

MORMON TRAIL COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2006

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MORMON TRAIL COMMUNITY SCHOOL DISTRICT

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2005 Election)		
Mary Jackson	President	2005
Pat Evans	Board Member	2005
Jan Lundahl	Board Member	2006
Debbie Bremer	Board Member	2007
Randy Smith	Board Member	2007
Board of Education		
(After September 2005 Election)		
Jan Lundahl	President	2006
Debbie Bremer	Board Member	2007
Randy Smith	Board Member	2007
Pat Evans	Board Member	2008
Michiko Fogle	Board Member	2008
School Officials		
Robert McCurdy	Superintendent	2006
Linda Lovett	District Secretary/Treasurer and Business Manager	2006

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Humeston, Iowa 50123
641/877-6021

Independent Auditor's Report

To the Board of Education of
Mormon Trail 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 Mormon Trail Community School District, Humeston, 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 an opinion 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 opinion.

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 Mormon Trail Community School District at 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 September 12, 2006 on my consideration of Mormon Trail Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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 3 through 8 and 30 through 31 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 an opinion on the financial statements that collectively comprise Mormon Trail 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 an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 12, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Mormon Trail 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. I encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$2,722,051 in fiscal 2005 to \$2,714,442 in fiscal 2006, while General Fund expenditures increased from \$2,638,600 in fiscal 2005 to \$2,809,740 in fiscal 2006. The District's General Fund balance decreased from \$729,999 in fiscal 2005 to \$634,701 in fiscal 2006, a 13% decrease.
- The decrease in General Fund revenues was attributable to a decrease in state foundation aid. The decrease in state aid was partially offset by an increase in local tax and tuition revenue and increased interest income. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits. One reason the General Fund balance decreased was the District negotiated an increase in salaries and benefits for fiscal 2006 while the District was experiencing a decrease in General Fund revenue. Also energy costs for fiscal 2006 far exceeded 2005 costs. As a result, the District funded a portion of these expenditures from the carryover fund balance.
- An increase in interest rates during the past year resulted in interest earnings in the General Fund alone increasing from \$13,225 in fiscal 2005 to \$31,552 in fiscal 2006. This is still far less than the interest earned in 2001 of \$49,280.

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 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 Mormon Trail 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 Mormon Trail 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 Mormon Trail 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 Special Revenue Funds.

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has two 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 are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-1 below provides a summary of the District's net assets at June 30, 2006 compared to June 30, 2005.

Figure A-1
Condensed Statement of Net Assets
(Expressed in Thousands)

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
Current and other assets	\$ 2,331	\$ 2,104	\$ 67	\$ 68	\$2,398	\$ 2,172	10.4%
Capital assets	2,129	2,186	46	44	2,175	2,230	-2.5%
Total assets	4,460	4,290	113	112	4,573	4,402	3.9%
Long-term liabilities	890	1,000	-	-	890	1,000	-11.0%
Other liabilities	1,264	1,099	3	2	1,267	1,101	15.1%
Total liabilities	2,154	2,099	3	2	2,157	2,101	2.7%
Net assets:							
Invested in capital assets, net of related debt	1,122	1,073	46	44	1,168	1,117	4.6%
Restricted	549	458	-	-	549	458	19.9%
Unrestricted	635	660	64	66	699	726	-4.1%
Total net assets	2,306	2,191	110	110	2,416	2,301	5.0%

The District's combined net assets increased by nearly 5% or approximately \$115,000, over 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 increased approximately \$91,000 over the prior year. The increase was primarily a result of increased revenue in the Local Option Sales Tax and decreased expenditures in Physical Plant and Equipment Levy Fund.

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 approximately \$27,000.

Figure A-2 shows the change in net assets for the year ended June 30, 2006.

**Figure A-2
Changes in Net Assets
(Expressed in Thousands)**

	Governmental Activities	Business Type Activities	Total District
Revenues:			
Program revenues:			
Charges for service	\$ 204	\$ 50	\$ 254
Operating grants, contributions and restricted interest	355	86	441
Capital grants, contribution and restricted interest	-	-	-
General revenues:			
Property tax	979	-	979
Income surtax	130	-	130
Local option sales and service tax	133	-	133
Unrestricted intermediate grants	-	-	-
Unrestricted state grants	1,326	-	1,326
Unrestricted investment earnings	33	-	33
Other	1	2	3
Total revenues	<u>3,161</u>	<u>138</u>	<u>3,299</u>
Program expenses:			
Governmental activities			
Instruction	1,878	-	1,878
Support services	1,027	-	1,027
Non-instructional programs	141	-	141
Other expenses	-	138	138
Total expenses	<u>3,046</u>	<u>138</u>	<u>3,184</u>
Change in net assets	<u>115</u>	<u>-</u>	<u>115</u>

Property tax and unrestricted state grants account for 70% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 91% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$3,160,678 and expenses were \$3,045,873. The District was able to balance the budget because of Local Option Sales Tax revenue and decreased expenditures in Physical Plant and Equipment Levy.

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-3
Total and Net Cost of Governmental Activities
(Expressed in Thousands)**

	Total Cost of Services	Net Cost of Services
Instruction	\$ 1,878	\$ 1,526
Support services	1,027	929
Non-instructional programs	141	32
Other expenses	<u>138</u>	<u>2</u>
Totals	<u>3,184</u>	<u>2,489</u>

- The cost financed by users of the District's programs was \$253,436.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$440,860.

- The net cost of governmental activities was financed with \$1,242,291 in property and other taxes and \$1,326,166 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$137,240 and expenses were \$137,528. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2006, the District maintained meal prices. The District operated at approximately breakeven due primarily to the number of students qualifying for free and reduced priced meals.

INDIVIDUAL FUND ANALYSIS

As previously noted, Mormon Trail 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 \$1,183,838, above last year's ending fund balances of \$1,118,037. The primary reasons for the increase in combined fund balance is due to additional Local Option Sales Tax being collected and decreased expenditures in Physical Plant and Equipment Levy Fund.

Governmental Fund Highlights

- The District's General Fund financial position is the result of many factors. Decreased state foundation aid during the year resulted in a decrease in revenues. An increase in salaries and benefits for fiscal 2006 and increased energy costs resulted in expenditures exceeding revenues by approximately \$95,000.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$161,835 in fiscal 2005 to \$240,560 in fiscal 2006.
- The Capital Projects Fund balance increased from \$122,548 in fiscal 2005 to \$255,652 in fiscal 2006 due to a full year of collecting the SILO tax.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$110,001 at June 30, 2005 to \$109,713 at June 30, 2006. The District was able to maintain meal prices at the present level because of higher participation in the free and reduced price meal program.

BUDGETARY HIGHLIGHTS

The District's receipts were \$151,220 more than budgeted receipts, a variance of 5%. The most significant variance resulted from the District receiving more in income surtaxes, tuition and interest earnings than originally anticipated.

Total expenditures were 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 actual expenditures for the year.

In spite of the District's budgetary practice the certified budget was exceeded in the support services functional area even after the certified budget was amended.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$2,175 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-4) This represents a net decrease of 2.5% from last year. More detailed information about the District's capital assets presented in Note 3 to the financial statements. Depreciation expense for the year was \$104,655.

The original cost of the District's capital assets was \$3.723 million. Governmental funds account for \$3.587 million, with the remainder of \$.136 million accounted for in the Proprietary, School Nutrition Fund.

**Figure A-4
Capital Assets, net of Depreciation
(expressed in thousands)**

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
Land	\$ 16	\$ 16	\$ -	\$ -	\$ 16	\$ 16	-
Buildings	1,998	2,054	-	-	1,998	2,054	-2.7%
Furniture and equipment	115	116	46	44	161	160	.6%
Totals	2,129	2,186	46	44	2,175	2,230	-2.5%

Long-Term Debt

At June 30, 2006, the District had \$1,000,000 in general obligation debt outstanding. This represents a decrease of approximately 9.5% from last year.

**Figure A-5
Outstanding Long-Term Obligations
(expressed in thousands)**

	Total District		Total Change
	June 30,		June 30,
	2006	2005	2005-2006
General obligation bonds	\$1,000,000	\$1,105,000	-9.5%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District has experienced declining enrollment for the past several years, but enrollment has stabilized for fiscal year 2006, and the District expects this to continue.
- The negotiated settlement with the Mormon Trail Education Teacher's Association for fiscal year 2007 exceeds the increase in state aid. The District will be required to use carryover fund balance to meet the obligation. Future staff reduction is anticipated to minimize the use of carryover funds.
- Fuel and energy costs have continued to increase. The District will have to search every area for savings to offset these higher costs.

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 Linda Lovett, District Secretary/Treasurer and Business Manager, Mormon Trail Community School District, Humeston, Iowa 50123.

Basic Financial Statements

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2006

	Governmental Activities	Business type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,160,493	63,213	1,223,706
Receivables:			
Property tax:			
Delinquent	31,223	-	31,223
Succeeding year	949,736	-	949,736
Income tax succeeding year	90,962	-	90,962
Due from other governments	36,713	-	36,713
Accounts	57,680	298	57,978
Accrued interest		-	-
Due from other funds	4,285	-	4,285
Inventories	-	3,000	3,000
Capital assets, net of accumulated depreciation (note 3)	2,129,346	46,498	2,175,844
Total assets	4,460,438	113,009	4,573,447
Liabilities			
Excess of warrants over bank balance	-	-	-
Accounts payable	84,433	-	84,433
Salaries and benefits payable	-	1,885	1,885
Other liabilities	-	1,411	
Due to other funds	4,285		
Accrued interest payable	7,319	-	7,319
Deferred revenue:			
Succeeding year property tax	949,736	-	949,736
Succeeding year income surtax	90,962	-	90,962
Other	17,838	-	17,838
Long-term liabilities (note 4):			
Portion due within one year:			
Bonds payable	110,000	-	110,000
Portion due after one year:			
Bonds payable	890,000	-	890,000
Total liabilities	2,154,573	3,296	2,157,869
Net assets			
Invested in capital assets, net of related debt	1,122,027	46,498	1,168,525
Restricted for:			
Management levy	1,081		1,081
Debt service	10,021		10,021
Physical plant and equipment levy	240,560	-	240,560
Other special revenue purposes	297,474	-	297,474
Unrestricted	634,702	63,215	697,917
Total net assets	\$ 2,305,865	109,713	2,415,578

See notes to financial statements.

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

Functions/Programs	Program Revenues			
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	\$ 1,128,015	63,918	100,012	-
Special instruction	389,476	11,212	101,452	-
Other instruction	360,899	76,016	-	-
	<u>1,878,390</u>	<u>151,146</u>	<u>201,464</u>	<u>-</u>
Support Service:				
Student services	141,932	48,583	45,290	-
Instructional staff services	113,490	-	-	-
Administration services	252,910	-	-	-
Operating and maintenance of plant services	290,894	3,645	-	-
Transportation services	227,581	478	-	-
	<u>1,026,807</u>	<u>52,706</u>	<u>45,290</u>	<u>-</u>
Non-instructional programs	-	-	-	-
Other expenditures:				
Facilities acquisition	-	-	15,457	-
Long-term debt interest	47,721	-	-	-
AEA flowthrough	92,955	-	92,955	-
	<u>140,676</u>	<u>-</u>	<u>108,412</u>	<u>-</u>
Total governmental activities	3,045,873	203,852	355,166	-
Business type activities:				
Non-instructional programs:				
Nutrition services	137,528	49,584	85,694	-
	<u>137,528</u>	<u>49,584</u>	<u>85,694</u>	<u>-</u>
Total primary government	<u>\$ 3,183,401</u>	<u>253,436</u>	<u>440,860</u>	<u>-</u>

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business type Activities	Total
(964,085)	-	(964,085)
(276,812)	-	(276,812)
(284,883)	-	(284,883)
(1,525,780)	-	(1,525,780)
(48,059)	-	(48,059)
(113,490)	-	(113,490)
(252,910)	-	(252,910)
(287,249)	-	(287,249)
(227,103)	-	(227,103)
(928,811)	-	(928,811)
-	-	-
15,457	-	15,457
(47,721)	-	(47,721)
-	-	-
(32,264)	-	(32,264)
(2,486,855)	-	(2,486,855)
-	(2,250)	(2,250)
-	(2,250)	(2,250)
(2,486,855)	(2,250)	(2,489,105)

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

Continued from previous page

General Revenues:

Totals from pages 11 and 12	\$ 3,183,401	253,436	440,860	-
Property tax levied for:				
General purposes				
Debt service				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted intermediate grants				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Sale of equipment				
Total general revenues				
Change in net assets				
Net assets beginning of year				
Net assets end of year				

See notes to financial statements.

(2,486,855)	(2,250)	(2,489,105)
810,341	-	810,341
99,660	-	99,660
68,524	-	68,524
130,169	-	130,169
133,104	-	133,104
-	-	-
1,326,166	-	1,326,166
32,875	1,962	34,837
-	-	-
821	-	821
<u>2,601,660</u>	<u>1,962</u>	<u>2,603,622</u>
114,805	(288)	114,517
<u>2,191,060</u>	<u>110,001</u>	<u>2,301,061</u>
<u>\$ 2,305,865</u>	<u>109,713</u>	<u>2,415,578</u>

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	General	Debt Service	Capital Projects
Assets and Other Debits			
Cash and pooled investments	\$ 670,617	2,686	199,920
Receivables:	-	-	
Property tax:			
Current year delinquent	24,267	3,179	-
Succeeding year	727,697	90,000	-
Income tax succeeding year	90,962	-	-
Due from other governments	36,713	-	-
Accounts	1,948	-	55,732
Due from other funds	-	4,156	-
Total assets and other debits	\$ 1,552,204	100,021	255,652
Liabilities and Fund Balances			
Liabilities:			
Excess of outstanding warrants over bank balance	\$ -	-	-
Accounts payable	80,877	-	-
Salaries and benefits payable	-	-	-
Due to other fund	129		
Deferred revenue:	-		
Succeeding year property tax	727,697	90,000	-
Succeeding year income surtax	90,962	-	-
Other	17,838	-	-
Total liabilities	917,503	90,000	-
Fund balances:			
Reserved for:			
Debt service	-	10,021	-
Other	-	-	-
Unreserved:	-		
Undesignated	634,701	-	255,652
Total fund balances	634,701	10,021	255,652
Total liabilities and fund balances	\$ 1,552,204	100,021	255,652

See notes to financial statements.

Nonmajor Special Revenue	Total
287,270	1,160,493
3,777	31,223
132,039	949,736
-	90,962
-	36,713
-	57,680
129	4,285
<u>423,215</u>	<u>2,331,092</u>
-	-
3,556	84,433
-	-
4,156	4,285
-	-
132,039	949,736
-	90,962
-	17,838
<u>139,751</u>	<u>1,147,254</u>
-	10,021
-	-
<u>283,464</u>	<u>1,173,817</u>
<u>283,464</u>	<u>1,183,838</u>
<u>423,215</u>	<u>2,331,092</u>

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2006

Total fund balances of governmental funds (pg. 15) \$ 1,183,838

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. 2,129,346

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. (7,319)

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. (1,000,000)

Net assets of governmental activities (pg. 9) \$ 2,305,865

See notes to financial statements.

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	General	Debt Service	Capital Projects
Revenues:			
Local sources:			
Local tax	\$ 829,753	152,689	153,387
Tuition	50,896	-	-
Other	78,229	-	-
Intermediate	68,382	-	-
State sources	1,533,905	-	-
Federal sources	160,886	-	-
Total revenues	<u>2,722,051</u>	<u>152,689</u>	<u>153,387</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	1,150,088	-	-
Special instruction	460,637	-	-
Other instruction	109,403	-	-
	<u>1,720,128</u>	-	-
Support services:			
Student services	146,071	-	-
Instructional staff services	58,777	-	-
Administration services	255,061	-	-
Operation and maintenance of plant services	188,568	-	-
Transportation services	174,880	-	-
	<u>823,357</u>	-	-
Non-instructional programs	<u>653</u>	-	-
Other expenditures:			
Facilities acquisition	-	-	-
Long-term debt:			
Principal	-	100,000	-

Interest and fiscal charges	-	52,783	-
AEA flowthrough	94,462	-	-
	<u>94,462</u>	<u>152,783</u>	<u>-</u>
Total expenditures	<u>2,638,600</u>	<u>152,783</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	83,451	(94)	153,387
Other financing sources:			
Interfund transfer		53,483	(53,483)
Insurance claims	<u>1,057</u>	-	-
Total other financing sources	<u>1,057</u>	<u>53,483</u>	<u>(53,483)</u>
Net change in fund balances	84,508	53,389	99,904
Fund balances beginning of year	<u>645,491</u>	<u>10,454</u>	<u>22,644</u>
	\$	-	-
Fund balances end of year	<u><u>729,999</u></u>	<u><u>63,843</u></u>	<u><u>122,548</u></u>

See notes to financial statements.

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	General	Debt Service	Capital Projects
Revenues:			
Local sources:			
Local tax	\$ 890,680	\$ 99,660	\$ 133,104
Tuition	70,019	-	-
Other	89,724	-	-
Intermediate	26,421	-	-
State sources	1,464,411	-	-
Federal sources	172,366	-	-
Total revenues	<u>2,713,621</u>	<u>99,660</u>	<u>133,104</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	1,105,545	-	-
Special instruction	389,476	-	-
Other instruction	286,654	-	-
	<u>1,781,675</u>	<u>-</u>	<u>-</u>
Support services:			
Student services	141,933	-	-
Instructional staff services	107,328	-	-
Administration services	233,766	-	-
Operation and maintenance of plant services	210,509	-	-
Transportation services	241,574	-	-
	<u>935,110</u>	<u>-</u>	<u>-</u>
Non-instructional programs	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:			
Facilities acquisition	-	-	-
Long-term debt:			
Principal	-	105,000	-
Interest and fiscal charges	-	48,482	-
AEA flowthrough	92,955	-	-
	<u>92,955</u>	<u>153,482</u>	<u>-</u>
Total expenditures	<u>2,809,740</u>	<u>153,482</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	(96,119)	(53,822)	133,104
Other financing sources:			
Interfund transfer	-	-	-
Insurance claims	821	-	-
Total other financing sources	<u>821</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(95,298)	(53,822)	133,104
Fund balances beginning of year	<u>729,999</u>	<u>63,843</u>	<u>122,548</u>
Fund balances end of year	<u>634,701</u>	<u>10,021</u>	<u>255,652</u>

Nonmajor Special Revenue		Total
\$ 118,354	\$ 1,241,798	
-	70,019	
95,118	184,842	
-	26,421	
-	1,464,411	
-	172,366	
<u>213,472</u>	<u>3,159,857</u>	
-	1,105,545	
-	389,476	
74,245	360,899	
<u>74,245</u>	<u>1,855,920</u>	
-	141,933	
6,162	113,490	
19,144	252,910	
25,187	235,696	
6,918	248,492	
<u>57,411</u>	<u>992,521</u>	
-	-	
-	-	
-	105,000	
-	48,482	
-	92,955	
-	246,437	
<u>131,656</u>	<u>3,094,878</u>	
81,816	64,979	
-	821	
-	821	
81,816	65,800	
<u>201,647</u>	<u>1,118,037</u>	
<u>283,463</u>	<u>1,183,837</u>	

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 Year Ended June 30, 2006

Net change in fund balances - total governmental funds (pg. 18) \$ 65,800

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

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

Capital outlays	\$ 36,199	
Depreciation expense	<u>(92,956)</u>	(56,757)

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. 105,000

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 an expenditure. 762

Change in net assets of governmental activities (pg. 13) \$ 114,805

See notes to financial statements.

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2006

	School Nutrition
Assets	
Cash and cash equivalents	\$ 63,213
Accounts receivable	298
Inventories	3,000
Capital assets, net of accumulated depreciation	46,498
Total assets	113,009
Liabilities	
Salaries and benefits payable	1,885
Other liabilities	1,411
Total liabilities	3,296
Net Assets	
Invested in capital assets, net of related debt	46,498
Unrestricted	63,215
Total net assets	\$ 109,713

See notes to financial statements.

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
Year ended June 30, 2006

	School Nutrition
Operating revenues:	
Local sources	
Charges for service	\$ 49,584
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	43,928
Benefits	5,857
Purchased services	7,747
Supplies	64,282
Other	4,015
Depreciation	11,699
Total operating expenses	137,528
Operating loss	(87,944)
Non-operating revenues:	
State sources	1,923
Federal sources	83,771
Local sources	1,962
Total non-operating revenues	87,656
Changes in net assets	(288)
Net assets beginning of year	110,001
Net assets end of year	\$ 109,713

See notes to financial statements.

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year ended June 30, 2006

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of meals	\$ 49,637
Cash payments to employees for services	(47,901)
Cash payments to suppliers for goods or services	(70,503)
Net cash used by operating activities	(68,767)
Cash flows from non-capital financing activities:	
State grants received	1,923
Federal grants received	76,926
Net cash provided by non-capital financing activities	78,849
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(14,702)
Cash flows from investing activities:	
Interest on investments	1,962
Net decrease in cash and cash equivalents	(2,658)
Cash and cash equivalents at beginning of year	65,871
Cash and cash equivalents at end of year	\$ 63,213
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (87,944)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Commodities used	6,547
Loss on abandoned equipment	73
Depreciation	11,699
Increase in inventory	(604)
Increase in salaries & benefits payable	1,885
Decrease in other payables	(423)
Net cash used by operating activities	\$ (68,767)

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received federal commodities valued at \$6,547

See notes to financial statements.

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

(1) Summary of Significant Accounting Policies

Mormon Trail Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades pre-kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Derby, Garden Grove, Humeston and LeRoy, Iowa, and the predominate agricultural territory in Wayne, Decatur, Lucas and Clarke 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, Mormon Trail 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. Mormon Trail Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organization – 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 Wayne 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 attributable to the acquisition, construction or improvements 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 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 Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

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

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from 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 accrual basis.

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.

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 ½ % 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 repair 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	\$5,000
Buildings	5,000
Improvement other than buildings	5,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	5,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	20-50 years
Improvements other than buildings	20-40 years
Furniture and equipment	5-20 years

Salaries and Benefits Payable – Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements 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 unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

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

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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. Budgets 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 support service functional area exceeded the amount budgeted.

(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 investments 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:

	<u>Amortized Cost</u>
Diversified Portfolio	\$707,919

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 both rated Aaa by Moody's Investors Service.

(3) Capital Assets

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

	Balance beginning of year	Increases	Decreases	Balance end of year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 16,220	-	-	16,220
Total capital assets not being depreciated	16,220	-	-	16,220
Capital assets being depreciated:				
Buildings	2,770,260	-	-	2,770,260
Improvements other than buildings	-	-	-	-
Furniture and equipment	784,701	41,593	25,996	800,298
Total capital assets being depreciated	3,554,961	41,593	25,996	3,570,558
Less accumulated depreciation for:				
Buildings	716,743	55,198	-	771,941
Improvements other than buildings	-	-	-	-
Furniture and equipment	668,335	37,758	20,602	685,491
Total accumulated depreciation	1,385,078	92,956	20,602	1,457,432
Total capital assets being depreciated, net	2,169,883	(51,363)	5,394	2,113,126
Governmental activities capital assets, net	\$ 2,186,103	(51,363)	5,394	2,129,346
Business type activities:				
Furniture and equipment	\$ 125,900	14,702	871	139,731
Less accumulated depreciation	82,332	11,699	799	93,232
Business type activities capital assets, net	\$ 43,568	3,003	72	46,499

Depreciation expense was charged to the following functions:

Instruction:		
Regular		22,470
Support services:		
Operation and maintenance		55,198
Transportation		15,288
Total depreciation expense - governmental activities		\$ 92,956
Business type activities:		
Food service operations		\$ 11,699

(4) 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	\$ 1,105,000	-	105,000	1,000,000	110,000

General Obligation Bonds Payable

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

Year Ending June 30,	Bond Issue of June 1, 1996			
	Interest Rates	Principal	Interest	Total
2007	4.35%	110,000	43,915	153,915
2008	4.35%	115,000	39,130	154,130
2009	4.35%	120,000	34,127	154,127
2010	4.35%	120,000	28,908	148,908
2011	4.35%	130,000	23,688	153,688
2012	4.35%	130,000	18,032	148,032
2013	4.45%	135,000	12,378	147,378
2014	4.55%	140,000	6,370	146,370
Total		\$ 1,000,000	206,548	1,206,548

(5) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual 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 contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$133,137, \$128,718 and \$133,175, respectively, equal to the required contributions for each year.

(6) Risk Management

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

(7) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$92,955 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash financial statements.

Required Supplementary Information

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
 IN BALANCES - BUDGET AND ACTUAL (GAAP BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUND
 REQUIRED SUPPLEMENTARY INFORMATION
 Year Ended June 30, 2006

	Governmental Funds Actual	Proprietary Fund Actual
Revenues:		
Local sources	\$ 1,496,659	51,546
Intermediate sources	26,421	-
State sources	1,464,411	1,923
Federal sources	172,366	83,771
Total revenues	<u>3,159,857</u>	<u>137,240</u>
Expenditures:		
Instruction	1,855,920	-
Support services	992,521	-
Non-instructional programs	-	137,528
Other expenditures	246,437	-
Total expenditures	<u>3,094,878</u>	<u>137,528</u>
Excess (deficiency) of revenues over (under) expenditures	64,979	(288)
Other financing sources	<u>821</u>	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures	65,800	(288)
Balances beginning of year	<u>1,118,037</u>	110,001
Balances end of year	<u>\$ 1,183,837</u>	<u>109,713</u>

See accompanying independent auditor's report.

Total Actual	Budgeted Amount Original	Budgeted Amount Final	Variance Favorable (Unfavorable)
1,548,205	1,334,679	1,334,679	213,526
26,421	48,000	48,000	(21,579)
1,466,334	1,483,530	1,483,530	(17,196)
256,137	279,668	279,668	(23,531)
<u>3,297,097</u>	<u>3,145,877</u>	<u>3,145,877</u>	<u>151,220</u>
1,855,920	1,914,525	1,950,000	94,080
992,521	900,400	950,000	(42,521)
137,528	138,000	150,000	12,472
246,437	314,572	350,000	103,563
<u>3,232,406</u>	<u>3,267,497</u>	<u>3,400,000</u>	<u>167,594</u>
64,691	(121,620)		
<u>821</u>	<u>-</u>		
65,512	(121,620)		
<u>1,228,038</u>	<u>662,082</u>		
<u><u>1,293,550</u></u>	<u><u>540,462</u></u>		

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
Year Ended June 30, 2006

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all 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 \$130,503.

During the year ended June 30, 2006, expenditures in the support services function exceeded the amount budgeted.

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 June 30, 2006

	Management	Student Activity	Physical Plant and Equipment Levy	Total
Assets				
Cash and pooled investments	\$ 2,918	41,822	242,530	287,270
Receivables:				
Property tax:				
Current year delinquent	1,590	-	2,187	3,777
Succeeding year	65,000	-	67,039	132,039
Accrued interest	-	-	-	-
Due from other funds	129	-	-	129
Total assets	69,637	41,822	311,756	423,215
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	3,556	-	-	3,556
Due to other funds	-	-	4,156	4,156
Deferred revenue:	-	-	-	-
Succeeding year property tax				
Total liabilities	65,000	-	67,039	132,039
	68,556	-	71,195	139,751
Fund equity:				
Fund balances:				
Unreserved, undesignated fund balance	1,081	41,822	240,561	283,464
Total liabilities and fund equity	\$ 69,637	41,822	311,756	423,215

See accompanying independent auditor's report.

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 June 30, 2006

	Management	Student Activity	Physical Plant and Equipment Levy
Revenues:			
Local sources:			
Local tax	\$ 49,830	-	68,524
Other	3,645	76,016	15,457
State sources	-	-	-
Federal sources	-	-	-
Total revenues	<u>53,475</u>	<u>76,016</u>	<u>83,981</u>
Expenditures:			
Current			
Instruction:			
Other instruction	-	74,245	-
Support services:			
Instruction	6,162	-	-
Administrative support	19,144	-	-
Plant operation	21,741	-	3,446
Student transportation	5,108	-	1,810
Other expenditures:			
Facilities acquisition	-	-	
Total expenditures	<u>52,155</u>	<u>74,245</u>	<u>5,256</u>
Excess of revenues over expenditures	1,320	1,771	78,725
Other financing sources;			
Insurance claims	-	-	-
Net change in fund balance	1,320	1,771	78,725
Fund balance beginning of year	<u>(239)</u>	<u>40,051</u>	<u>161,835</u>
Fund balance end of year	<u>\$ 1,081</u>	<u>41,822</u>	<u>240,560</u>

See accompanying independent auditor's report.

Total

118,354
95,118
-
-

213,472

74,245

6,162
19,144
25,187
6,918

-

131,656

81,816

-

81,816

201,647

283,463

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year ended June 30, 2006

Account	Balance Beginning Of Year	Revenues	Expenditures	Balance End of Year
Athletics	7,160	22,849	18,704	11,305
Activites Club	7,007	3,391	7,152	3,246
Drama/Play	2,380	866	511	2,735
National Honor Society	(86)	86	-	-
Cheerleaders	536	461	380	617
Flags	8	-	-	8
Bowling	50	-	50	-
FCCLA	233	9,725	8,470	1,488
FFA	482	34	30	486
Fundraisers	44	-	44	-
Athletic Resale	58	-	58	-
Band/Chorus	1,461	978	959	1,480
JR/SR Incentive	820	8,707	3,284	6,243
Student Council	1,929	-	1,929	-
JR/SR Student Awards	(49)	49	-	-
Elementary Student Council	675	-	675	-
Elementary Activities	1,906	11,531	8,023	5,414
Elementary Playground	3,160	-	3,160	-
Elementary Greenhouse	59	-	59	-
Kraffy Kids	547	-	547	-
Class of 2003	229	-	229	-
Class of 2004	273	-	273	-
Class of 2005	406	-	406	-
Class of 2006	5,977	1,671	6,361	1,287
Class of 2007	3,195	6,323	7,646	1,872
Class of 2008	1,552	5,759	3,199	4,112
Class of 2009	39	3,586	2,096	1,529
Totals	40,051	76,016	74,245	41,822

See accompanying independent auditor's report.

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 1,241,798	\$ 1,242,170	1,151,258	1,189,214
Tuition	70,019	50,896	58,020	85,818
Other	184,842	146,636	137,231	128,204
Intermediate sources	26,421	68,382	92,639	62,147
State sources	1,464,411	1,533,905	1,332,111	1,280,173
Federal sources	172,366	160,886	152,784	151,981
 Total	 \$ 3,159,857	 \$ 3,202,875	 2,924,043	 2,897,537
Expenditures:				
Instruction:				
Regular instruction	\$ 1,105,545	\$ 1,150,088	1,138,634	1,110,084
Special instruction	389,476	460,637	401,718	383,664
Other instruction	360,899	174,357	234,833	220,908
Support services:				
Student services	141,933	146,071	134,518	132,075
Instructional staff services	113,490	58,777	71,798	83,543
Administration services	252,910	280,664	339,907	302,009
Operation and maintenance of plant services	235,696	212,266	254,451	176,355
Transportation services	248,492	179,478	167,915	160,288
Central support	-	-	-	32,982
Non-instructional programs	-	653	-	-
Other expenditures:				
Facilities acquisition	-	2,260	-	26,264
Long-term debt:				
Principal	105,000	100,000	85,000	80,000
Interest and other charges	48,482	52,783	74,724	80,192
AEA flowthrough	92,955	94,462	89,860	94,660
 Total	 \$ 3,094,878	 \$ 2,912,496	 2,993,358	 2,883,024

See notes to financial statements.

Stephanie Mendenhall, CPA
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Humeston, Iowa 50123
641/877-6021

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

To the Board of Education of
Mormon Trail 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 Mormon Trail 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 September 12, 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 Mormon Trail Community School District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide 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 II of the accompanying Schedule of Findings and Questioned Costs.

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 II-A-06 and II-B-06 is a material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mormon Trail 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 IV of the accompanying Schedule of Findings and Questioned Costs.

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 Mormon Trail Community School District and other parties to whom Mormon Trail 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 personnel of Mormon Trail 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.

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

Response – We will continue to review our procedures and implement additional controls where possible.

Conclusion – Response accepted.

II-B-06 Purchase Orders – Purchase orders were not prepared for several purchases in the General Fund and the Student Activity Fund.

Recommendation – Purchase orders should have been prepared for these purchases. Purchase orders help to insure that there is proper authorization for the purchase and that the price stated in the purchase order is what is reflected in the final invoice.

Response – We will monitor the use of purchase orders more closely in the future.

Conclusion – Response accepted.

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable since less than \$500,000 in federal awards.

Other Findings Related to Statutory Reporting:

IV-A-06 Official Depositories – Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2006.

IV-B-06 Certified Budget – Expenditures for the year ended June 30, 2006, exceeded the amended certified budget amounts in the support services functions.

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

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

Conclusion – Response accepted.

IV-C-06 Questionable Expenditures – No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-06 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.

IV-E-06 Business Transactions – No business transactions were noted between the District and District officials or employees.

IV-F-06 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.

IV-G-06 Board Minutes – I noted no transactions requiring Board approval which had not been approved by the Board.

IV-H-06 Certified Enrollment – The enrollment count certified to the Department of Education in September 2005 is incorrect. Two resident students were omitted and three home school assistance students should have each received a weighting of .6 rather than .1.

Recommendation – The District should contact the Department of Management and Department of Education to notify them of the variance.

Response – We will notify the appropriate officials.

Conclusion – Response accepted.

IV-I-06 Deposits and Investments – 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 were noted.

IV-J-06 Certified Annual Report – The Certified Annual Report will be filed with the Iowa Department of Education timely and I noted no significant deficiencies in the amounts reported.

IV-K-06 Free and Reduced Price Meals – There were several incomplete applications for free and reduced price meals. Applications were approved for free when they should have been reduced price. Applications were approved for reduced price when they should have been free.

Recommendation – Greater care needs to be taken in calculating whether applicants qualify for free and reduced price meals.

Response – We will review applications very closely and compare them to income guidelines.

Conclusion – Response accepted.