non-cash investing, capital and financing activities:

During the year ended June 30, 2008, the District received $11,204 of federal commodities.

See accompanying Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT Schedule 6
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
For the Year Ended June 30, 2008

Account	Balance, Beginning of Year	Revenues	Expenditures	Intra-fund Transfers	Balance, End of Year
Drama	$ 714	$ 1,625	$ 2,730	$ 391	$ -
Speech	(24)	880	720	-	136
Vocal choir	696	5,621	3,687	-	2,630
Band activity	1,009	1,265	1,461	-	813
Athletics	16,073	34,667	35,769	-	14,971
Boys' basketball	(225)	2,124	1,853	-	46
Youth boys' basketball	922	2,199	955	-	2,166
Football	1,066	3,964	4,625	-	405
Boys' baseball	2,078	3,888	3,336	-	2,630
Golf	-	976	1,005	29	-
Wrestling	229	1,581	1,397	-	413
Girls' basketball	946	3,391	3,841	-	496
Volleyball	2,241	570	627	-	2,184
Softball	1,019	4,914	5,162	-	771
Student council	1,180	263	426	-	1,017
Annual	(8,022)	4,820	1,040	4,242	-
Newspaper	684	-	-	-	684
National Honor Society	430	819	545	-	704
Cheerleading	(547)	418	110	239	-
Eureka, Future Problem Solving	(250)	600	569	219	-
PBS	81	4,797	3,546	-	1,332
FFA	6,727	33,009	27,071	-	12,665
FFA projects	1,969	-	-	-	1,969
FCCLA	475	1,528	1,815	-	188
Elementary play fund	1,331	995	1,291	-	1,035
Project Pride	455	-	-	-	455
Math and science club	454	-	-	-	454
Art club	841	-	-	-	841
Art projects	225	-	-	-	225
Spanish club	3,110	92	-	-	3,202
Band uniforms	(5,066)	6,010	3,208	2,264	-
Special	(1,535)	10,104	6,028	-	2,541
Post prom	-	1,721	1,721	-	-

See accompanying Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT Schedule 6

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

For the Year Ended June 30, 2008

Account	Balance, Beginning of Year	Revenues	Expenditures	Intra-fund Transfers	Balance, End of Year
Interest	$ 11,920	$ 749	$ 1,934	$ (8,656)	$ 2,079
JH student council	333	2,734	2,904	-	163
Elementary student council	21,993	15,930	11,098	-	26,825
Music boosters club	648	-	-	-	648
Dance squad	(86)	4,961	5,099	224	-
Box tops for education	175	-	-	-	175
Parent partner activity	1,820	-	-	-	1,820
Class of 2007	1,346	-	-	-	1,346
Class of 2008	2,018	4,261	5,606	-	673
Class of 2009	1,780	6,897	5,787	-	2,890
Class of 2010	728	961	859	-	830
Class of 2011	597	-	8	-	589
Class of 2012	443	-	-	-	443
Class of 2013	(554)	-	132	686	-
Class of 2014	-	2,608	2,971	362	(1)
Athletic banquet fund	268	-	-	-	268
Totals	$ 72,715	$ 171,942	$ 150,936	$ -	$ 93,721

See accompanying Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT

Schedule 7

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds
For the Last Four Years

	Modified Accrual Basis			
	2008	2007	2006	2005
Revenues				
Local sources				
Local tax	$1,996,416	$1,549,107	$1,471,911	$1,533,092
Tuition	500,922	482,877	500,515	441,471
Other	292,365	389,636	286,616	227,605
State sources	1,782,615	1,645,153	1,555,008	1,418,468
Federal sources	105,142	108,460	102,010	104,197
Total revenues	$4,677,460	$4,175,233	$3,916,060	$3,724,833
Expenditures				
Current				
Instruction				
Regular	$1,740,169	$1,583,853	$1,768,978	$1,384,705
Special	433,192	429,335	21,694	270,118
Other	524,480	550,726	509,967	396,582
Support services				
Student	111,851	118,810	110,542	41,192
Instructional staff	105,427	120,640	72,594	28,164
Administration	530,132	471,290	429,260	412,302
Operation and maintenance of plant	418,067	389,579	379,940	332,059
Transportation	142,995	122,138	131,664	155,031
Non-instructional programs	149	134	107	9,353
Other expenditures				
Facilities acquisition	439,356	108,182	122,632	117,898
Long-term debt				
Principal	150,000	145,000	135,000	130,000
Interest and other charges	140,112	147,363	154,112	160,612
AEA flowthrough	128,211	120,260	113,111	111,110
Total expenditures	$4,864,141	$4,307,310	$3,949,601	$3,549,126

See accompanying Independent Auditor's Report.

KAY L. CHAPMAN, CPA PC

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Muscatine, Iowa 52761
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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, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued my report thereon dated February 17, 2009. 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 as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of Lone Tree Community School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Lone Tree Community School District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies, including deficiencies I consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Lone Tree Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Lone Tree Community School District's financial statements that is more than inconsequential will not be prevented or detected by Lone Tree

Community School District's internal control. I consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Lone Tree Community School District's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I believe item A, B and C are material weaknesses.

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, 2008 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.

Lone Tree Community School District's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the District's responses, I did not audit Lone Tree Community School District's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Lone Tree Community School District and other parties to whom Lone Tree 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.

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

Kay L. Chapman, CPA PC
February 17, 2009

LONE TREE COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2008

Part I. Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE

No matters were noted.

SIGNIFICANT DEFICIENCIES

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. I noted that the same individual performed the following duties: recording and processing of 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. Financial Statement Preparation - Financial statement preparation is the responsibility of the District. At the present time, District personnel do not have the skills necessary to prepare the District's financial statements and related note disclosures in compliance with generally accepted accounting principles (GAAP). This is not an unusual situation for small governmental entities.

   Recommendation - The business manager should consider obtaining additional GAAP training through reading relevant accounting literature and/or attending professional education courses. Since GAAP reporting and disclosures change constantly, the business manager should consider taking training annually to stay up-to-date on GAAP reporting and disclosure requirements. The District should also obtain current governmental accounting, reporting and disclosure reference materials and update them as new pronouncements become effective.

Response - We believe that the business manager has sufficient knowledge to perform her daily duties and take responsibility for the annual financial statements and footnote disclosure in compliance with GAAP, as prepared by the auditor. We certainly understand the need for continuing education classes for all of our staff, including the business manager. However, we have a limited budget and must continually prioritize needs. We will investigate alternatives, but believe that it would not be an efficient use of District funds to get and maintain the necessary training for the business manager to comply with this recommendation. Nor do we consider hiring additional staff possessing these skills to be a feasible option.

Conclusion - Response accepted.

C. Material Misstatement not Detected - During the course of my audit, I discovered material misstatements on the District's trial balance that were not detected by the District's internal controls. The trial balance omitted retainage payable for the construction project from the Capital Projects Fund, income surtax receivable and deferred revenue and did not include the construction in progress in the Long-term Assets Account Group. These errors were corrected prior to the District's Certified Annual Report (CAR) being filed. Therefore, amounts on the CAR were not misstated.

Recommendation - An effective system of internal control should detect material misstatements in the District's financial records and financial reporting. The District should review their control procedures and make appropriate changes to improve their internal controls to help eliminate this deficiency.

Response - We feel that our business manager has the knowledge needed to adequately perform her duties. The superintendent reviews some, but not all of the work performed and reports prepared by the business manager. We would like to hire additional office personnel to help with the business manager's workload and to provide some oversight and cross-checking of her work. However, with a limited budget, it is difficult to hire enough adequately-trained office personnel to review each other's work. We will review our procedures and consider making changes we deem necessary.

Conclusion - Response accepted.

Part II. Other Findings Related to Statutory Reporting:

1. Certified Budget - Expenditures for the year ended June 30, 2008 exceeded the amended certified budget amount in the support services function.

Recommendation - The certified budget was amended; however, not to a sufficient amount to cover expenditures. The budget should have been sufficiently amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - Future budgets will be amended in sufficient amounts to ensure that the certified budget is not exceeded.

Conclusion - Response accepted.

2. Questionable Expenditures - I noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

3. 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.

4. Business Transactions - No business transactions between the District and District officials or employees were noted.

5. 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.

6. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.

7. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.

8. 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.

9. 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.

10. Financial Condition - The District's Enterprise, School Nutrition Fund had negative unrestricted net assets of $5,767 and the total enterprise funds had negative unrestricted net assets of $4,233 at June 30, 2008.

    Recommendation - The District should continue to monitor these accounts and investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial condition.

Response - We are continuing to investigate alternatives to eliminate these deficits.

Conclusion - Response accepted.

11. Signature Card - The signature card for the Preschool Fund bank account contained the signature of the previous board president.

    Recommendation - The District should contact the bank and update the signature card for the Preschool Fund so that it contains the signature of the current board president rather than that of the previous board president.

    Response - We will contact the bank and get this signature card updated to contain the signatures of current authorized check signers, as recommended.

    Conclusion - Response accepted.

LONE TREE COMMUNITY SCHOOL DISTRICT
Audit Staff
June 30, 2008

This audit was performed by

Kay Chapman, CPA
Tammy Calvert, staff accountant