

LONE TREE COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2006

LONE TREE COMMUNITY SCHOOL DISTRICT
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LONE TREE COMMUNITY SCHOOL DISTRICT
 Officials
 June 30, 2006

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2005 Election)		
Jon Ronan	Board President	2007
Carmen Swanson	Board Member	2005
Sally Robbins	Board Member	2005
Jim Lively	Board Member	2006
James Loan	Board Member	2007
(After September 2005 Election)		
James Loan	Board President	2007
Jim Lively	Board Member	2006
Jon Ronan	Board Member	2007
Carmen Swanson	Board Member	2008
Sally Robbins	Board Member	2008
School Officials		
Michael Reeves	Superintendent	2006
Kelli D. Forbes	District Secretary/Treasurer	2006
Brian Gruhn	Attorney	2006

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, 2006, 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, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated August 29, 2006 on my consideration of Lone Tree Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 39 through 40 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lone Tree Community School District's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Kay L. Chapman, CPA PC
August 29, 2006

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, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,145,114 in fiscal 2005 to \$3,329,890 in fiscal 2006, while General Fund expenditures increased from \$2,941,078 in fiscal 2005 to \$3,323,305 in fiscal 2006. The District's General Fund balance increased from \$1,267,494 in fiscal 2005 to \$1,276,987 in fiscal 2006, a .7% increase.
- The increase in revenues was due to many small factors including increased revenue in open enrollment tuition and special education open enrollment tuition. 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 County government.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Governmental Funds.

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

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

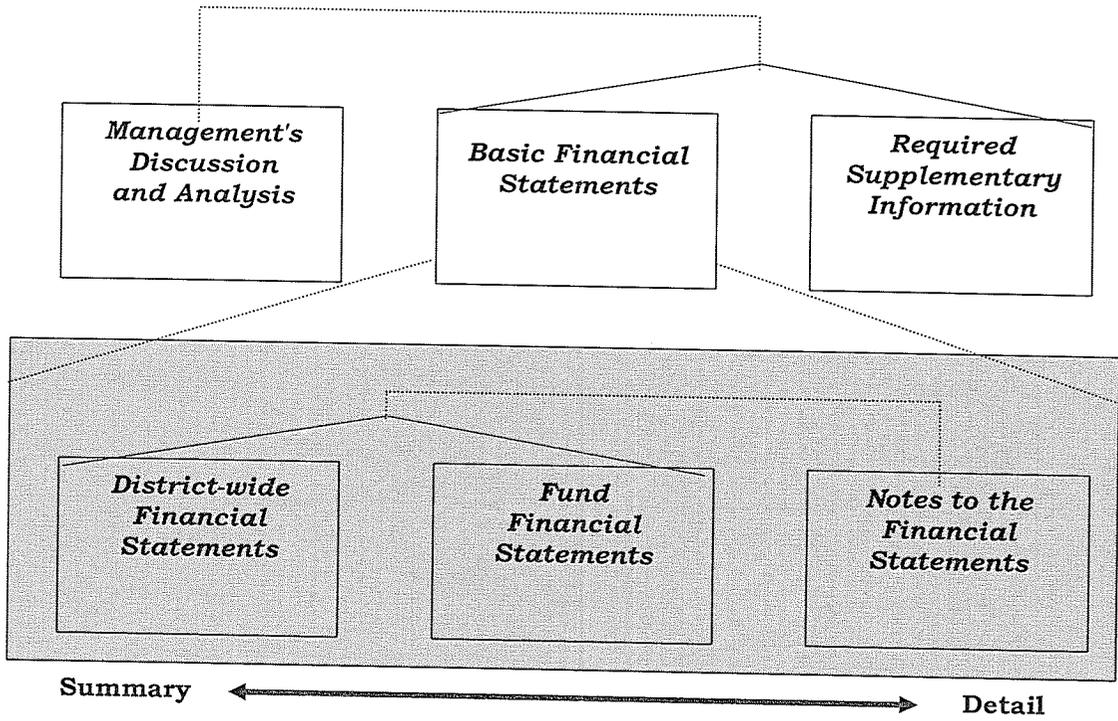


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-2006
Current and other assets	\$ 3,480,855	\$ 3,427,938	\$ 29,715	\$ 20,700	\$ 3,510,570	\$ 3,448,638	1.80%
Capital assets	<u>3,409,672</u>	<u>3,530,205</u>	<u>75,653</u>	<u>87,255</u>	<u>3,485,325</u>	<u>3,617,460</u>	-3.65%
Total assets	<u>6,890,527</u>	<u>6,958,143</u>	<u>105,368</u>	<u>107,955</u>	<u>6,995,895</u>	<u>7,066,098</u>	-0.99%
Long-term obligations	3,118,063	3,240,000	-	-	3,118,063	3,240,000	-3.76%
Other liabilities	<u>1,539,113</u>	<u>1,457,108</u>	-	-	<u>1,539,113</u>	<u>1,457,108</u>	5.63%
Total liabilities	<u>4,657,176</u>	<u>4,697,108</u>	-	-	<u>4,657,176</u>	<u>4,697,108</u>	-0.85%
Net assets							
Invested in capital assets, net of related debt	304,673	295,891	75,653	87,255	380,326	383,146	-0.74%
Restricted	671,507	730,011	-	-	671,507	730,011	-8.01%
Unrestricted	<u>1,257,171</u>	<u>1,235,133</u>	<u>29,715</u>	<u>20,700</u>	<u>1,286,886</u>	<u>1,255,833</u>	2.47%
Total net assets	<u>\$ 2,233,351</u>	<u>\$ 2,261,035</u>	<u>\$105,368</u>	<u>\$ 107,955</u>	<u>\$ 2,338,719</u>	<u>\$ 2,368,990</u>	-1.28%

The District's combined net assets decreased by approximately 1%, or \$30,271, from the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$58,504, or approximately 8% from the prior year. The decrease was primarily a result of expenditures in the Physical Plant and Equipment Levy Fund bringing down the fund balance and not having the voter approved levy in the Physical Plan and Equipment fund this fiscal year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$31,053, or approximately 2%. This increase in unrestricted net assets occurred as a combined result of increased revenue from all sources and controlled increases in spending bringing up the General Fund Balance and the increase in the Management Fund Balance due to the levy of additional taxes.

Figure A-4 shows the change in net assets for the year ended June 30, 2006.

Figure A-4
Change in Net Assets

	Governmental Activities		Business Type Activities		Total District		Total Change 2005-2006
	2006	2005	2006	2005	2006	2005	
Revenues							
Program revenues							
Charges for service and sales	\$ 726,713	\$ 615,421	\$ 112,965	\$ 108,823	\$ 839,678	\$ 724,244	15.94%
Operating grants and contributions	381,834	360,521	54,518	54,833	436,352	415,354	5.06%
General revenues							
Property tax	1,470,841	1,523,778	-	-	1,470,841	1,523,778	-3.47%
Local option sales and services tax	1,069	10,168	-	-	1,069	10,168	-89.49%
Unrestricted state grants	1,275,185	1,161,290	-	-	1,275,185	1,161,290	9.81%
Unrestricted investment earnings	67,734	36,233	90	66	67,824	36,299	86.85%
Contributions and donations	8,474	8,474	-	-	8,474	8,474	0.00%
Other	2,443	8,948	-	-	2,443	8,948	-72.70%
Gain on disposal of materials	-	1,499	-	-	-	1,499	-100.00%
Total revenues	<u>3,934,293</u>	<u>3,726,332</u>	<u>167,573</u>	<u>163,722</u>	<u>4,101,866</u>	<u>3,890,054</u>	5.44%
Program expenses							
Governmental activities							
Instruction	2,305,534	2,056,898	-	-	2,305,534	2,056,898	12.09%
Support services	1,143,398	951,454	-	-	1,143,398	951,454	20.17%
Non-instructional programs	17,171	9,353	170,160	159,569	187,331	168,922	10.90%
Other expenses	<u>495,874</u>	<u>488,493</u>	-	-	<u>495,874</u>	<u>488,493</u>	1.51%
Total expenses	<u>3,961,977</u>	<u>3,506,198</u>	<u>170,160</u>	<u>159,569</u>	<u>4,132,137</u>	<u>3,665,767</u>	12.72%
Change in net assets	<u>\$ (27,684)</u>	<u>\$ 220,134</u>	<u>\$ (2,587)</u>	<u>\$ 4,153</u>	<u>\$ (30,271)</u>	<u>\$ 224,287</u>	-113.50%

In fiscal 2006, property tax and unrestricted state grants account for approximately 70% of the revenue from governmental activities while charges for service and sales and operating grants and contributions accounts for approximately 99.9% of the revenue from business type activities.

The District's total revenues were \$4,101,866 of which \$3,934,293 was for governmental activities and \$167,573 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 5.44% increase in revenues and a 12.7% increase in expenses. The increase in expenses related to increases in the negotiated salary and benefits as well as increases in expenses for the hiring of additional staff by the District.

Governmental Activities

Revenues for governmental activities were \$3,934,293 and expenses were \$3,961,977. The District felt it was able to spend more than the revenues due to the cash balance that has been built over the years.

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

Figure A-5 Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2006	2005	Change 2005-2006	2006	2005	Change 2005-2006
Instruction	\$ 2,305,534	\$ 2,056,898	12.1%	\$ 1,328,096	\$ 1,199,724	10.7%
Support services	1,143,398	951,454	20.2%	1,125,400	943,796	19.2%
Non-instructional programs	17,171	9,353	0.0%	17,171	9,353	0.0%
Other expenses	495,874	488,493	1.5%	382,763	377,383	1.4%
Total expenses	<u>\$ 3,961,977</u>	<u>\$ 3,506,198</u>	<u>13.0%</u>	<u>\$ 2,853,430</u>	<u>\$ 2,530,256</u>	<u>12.8%</u>

- The cost financed by users of the District's programs was \$726,713.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$381,834.
- The net cost of governmental activities was financed with \$1,471,910 in property and other taxes and \$1,275,185 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$167,573, representing a 2.3% increase over the prior year while expenses were \$170,160, 6.6% 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 revenue is due mostly to a higher participation in student lunch sales and the payment of registrations for the start of a new preschool program in the fall of 2006. The increase in expenses is mostly due to the increase in salary and benefits.

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 \$1,959,397, slightly below last year's ending fund balances of \$1,989,804. This was a 1.5% decrease from last year's ending fund balance. The largest change was in the PPEL Fund. This was a result of not levying for the additional Voted .67 Physical Plant & Equipment levy.

Governmental Fund Highlights

- The District's General Fund balance increased by \$9,493. There were no major changes in the General Fund. However there was some increase in open enrollment revenue and increased expenditures due to negotiated salary and benefits and the hiring of additional staff for 2006.
- The Physical Plant and Equipment Levy Fund balance decreased from \$92,152 in fiscal year 2005 to \$(4,915) in fiscal year 2006. The major factor in this was the board was not able to levy for the additional Voted .67 Physical Plant & Equipment Levy.
- The Capital Projects Fund balance increased from \$584,644 in 2005 to \$606,901 in 2006 due to the completion of a construction project and the interest earned on the balance of funds.

Proprietary Fund Highlights

Enterprise Funds net assets decreased from \$107,955 at June 30, 2005 to \$105,368 at June 30, 2006 representing a decrease of approximately 2.4%. This change is due primarily to the increase in salaries and food prices.

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 \$279,861 more than budgeted receipts, a variance of 7%. Part of the difference in revenues is that nothing was budgeted in Capital Projects Fund but the balance of funds still in capital projects earned almost \$22,000 in interest income. Most of the difference in the General Fund was the receipt of more property taxes and instructional income surtaxes than expected and a REAP Grant received, which had not been budgeted.

Total expenditures were \$113,744 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 instruction functional area due to not amending the budget to a sufficient amount in the Instruction expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$3,485,326, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of approximately 3% from last year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$165,002.

The original cost of the District's capital assets was \$5,756,015. Governmental funds account for \$5,589,835, with the remainder of \$166,180 accounted for in the Proprietary, School Nutrition Fund.

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

Figure A-6

Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total Change 2005-2006
	Activities		Activities		School District		
	2006	2005	2006	2005	2006	2005	
Land	\$ 162,365	\$ 162,365	\$ -	\$ -	\$ 162,365	\$ 162,365	0.00%
Land improvements	130,632	146,961	-	-	130,632	146,961	-11.11%
Buildings and improvements	2,871,472	2,958,968	-	-	2,871,472	2,958,968	-2.96%
Furniture and equipment	<u>245,204</u>	<u>261,911</u>	<u>75,653</u>	<u>87,255</u>	<u>320,857</u>	<u>349,166</u>	-8.11%
Totals	<u>\$3,409,673</u>	<u>\$3,530,205</u>	<u>\$ 75,653</u>	<u>\$ 87,255</u>	<u>\$3,485,326</u>	<u>\$3,617,460</u>	-3.65%

Long-Term Debt

At June 30, 2006, the District had \$3,118,063 in general obligation debt outstanding. This represents a decrease of approximately 4% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

Figure A-7

Outstanding Long-term Obligations

	Total		Total Change 2005-2006
	School District		
	2006	2005	
General obligation bonds	\$3,105,000	\$3,240,000	-4.17%
Early retirement	<u>13,063</u>	<u>15,000</u>	-12.91%
Total	<u>\$3,118,063</u>	<u>\$3,255,000</u>	-4.21%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District's 2006 Certified Enrollment decreased which would generate less funding for fiscal year 2007. Future enrollment trends are uncertain.
- Continued evaluation of the condition of transportation vehicles and the rotation for replacement of these vehicles.
- The negotiation of salaries and benefits for all district employees. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kelli Forbes, District Secretary/Treasurer and Business Manager, Lone Tree Community School District, 303 S Devoe Street, Lone Tree, Iowa, 52755.

Basic Financial Statements

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2006

Exhibit A

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,022,564	\$ 26,731	\$ 2,049,295
Receivables			
Property tax			
Delinquent	12,093	-	12,093
Succeeding year	1,395,865	-	1,395,865
Accounts receivable	1,536	-	1,536
Due from other governments	48,797	-	48,797
Inventories	-	2,984	2,984
Capital assets, net of accumulated depreciation	3,409,672	75,653	3,485,325
Total assets	6,890,527	105,368	6,995,895
LIABILITIES			
Accounts payable	118,738	-	118,738
Accrued interest payable	24,510	-	24,510
Deferred revenue - succeeding year property tax	1,395,865	-	1,395,865
Long-term liabilities			
Portion due within one year			
Bonds payable	145,000	-	145,000
Early retirement	1,545	-	1,545
Portion due after one year			
Bonds payable	2,960,000	-	2,960,000
Early retirement	11,518	-	11,518
Total liabilities	4,657,176	-	4,657,176
NET ASSETS			
Invested in capital assets, net of related debt	304,673	75,653	380,326
Restricted for			
Capital projects	606,901	-	606,901
Management levy	12,979	-	12,979
Other special revenue purposes	51,627	-	51,627
Unrestricted	1,257,171	29,715	1,286,886
Total net assets	\$ 2,233,351	\$ 105,368	\$ 2,338,719

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

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2006

Exhibit B

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Governmental activities							
Instruction							
Regular instruction	\$ 1,773,873	\$ 639,575	\$ 204,442	\$ -	\$ (929,856)	\$ -	\$ (929,856)
Special instruction	21,694	72,754	57,500	-	108,560	-	108,560
Other instruction	509,967	225	2,942	-	(506,800)	-	(506,800)
	2,305,534	712,554	264,884	-	(1,328,096)	-	(1,328,096)
Support services							
Student services	109,932	-	-	-	(109,932)	-	(109,932)
Instructional staff services	72,072	-	-	-	(72,072)	-	(72,072)
Administration services	426,707	-	-	-	(426,707)	-	(426,707)
Operation and maintenance of plant services	381,187	12,356	-	-	(368,831)	-	(368,831)
Transportation services	153,500	1,803	3,839	-	(147,858)	-	(147,858)
	1,143,398	14,159	3,839	-	(1,125,400)	-	(1,125,400)
Non-instructional programs	17,171	-	-	-	(17,171)	-	(17,171)
Other expenditures							
Facilities acquisition	122,632	-	-	-	(122,632)	-	(122,632)
Long-term debt interest	153,962	-	-	-	(153,962)	-	(153,962)
AEA flowthrough	113,111	-	113,111	-	-	-	-
Loss on disposal of capital assets	4,871	-	-	-	(4,871)	-	(4,871)
Depreciation (unallocated)*	101,298	-	-	-	(101,298)	-	(101,298)
	495,874	-	113,111	-	(382,763)	-	(382,763)
Total governmental activities	3,961,977	726,713	381,834	-	(2,853,430)	-	(2,853,430)

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

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2006

Exhibit B

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Business type activities						
Non-instructional programs						
Food service operations	\$ 170,160	\$ 54,518	\$ -	-	\$ (2,677)	\$ (2,677)
Total	<u>\$4,132,137</u>	<u>\$ 839,678</u>	<u>\$ 436,352</u>	<u>(2,853,430)</u>	<u>(2,677)</u>	<u>(2,856,107)</u>
General Revenues						
Property tax levied for						
General purposes				1,144,549	-	1,144,549
Debt service				289,623	-	289,623
Capital outlay				36,669	-	36,669
Local option sales and services tax				1,069	-	1,069
Unrestricted state grants				1,275,185	-	1,275,185
Unrestricted investment earnings				67,734	90	67,824
Contributions and donations				8,474	-	8,474
Other				2,443	-	2,443
Total general revenues				<u>2,825,746</u>	<u>90</u>	<u>2,825,836</u>
Change in net assets						
Net assets, beginning of year				(27,684)	(2,587)	(30,271)
Net assets, end of year				<u>2,261,035</u>	<u>107,955</u>	<u>2,368,990</u>
				<u>\$ 2,233,351</u>	<u>\$105,368</u>	<u>\$ 2,338,719</u>

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

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

LONE TREE COMMUNITY SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2006

Exhibit C

ASSETS	<u>General</u>	Physical Plant and Equipment <u>Levy</u>	<u>Capital Projects</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Cash and pooled investments	\$ 1,316,766	\$ 8,210	\$ 606,367	\$ 84,366	\$ 2,015,709
Receivables					
Property tax					
Delinquent	8,463	325	-	3,305	12,093
Succeeding year	942,848	114,654	-	338,363	1,395,865
Accounts receivable	1,143	-	-	393	1,536
Due from other funds	12,500	-	-	-	12,500
Due from other governments	48,263	-	534	-	48,797
Total assets and other debits	<u>\$ 2,329,983</u>	<u>\$ 123,189</u>	<u>\$ 606,901</u>	<u>\$ 426,427</u>	<u>\$ 3,486,500</u>
 LIABILITIES AND FUND BALANCES					
Liabilities					
Due to other fund	\$ -	\$ 12,500	\$ -	\$ -	\$ 12,500
Accounts payable	110,148	950	-	7,640	118,738
Deferred revenue					
Succeeding year property tax	942,848	114,654	-	338,363	1,395,865
Total liabilities	<u>1,052,996</u>	<u>128,104</u>	<u>-</u>	<u>346,003</u>	<u>1,527,103</u>
 Fund balances					
Reserved for					
Debt service	-	-	-	2,755	2,755
Beginning Teacher Induction	1,127	-	-	-	1,127
Designated by board	6,189	-	-	-	6,189
Unreserved - special revenue fund	-	(4,915)	-	-	(4,915)
Student activity fund	-	-	-	51,627	51,627
Management fund	-	-	-	26,042	26,042
Unreserved - governmental funds	1,269,671	-	606,901	-	1,876,572
Total fund balances	<u>1,276,987</u>	<u>(4,915)</u>	<u>606,901</u>	<u>80,424</u>	<u>1,959,397</u>
Total liabilities and fund balances	<u>\$ 2,329,983</u>	<u>\$ 123,189</u>	<u>\$ 606,901</u>	<u>\$ 426,427</u>	<u>\$ 3,486,500</u>

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

LONE TREE COMMUNITY SCHOOL DISTRICT
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2006

Exhibit D

Total fund balances of governmental funds	\$ 1,959,397
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.	3,409,672
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(24,510)
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.	6,855
Long-term liabilities, including bonds payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(3,118,063)</u>
Net assets of governmental activities	<u>\$ 2,233,351</u>

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

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

Exhibit E

	<u>General</u>	<u>Physical Plant and Equipment Levy</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues					
Local sources					
Local tax	\$ 1,063,401	\$ 36,669	\$ 1,069	\$ 370,772	\$ 1,471,911
Tuition	500,515	-	-	-	500,515
Other	108,956	623	21,188	155,849	286,616
State sources	1,555,008	-	-	-	1,555,008
Federal sources	102,010	-	-	-	102,010
Total revenues	<u>3,329,890</u>	<u>37,292</u>	<u>22,257</u>	<u>526,621</u>	<u>3,916,060</u>
Expenditures					
Current					
Instruction					
Regular instruction	1,756,420	-	-	12,558	1,768,978
Special instruction	21,694	-	-	-	21,694
Other instruction	354,972	-	-	154,995	509,967
	<u>2,133,086</u>	<u>-</u>	<u>-</u>	<u>167,553</u>	<u>2,300,639</u>
Support services					
Student support services	110,315	-	-	227	110,542
Instructional staff services	72,289	-	-	305	72,594
Administration services	424,606	-	-	4,654	429,260
Operation and maintenance of plant services	356,324	-	-	23,616	379,940
Transportation services	113,574	11,953	-	6,137	131,664
	<u>1,077,108</u>	<u>11,953</u>	<u>-</u>	<u>34,939</u>	<u>1,124,000</u>

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

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

Exhibit E

	<u>General</u>	Physical Plant and Equipment <u>Levy</u>	<u>Capital Projects</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Expenditures (continued)					
Current (continued)					
Non-instructional programs	\$ -	\$ -	\$ -	\$ 107	\$ 107
Other expenditures					
Facilities acquisition	-	122,632	-	-	122,632
Long-term debt					
Principal	-	-	-	135,000	135,000
Interest and fiscal charges	-	-	-	154,112	154,112
AEA flowthrough	113,111	-	-	-	113,111
	<u>113,111</u>	<u>122,632</u>	<u>-</u>	<u>289,112</u>	<u>524,855</u>
Total expenditures	<u>3,323,305</u>	<u>134,585</u>	<u>-</u>	<u>491,711</u>	<u>3,949,601</u>
Excess (deficiency) of revenues over (under) expenditures	6,585	(97,293)	22,257	34,910	(33,541)
Other financing sources					
Compensation for loss of capital assets	<u>2,908</u>	<u>226</u>	<u>-</u>	<u>-</u>	<u>3,134</u>
Net change in fund balances	9,493	(97,067)	22,257	34,910	(30,407)
Fund balance, beginning of year	<u>1,267,494</u>	<u>92,152</u>	<u>584,644</u>	<u>45,514</u>	<u>1,989,804</u>
Fund balance, end of year	<u>\$ 1,276,987</u>	<u>\$ (4,915)</u>	<u>\$ 606,901</u>	<u>\$ 80,424</u>	<u>\$ 1,959,397</u>

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

LONE TREE COMMUNITY SCHOOL DISTRICT
 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances-
 Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2006

Exhibit F

Net change in fund balances - total governmental funds \$ (30,407)

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

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

Capital outlays	\$ 40,872	
Depreciation expense	(153,400)	
Loss on disposal of capital assets	<u>(8,004)</u>	(120,532)

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. 1,168

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 135,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 150

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement	<u>(13,063)</u>
------------------	-----------------

Change in net assets of governmental activities \$ (27,684)

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

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
Nonmajor Proprietary Funds
June 30, 2006

Exhibit G

	Business Type		Governmental Activity Internal Service	Total
	<u>Activities</u> Nonmajor Enterprise Funds			
ASSETS				
Cash and pooled investments	\$ 26,731		\$ 6,855	\$ 33,586
Inventories	2,984		-	2,984
Capital assets, net of accumulated depreciation	<u>75,653</u>		<u>-</u>	<u>75,653</u>
Total assets	<u>105,368</u>		<u>6,855</u>	<u>112,223</u>
LIABILITIES				
None	<u>-</u>		<u>-</u>	<u>-</u>
NET ASSETS				
Invested in capital assets	75,653		-	75,653
Unrestricted	<u>29,715</u>		<u>6,855</u>	<u>36,570</u>
Total net assets	<u>\$ 105,368</u>		<u>\$ 6,855</u>	<u>\$ 112,223</u>

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

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2006

Exhibit H

	<u>Business Type</u>	<u>Governmental</u>	
	<u>Activities</u>	<u>Activity</u>	
	Nonmajor	Internal	
	Enterprise	Service	<u>Total</u>
	<u>Funds</u>	<u>Service</u>	
Operating revenue			
Local sources			
Charges for service	\$ 112,965	\$ -	\$ 112,965
Employee contributions	-	18,232	18,232
Total operating revenue	<u>112,965</u>	<u>18,232</u>	<u>131,197</u>
Operating expenses			
Non-instructional programs			
Food service operations			
Salaries	59,037	-	59,037
Benefits	15,247	-	15,247
Purchased services	1,183	17,064	18,247
Supplies	83,091	-	83,091
Depreciation	11,602	-	11,602
Total operating expenses	<u>170,160</u>	<u>17,064</u>	<u>187,224</u>
Operating income (loss)	<u>(57,195)</u>	<u>1,168</u>	<u>(56,027)</u>
Non-operating revenues			
Interest income	90	-	90
State sources	2,350	-	2,350
Federal sources	52,168	-	52,168
Total non-operating revenues	<u>54,608</u>	<u>-</u>	<u>54,608</u>
Net income (loss)	(2,587)	1,168	(1,419)
Net assets, beginning of year	<u>107,955</u>	<u>5,687</u>	<u>113,642</u>
Net assets, end of year	<u>\$ 105,368</u>	<u>\$ 6,855</u>	<u>\$ 112,223</u>

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

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2006

Exhibit I

	Business Type		Total
	Activities Nonmajor Enterprise Funds	Governmental Activity Internal Service	
Cash flows from operating activities			
Cash received from sale of lunches and breakfasts	\$ 112,497	\$ -	\$ 112,497
Cash received from miscellaneous operating activities	525	18,233	18,758
Cash payments to employees for services	(74,284)	-	(74,284)
Cash payments to suppliers for goods and services	(75,035)	(17,065)	(92,100)
Net cash provided by (used in) operating activities	<u>(36,297)</u>	<u>1,168</u>	<u>(35,129)</u>
Cash flows from non-capital financing activities			
State grants received	2,350	-	2,350
Federal grants received	43,984	-	43,984
Net cash provided by non-capital financing activities	<u>46,334</u>	<u>-</u>	<u>46,334</u>
Cash flows from investing activities			
Interest on investments	90	-	90
Net increase in cash and cash equivalents	10,127	1,168	11,295
Cash and cash equivalents, beginning of year	16,604	5,687	22,291
Cash and cash equivalents, end of year	<u>\$ 26,731</u>	<u>\$ 6,855</u>	<u>\$ 33,586</u>
 Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ (57,195)	\$ 1,168	\$ (56,027)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation	11,602	-	11,602
Commodities used	8,184	-	8,184
Decrease in accounts receivable	57	-	57
Decrease in inventories	1,055	-	1,055
Net cash provided by (used in) operating activities	<u>\$ (36,297)</u>	<u>\$ 1,168</u>	<u>\$ (35,129)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006 the District received \$8,184 of federal commodities.

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

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2006

Exhibit J

	<u>Private Purpose Trust Scholarships</u>
Assets	
Cash and pooled investments	\$ 5,880
Liabilities	<u> -</u>
Net assets	
Reserved for scholarships	<u>\$ 5,880</u>

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

LONE TREE COMMUNITY SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Year Ended June 30, 2006

Exhibit K

	Private Purpose Trust <u>Scholarships</u>
Additions	
Local sources	
Interest	\$ 88
Contributions and donations	<u>1,342</u>
Total additions	1,430
 Deductions	
Other instruction	
Scholarships awarded	<u>700</u>
 Change in net assets	730
Net assets, beginning of year	<u>5,150</u>
 Net assets, end of year	<u>\$ 5,880</u>

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

LONE TREE COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

Note 1. Summary of Significant Accounting Policies

The Lone Tree Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. The geographic area served includes the City of Lone Tree, Iowa, and the agricultural territory in Johnson and Louisa Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Lone Tree Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. The Lone Tree Community School District has no component units, which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

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

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

The District reports the following major governmental funds:

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

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2005.

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

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

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

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

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

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

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of property tax receivables not collected within sixty days after year end.

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

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

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

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the Instruction 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, 2006 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, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized
	Cost
Diversified Portfolio	<u>\$ 1,613,804</u>

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

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

Note 3. Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2006 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Physical Plant and Equipment Levy Fund	\$ 12,500

The Physical Plant and Equipment Levy Fund borrowed from the General Fund to cover expenses until property taxes are received. The balance will be repaid during the year ending June 30, 2007.

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

<u>Governmental activities</u>	<u>Balance, Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, End of Year</u>
Capital assets not being depreciated:				
Land	\$ 162,365	\$ -	\$ -	\$ 162,365
Total capital assets, not being depreciated	<u>162,365</u>	<u>-</u>	<u>-</u>	<u>162,365</u>
Capital assets being depreciated:				
Land improvement	326,579	-	-	326,579
Buildings and improvements	4,074,208	-	(7,200)	4,067,008
Furniture and equipment	<u>1,018,587</u>	<u>40,872</u>	<u>(25,576)</u>	<u>1,033,883</u>
Total capital assets being depreciated	<u>5,419,374</u>	<u>40,872</u>	<u>(32,776)</u>	<u>5,427,470</u>
Less accumulated depreciation for:				
Land improvements	179,618	16,329	-	195,947
Buildings and improvements	1,115,240	80,728	(432)	1,195,536
Furniture and equipment	<u>756,675</u>	<u>56,343</u>	<u>(24,339)</u>	<u>788,679</u>
Total accumulated depreciation	<u>2,051,534</u>	<u>153,400</u>	<u>(24,771)</u>	<u>2,180,162</u>
Total capital assets being depreciated, net	<u>3,367,840</u>	<u>(112,528)</u>	<u>(8,005)</u>	<u>3,247,308</u>
Governmental activities capital assets, net	<u>\$ 3,530,205</u>	<u>\$ (112,528)</u>	<u>\$ (8,005)</u>	<u>\$ 3,409,673</u>
<u>Business type activities</u>				
Furniture and equipment	\$ 166,180	\$ -	\$ -	\$ 166,180
Less accumulated depreciation	<u>78,925</u>	<u>11,602</u>	<u>-</u>	<u>90,527</u>
Business type activities capital assets, net	<u>\$ 87,255</u>	<u>\$ (11,602)</u>	<u>\$ -</u>	<u>\$ 75,653</u>

Depreciation expense was charged to the following functions:

Governmental activities

Instruction		
Regular		\$ 14,896
Support services		
Student support		315
Instructional staff		278
Administration		1,577
Operation and maintenance of plant		1,247
Transportation		33,789
Unallocated depreciation		<u>101,298</u>
Total governmental activities depreciation expense		<u>\$ 153,400</u>

Business type activities

Food services		<u>\$ 11,602</u>
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Note 5. Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
General obligation bonds	\$ 3,240,000	\$ -	\$(135,000)	\$ 3,105,000	\$ 145,000
Early retirement	<u>15,000</u>	<u>-</u>	<u>(1,937)</u>	<u>13,063</u>	<u>1,545</u>
Total	<u>\$ 3,255,000</u>	<u>\$ -</u>	<u>\$(136,937)</u>	<u>\$ 3,118,063</u>	<u>\$ 146,545</u>

General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year	Interest			
Ending	Rates	Principal	Interest	Total
June 30,				
2007	5.000%	\$ 145,000	\$ 147,063	\$ 292,063
2008	5.000%	150,000	139,812	289,812
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	4.600%	200,000	92,860	292,860
2015	4.625%	210,000	83,660	293,660
2016	4.750%	225,000	73,947	298,947
2017	4.800%	235,000	63,260	298,260
2018	4.800%	245,000	51,980	296,980
2019	4.900%	260,000	40,220	300,220
2020	4.900%	270,000	27,480	297,480
2021	5.000%	<u>285,000</u>	<u>14,250</u>	<u>299,250</u>
		<u>\$ 3,105,000</u>	<u>\$ 1,319,868</u>	<u>\$ 4,424,868</u>

Note 6. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$118,129, \$107,779 and \$102,565 respectively, equal to the required contributions for each year.

Note 7. 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 8. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$113,111 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 9. Deficit Fund Balance

The District's Special Revenue, Physical Plant and Equipment Levy Fund had an unreserved, undesignated fund deficit of \$4,915 at June 30, 2006.

Required Supplementary Information

LONE TREE COMMUNITY SCHOOL DISTRICT
 Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual
 All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 For the Year Ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Less Funds Not Required to be Budgeted	Net	Budgeted Amounts		Final to Actual Variance
						Original	Final	
Revenues								
Local sources	\$ 2,259,042	\$ 131,287	\$ 2,390,329	\$ (18,232)	\$ 2,372,097	\$ 2,224,509	\$ 2,224,509	\$ 147,588
State sources	1,555,008	2,350	1,557,358	-	1,557,358	1,519,663	1,519,663	37,695
Federal sources	102,010	52,168	154,178	-	154,178	59,600	59,600	94,578
Total revenues	<u>3,916,060</u>	<u>185,805</u>	<u>4,101,865</u>	<u>(18,232)</u>	<u>4,083,633</u>	<u>3,803,772</u>	<u>3,803,772</u>	<u>279,861</u>
Expenditures								
Instruction	2,300,639	-	2,300,639	-	2,300,639	2,196,700	2,248,484	(52,155)
Support services	1,124,000	-	1,124,000	-	1,124,000	1,091,342	1,125,070	1,070
Non-instructional programs	107	187,224	187,331	(17,064)	170,267	190,600	288,510	118,243
Other expenditures	524,855	-	524,855	-	524,855	506,728	571,441	46,586
Total expenditures	<u>3,949,601</u>	<u>187,224</u>	<u>4,136,825</u>	<u>(17,064)</u>	<u>4,119,761</u>	<u>3,985,370</u>	<u>4,233,505</u>	<u>113,744</u>
Deficiency of revenues under expenditures	(33,541)	(1,419)	(34,960)	(1,168)	(36,128)	(181,598)	(429,733)	393,605
Other financing sources, net	<u>3,134</u>	-	<u>3,134</u>	-	<u>3,134</u>	-	-	<u>3,134</u>
Net change in fund balance	(30,407)	(1,419)	(31,826)	(1,168)	(32,994)	(181,598)	(429,733)	396,739
Balance, beginning of year	1,989,804	113,642	2,103,446	(5,687)	2,097,759	1,838,718	1,838,718	259,041
Balance, end of year	<u>\$ 1,959,397</u>	<u>\$ 112,223</u>	<u>\$ 2,071,620</u>	<u>\$ (6,855)</u>	<u>\$ 2,064,765</u>	<u>\$ 1,657,120</u>	<u>\$ 1,408,985</u>	<u>\$ 655,780</u>

See accompanying Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
For the Year Ended June 30, 2006

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 fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Internal Service Funds 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 or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$248,135.

During the year ended June 30, 2006, District expenditures exceeded the amount budgeted in the instruction function; however, General Fund expenditures did not exceed the unspent authorized budget.

Other Supplementary Information

LONE TREE COMMUNITY SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

Schedule 1

	<u>Special Revenue</u>			
	<u>Student</u>	<u>Management</u>	<u>Debt</u>	
	<u>Activities</u>	<u>Levy</u>	<u>Service</u>	<u>Total</u>
ASSETS				
Cash and pooled investments	\$ 58,874	\$ 25,304	\$ 188	\$ 84,366
Receivables				
Property tax				
Current year delinquent	-	738	2,567	3,305
Succeeding year	-	46,000	292,363	338,363
Accounts receivable	<u>393</u>	<u>-</u>	<u>-</u>	<u>393</u>
Total assets	<u>\$ 59,267</u>	<u>\$ 72,042</u>	<u>\$ 295,118</u>	<u>\$ 426,427</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 7,640	\$ -	\$ -	\$ 7,640
Deferred revenue				
Succeeding year property tax	<u>-</u>	<u>46,000</u>	<u>292,363</u>	<u>338,363</u>
Total liabilities	<u>7,640</u>	<u>46,000</u>	<u>292,363</u>	<u>346,003</u>
Fund Balances				
Reserved for debt service	-	-	2,755	2,755
Unreserved fund balances	<u>51,627</u>	<u>26,042</u>	<u>-</u>	<u>77,669</u>
Total fund balances	<u>51,627</u>	<u>26,042</u>	<u>2,755</u>	<u>80,424</u>
Total liabilities and fund balances	<u>\$ 59,267</u>	<u>\$ 72,042</u>	<u>\$ 295,118</u>	<u>\$ 426,427</u>

See accompanying Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2006

Schedule 2

	Special Revenue			
	Student Activities	Management Levy	Debt Service	Total
Revenues				
Local sources				
Local tax	\$ -	\$ 81,149	\$ 289,623	\$ 370,772
Other	153,407	2,442	-	155,849
Total revenues	153,407	83,591	289,623	526,621
Expenditures				
Current				
Instruction				
Regular instruction	-	12,558	-	12,558
Other instruction	154,995	-	-	154,995
Support services				
Student support services	-	227	-	227
Instructional staff services	-	305	-	305
Administration services	-	4,654	-	4,654
Operation and maintenance of plant	-	23,616	-	23,616
Transportation services	-	6,137	-	6,137
Non-instructional programs	-	107	-	107
Other expenditures				
Long-term debt				
Principal	-	-	135,000	135,000
Interest and fiscal charges	-	-	154,112	154,112
Total expenditures	154,995	47,604	289,112	491,711
Excess (deficiency) of revenues over (under) expenditures	(1,588)	35,987	511	34,910
Fund balances, beginning of year	53,215	(9,945)	2,244	45,514
Fund balances, end of year	\$ 51,627	\$ 26,042	\$ 2,755	\$ 80,424

See accompanying Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT
 Combining Statement of Net Assets
 Nonmajor Proprietary Funds
 June 30, 2006

Schedule 3

	<u>School Nutrition</u>	<u>Preschool</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 26,206	\$ 525	\$ 26,731
Inventories	2,984	-	2,984
Capital assets, net of accumulated depreciation	<u>75,653</u>	<u>-</u>	<u>75,653</u>
Total assets	<u>104,843</u>	<u>525</u>	<u>105,368</u>
 LIABILITIES			
None	<u>-</u>	<u>-</u>	<u>-</u>
 NET ASSETS			
Invested in capital assets	75,653	-	75,653
Unrestricted	<u>29,190</u>	<u>525</u>	<u>29,715</u>
Total net assets	<u>\$104,843</u>	<u>\$ 525</u>	<u>\$105,368</u>

See accompanying Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Nonmajor Proprietary Funds
For the Year Ended June 30, 2006

Schedule 4

	<u>School Nutrition</u>	<u>Preschool</u>	<u>Total</u>
Operating revenue			
Local sources			
Charges for service	<u>\$ 112,440</u>	<u>\$ 525</u>	<u>\$ 112,965</u>
Operating expenses			
Non-instructional programs			
Salaries	59,037		59,037
Benefits	15,247		15,247
Purchased services	1,183		1,183
Supplies	83,091		83,091
Depreciation	<u>11,602</u>	-	<u>11,602</u>
Total operating expenses	<u>170,160</u>	<u>-</u>	<u>170,160</u>
Operating income (loss)	<u>(57,720)</u>	<u>525</u>	<u>(57,195)</u>
Non-operating revenue			
Interest on investments	90	-	90
State sources	2,350	-	2,350
Federal sources	<u>52,168</u>	-	<u>52,168</u>
Total non-operating revenue	<u>54,608</u>	<u>-</u>	<u>54,608</u>
Net income (loss)	(3,112)	525	(2,587)
Net assets, beginning of year	<u>107,955</u>	<u>-</u>	<u>107,955</u>
Net assets, end of year	<u>\$ 104,843</u>	<u>\$ 525</u>	<u>\$ 105,368</u>

See accompanying Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT
Combining Statement of Cash Flows
Nonmajor Proprietary Funds
For the Year Ended June 30, 2006

Schedule 5

	<u>School Nutrition</u>	<u>Preschool</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from sale of meals	\$ 112,497	\$ -	\$ 112,497
Cash received from sale of services	-	525	525
Cash payments to employees for services	(74,284)	-	(74,284)
Cash payments to suppliers for goods and services	<u>(75,035)</u>	-	<u>(75,035)</u>
Net cash provided by (used in) operating activities	<u>(36,822)</u>	<u>525</u>	<u>(36,297)</u>
Cash flows from non-capital financing activities			
State grants received	2,350	-	2,350
Federal grants received	<u>43,984</u>	-	<u>43,984</u>
Net cash provided by non-capital financing activities	<u>46,334</u>	-	<u>46,334</u>
Cash flows from investing activities			
Interest on investments	<u>90</u>	-	<u>90</u>
Net increase in cash and cash equivalents	9,602	525	10,127
Cash and cash equivalents, beginning of year	<u>16,604</u>	-	<u>16,604</u>
Cash and cash equivalents, end of year	<u>\$ 26,206</u>	<u>\$ 525</u>	<u>\$ 26,731</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	<u>(57,720)</u>	<u>525</u>	<u>\$ (57,195)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation	11,602	-	11,602
Commodities used	8,184	-	8,184
Decrease in accounts receivable	57	-	57
Decrease in inventories	<u>1,055</u>	-	<u>1,055</u>
Net cash provided by (used in) operating activities	<u>\$ (36,822)</u>	<u>\$ 525</u>	<u>\$ (36,297)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006 the District received \$8,184 of federal commodities.

See accompanying Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
For the Year Ended June 30, 2006

Schedule 6

Account	Balance, Beginning of Year	<u>Revenues</u>	<u>Expenditures</u>	Transfers	Balance, End of Year
Drama	\$ 1,425	\$ 548	\$ 1,007	\$ -	\$ 966
Speech	(1,150)	2,792	1,642	-	-
Vocal choir	7	5,124	4,692	-	439
Band activity	(449)	5,392	4,967	24	-
Athletics	8,963	35,620	30,259	(1,168)	13,156
Boys' basketball	20	2,890	2,910	-	-
Youth boys' basketball	1,213	1,293	1,786	-	720
Football	-	1,880	2,647	767	-
Boys' baseball	1,844	5,832	6,322	-	1,354
Golf	2	1,755	1,757	-	-
Wrestling	317	78	395	-	-
Girls' basketball	718	6,350	6,774	-	294
Volleyball	117	5,457	5,142	-	432
Softball	520	5,527	6,338	291	-
Student council	(65)	1,288	1,141	-	82
Annual	(2,574)	4,447	1,873	-	-
Newspaper	684	-	-	-	684
National Honor Society	49	766	400	-	415
Cheerleading	(93)	2,212	1,654	-	465
Eureka, Future Problem Solving	461	470	876	-	55
FFA	1,441	26,601	25,109	-	2,933
FFA projects	24	-	-	-	24
FCCLA	480	1,505	1,403	-	582
Elementary play fund	442	940	133	-	1,249
Project Pride	455	-	-	-	455
Math and science club	454	-	-	-	454
Art club	841	-	-	-	841
Art projects	225	-	-	-	225
Spanish club	3,204	270	391	-	3,083
Track medals	(74)	74	-	-	-
Band uniforms	1,853	477	2,330	-	-
Special	2,810	1,149	957	(9)	2,993

See accompanying Independent Auditor's Report.

LONE TREE COMMUNITY SCHOOL DISTRICT
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
For the Year Ended June 30, 2006

Schedule 6

Account	Balance, Beginning of Year	<u>Revenues</u>	<u>Expenditures</u>	Transfers	Balance, End of Year
Interest	\$ 11,433	\$ 675	\$ 12,032	\$ (16)	\$ 60
JH student council	118	2,956	2,824	-	250
Elementary student council	9,034	6,695	6,441	-	9,288
Music boosters club	648	-	-	-	648
Dance squad	(11)	2,700	2,068	-	621
Box tops for education	175	-	-	-	175
Parent partner activity	1,820	-	-	-	1,820
Class of 2002	8	-	8	-	-
Class of 2003	253	-	253	-	-
Class of 2004	(2)	2	-	-	-
Class of 2005	(140)	153	13	-	-
Class of 2006	3,049	3,205	6,365	111	-
Class of 2007	1,388	7,933	7,110	-	2,211
Class of 2008	149	3,179	1,967	-	1,361
Class of 2009	289	2,318	869	-	1,738
Class of 2010	243	-	-	-	243
Class of 2011	597	-	-	-	597
Class of 2012	-	2,285	1,842	-	443
Athletic banquet fund	-	569	298	-	271
Totals	<u>\$ 53,215</u>	<u>\$ 153,407</u>	<u>\$ 154,995</u>	<u>\$ -</u>	<u>\$ 51,627</u>

See accompanying Independent Auditor's Report.

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

Schedule 7

	Modified Accrual Basis			
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenues				
Local sources				
Local tax	\$ 1,471,911	\$ 1,533,092	\$ 1,535,975	\$ 1,474,749
Tuition	500,515	441,471	390,859	333,382
Other	286,616	227,605	221,756	266,806
State sources	1,555,008	1,418,468	1,366,108	1,422,605
Federal sources	102,010	104,197	78,511	45,865
Total revenues	<u>\$ 3,916,060</u>	<u>\$ 3,724,833</u>	<u>\$ 3,593,209</u>	<u>\$ 3,543,407</u>
Expenditures				
Instruction				
Regular instruction	1,768,978	1,384,705	1,351,801	1,289,765
Special instruction	21,694	270,118	218,710	253,208
Other instruction	509,967	396,582	441,243	374,042
Support services				
Student services	110,542	41,192	38,859	36,353
Instructional staff services	72,594	28,164	89,936	81,532
Administration services	429,260	412,302	394,132	382,524
Operation and maintenance of plant services	379,940	332,059	318,191	355,797
Transportation services	131,664	155,031	102,842	189,173
Non-instructional programs	107	9,353	18,301	15,784
Other expenditures				
Facilities acquisition	122,632	117,898	836,027	2,630,520
Long-term debt				
Principal	135,000	130,000	125,000	85,000
Interest and other charges	154,112	160,612	166,863	199,631
AEA flowthrough	113,111	111,110	112,742	120,422
Total expenditures	<u>\$ 3,949,601</u>	<u>\$ 3,549,126</u>	<u>\$ 4,214,647</u>	<u>\$ 6,013,751</u>

See accompanying Independent Auditor's Report.

KAY L. CHAPMAN, CPA PC

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Muscatine, Iowa 52761
563-264-1385

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

To the Board of Education
Lone Tree Community School District

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Lone Tree Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued my report thereon dated August 29, 2006. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

Kay L. Chapman, CPA PC
August 29, 2006

LONE TREE COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2006

Part I. Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE

No matters were noted.

REPORTABLE CONDITIONS

- A. Segregation of Duties - The limited number of accounting personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities. 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.

LONE TREE COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2006

Part II. Other Findings Related to Statutory Reporting:

1. Certified Budget - Expenditures for the year ended June 30, 2006 exceeded the amended certified budget amount in the instruction 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 Disbursements - I noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
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.

LONE TREE COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2006

10. Financial Condition - The District had unreserved, undesignated deficits in the Special Revenue-Physical Plant and Equipment Levy Fund of \$4,915 at June 30, 2006.

Recommendation - The District should continue to monitor this account and investigate alternatives to eliminate this deficit in order to return this account to a sound financial condition.

Response - We are continuing to investigate alternatives to eliminate this deficit.

Conclusion - Response accepted.

LONE TREE COMMUNITY SCHOOL DISTRICT
Audit Staff
June 30, 2006

This audit was performed by

Kay Chapman, CPA
Tammy Calvert, staff accountant