

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

NEWS RELEASE

Nolte, Cornman & Johnson P.C. today released an audit report on the Rockwell City-Lytton Community School District in Rockwell City, Iowa.

The District has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements include a Statement of Net Assets and a Statement of Activities which provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Also included is Management's Discussion and Analysis of the District's financial statements.

The District's revenues for the governmental funds totaled \$4,205,469 for the year ended June 30, 2004 and included \$1,769,943 in local tax, \$1,835,604 from the state, \$140,762 from the federal government and \$17,592 in interest on investments.

Governmental fund expenditures for the year totaled \$4,474,557 and included \$2,802,307 for instruction, \$1,358,577 for support services and \$313,252 for other expenditures.

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

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Rockwell City-Lytton Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Randal Baird	President	2003
Ross Simpson	Board Member	2005
Jo Grodahl	Board Member	2004
Tina Meth-Farrington	Board Member	2003
Joy Monahan	Board Member	2004
Board of Education (After September 2003 Election)		
Ross Simpson	President	2005
Jo Grodahl	Vice President	2004
Peggy Stoolman	Board Member	2006
Marc DeMoss	Board Member	2006
Joy Monahan	Board Member	2004
School Officials		
Dwayne Cross	Superintendent	2004
Sandra Buhl	District Secretary/ Business Manager	2004
Colin McCullough	Attorney	2004

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Rockwell City-Lytton Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Rockwell City-Lytton Community School District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Rockwell City-Lytton Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with U.S. generally accepted accounting principles.

As described in Note 9 to the financial statements, during the year ended June 30, 2004, Rockwell City-Lytton Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments; Statement No. 37, Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule- Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated August 25, 2004 on our consideration of the Rockwell City-Lytton Community School District's internal control over financial reporting and our tests of its compliance with certain

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provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 35 through 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Rockwell City-Lytton Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for one year ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Another firm previously audited, in accordance with the standards referred to in the second paragraph of this report, the general purpose financial statements for the two years ended June 30, 2002 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Nolte, Cornman & Johnson PC
NOLTE, CORNMAN & JOHNSON, P.C.

August 25, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Rockwell City-Lytton 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, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$3,900,901 in fiscal 2003 to \$3,773,235 in fiscal 2004, while General Fund expenditures increased from \$3,835,390 in fiscal 2003 to \$3,966,401 in fiscal 2004. This resulted in a decrease in the District's General Fund balance from \$815,093 in fiscal 2003 to a balance of \$625,335 in fiscal 2004, a 23% decrease from the prior year.
- The decrease in General Fund revenues was attributable to 2.5% reduction in State School Aid, which reduced revenues from the State by \$54,000. This reduction occurred after the annual budget was certified and teacher contracts were issued. The District was able to cut short-term discretionary spending to offset most of the revenue reduction specifically in the area of instructional supplies. Also property tax mill age decreased from 10.21663 with revenues of \$1,654,799 in 2003, to 9.91590 with revenue of \$1,541,850. An on-going practice in the dispensation of the cash benefit in lieu of insurance was recognized as not being in compliance with IPERS regulations. The District was required to expense an additional \$61,196 to match the increase deduction from those employees carrying insurance with the District's group policy. One reason the General Fund balance decreased is because the General Fund made a transfer of \$50,000 to the Management Fund to complete a transfer of funds from the previous year.
- A decline in interest rates during the past fiscal year, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone to decrease from \$21,108 in fiscal year 2003 to \$12,226 in fiscal year 2004.

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 Rockwell City-Lytton 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 Rockwell City-Lytton 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 Rockwell City-Lytton Community School District acts solely as an agent or custodial for the benefit of those outside of County government.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

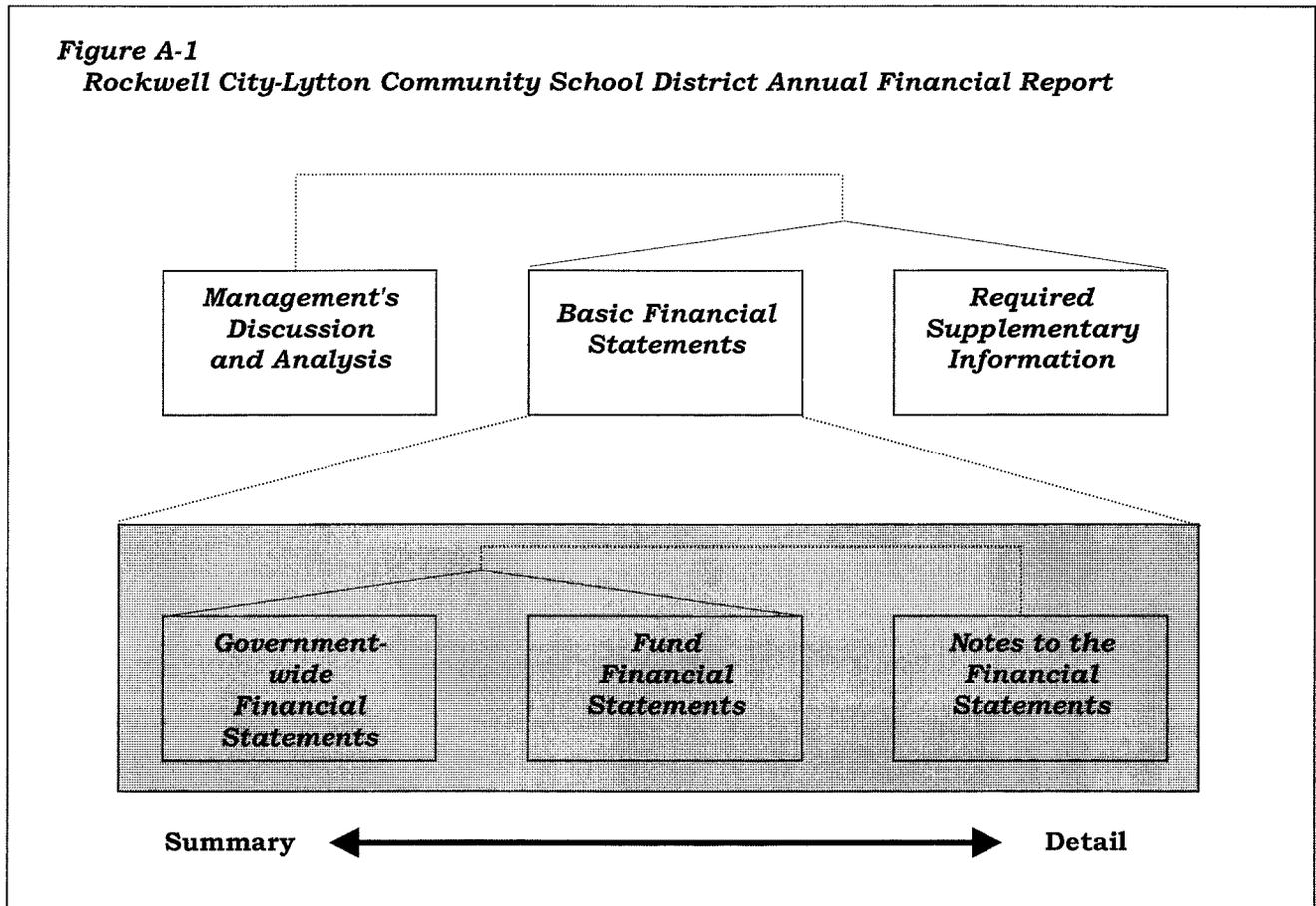


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

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

3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Agency Fund.

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

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 for the year ended June 30, 2004.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Current and other assets	\$ 2,261,486	18,954	2,280,440
Capital assets	1,985,542	36,623	2,022,165
Total assets	<u>4,247,028</u>	<u>55,577</u>	<u>4,302,605</u>
Long-term obligations	7,961	0	7,961
Other liabilities	1,371,595	2,214	1,373,809
Total liabilities	<u>1,379,556</u>	<u>2,214</u>	<u>1,381,770</u>
Net assets:			
Invested in capital assets, net of related debt	1,992,683	36,623	2,029,306
Restricted	331,665	0	331,665
Unrestricted	543,124	16,740	559,864
Total net assets	<u>\$ 2,867,472</u>	<u>53,363</u>	<u>2,920,835</u>

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

Figure A-4
Changes of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Revenues:			
Program revenues:			
Charges for services	\$ 438,160	117,405	555,565
Operating grants and contributions and restricted interest	516,947	90,605	607,552
General revenues:			
Local tax	1,769,943	0	1,769,943
Unrestricted state grants	1,459,419	0	1,459,419
Other	21,000	58	21,058
Total revenues	<u>4,205,469</u>	<u>208,068</u>	<u>4,413,537</u>
Program expenses:			
Governmental activities:			
Instructional	2,800,676	0	2,800,676
Support services	1,327,912	0	1,327,912
Non-instructional programs	421	212,299	212,720
Other expenses	339,865	0	339,865
Total expenses	<u>4,468,874</u>	<u>212,299</u>	<u>4,681,173</u>
Changes in net assets	\$ (263,405)	(4,231)	(267,636)
Net assets beginning of year	<u>3,130,877</u>	<u>57,594</u>	<u>3,188,471</u>
Net assets end of year	<u>\$ 2,867,472</u>	<u>53,363</u>	<u>2,920,835</u>

Property tax and unrestricted state grants account for 77% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 92% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$4,205,469 and expenses were \$4,468,874.

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 Cost of Services	Net Cost of Services
Instruction	\$ 2,800,676	2,003,022
Support services	1,327,912	1,326,347
Non-instructional	421	421
Other expenses	339,865	183,977
Totals	<u>\$ 4,468,874</u>	<u>3,513,767</u>

- The cost financed by users of the District's programs was \$438,160.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$516,947.

-
- The net cost of governmental activities was financed with \$1,769,943 in local tax, \$1,459,419 in unrestricted state grants, and \$17,592 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$208,068 and expenses were \$212,299. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$889,891, below last year's ending fund balances of a \$1,158,979.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the product of many factors. Reduction in the tax levy, as well as, federal grants resulted in a decrease in revenues. However, the decrease in revenues was less than offset by the District's increase in General Fund expenditures ensuring the financial position of the District decrease.
- The Management Levy fund balance decreased from \$105,152 in 2003, to \$99,366 in 2004, due to the increase in expenditures.
- The Physical Plant and Equipment Levy (PPEL) fund balance decreased from \$189,096 to \$94,400, due to an increase in total expenditures for the year. Expenditures included \$75,000 in building improvements which included extensive renovation to install an elevator in the middle school to make it handicapped accessible, \$32,000 for improvements to the three athletic fields, a new bus and suburban, and \$25,000 for new computers and accompanying network systems.
- The Student Activity fund balance increased from \$49,638 in 2003, to \$63,649 in 2004, due to a decrease in total expenditures.
- The District started a Capital Projects fund during the current year. At year-end it had a balance of \$7,141, due to the District starting to receive local option sales and service tax.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$57,594 at June 30, 2003 to \$53,363 at June 30, 2004, representing a decrease of approximately 7%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$325,917 less than budgeted revenues, a variance of 7%. The most significant variance resulted from the District receiving less in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized

spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget exceeded in the other expenditures functional program area due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$2 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 1.1% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$195,140.

The original cost of the District's capital assets was \$6,813,449. Governmental funds account for \$6,747,538 with \$65,911 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$112,820 at June 30, 2004, compared to \$80,655 reported at June 30, 2003. This increase resulted from the purchases made during the current year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental	Business-type	Total
	Activities	Activities	School District
	2004	2004	2004
Land	\$ 92,000	0	92,000
Buildings	1,013,764	0	1,013,764
Improvements other than buildings	766,958	0	766,958
Machinery and equipment	112,820	36,623	149,443
Total	\$ 1,985,542	36,623	2,022,165

Long-Term Debt

At June 30, 2004, the District had long-term debt outstanding of \$7,961 in compensated absences. This represents a decrease of approximately 1.6% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had total outstanding compensated absences payable of \$7,961 at June 30, 2004.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
	Compensated absences	\$ 7,961	

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:

- While District enrollment has remained relatively steady the past few years (unlike that of many of the neighboring districts), the projection is that there will be a substantial decline in the next few years. Under Iowa's school funding formula, District funding is highly dependant upon District enrollment. Future enrollment stability is a critical element in maintaining a sound financial foundation.
- Continued decline in class size and the lack of availability of teachers in specialized areas may very well force more extensive sharing of classes, instructors and facilities.
- The national recession that has adversely impacted the State of Iowa's budget has translated into reduced levels of state aid funding for public education in the state. Future increases in state aid to schools, (allowable growth) will be predicated upon the condition of the state and national economy. State funding growth for public schools for fiscal 2003, previously set during the 2001 legislative session at 4% was subsequently reduced to 1% during the 2002 legislative session. Salary and benefit settlements exceeding the rate of growth of state funding will have an adverse impact upon the District's General Fund budget.
- Fiscal 2003-2004 was the last year the District will receive the 100% guarantee of funding from the State.
- More than 79.8% of the general fund expenditures is for salaries and benefits. Iowa law requires salaries and benefits be negotiated for teachers with mandatory arbitration if necessary. Budgets are being squeezed tighter and tighter as these salaries often exceed the new moneys forthcoming from the State.
- The cost of group health insurance continues to rise by double-digit percentages. From fiscal year 2002 to fiscal year 2003 that cost to the District increased 15.5% and shows no sign of slowing.
- The local option sales tax had little impact as yet. Dollars were first received in January 2004 from the revenues generated by Sac County as the 1% Sales Tax was implemented in that county July 2003. Revenues from Calhoun County will not be received until next fiscal year at which time those dollars will replace those generated by the PPEL.

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 Sandra Buhl, District Board Secretary, Rockwell City-Lytton Community School District, 1000 Tonawanda Avenue, Rockwell City, Iowa, 50579.

BASIC FINANCIAL STATEMENTS

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 789,788	14,791	804,579
Receivables:			
Property tax:			
Delinquent	56,062	0	56,062
Succeeding year	1,338,902	0	1,338,902
Accounts	20,216	0	20,216
Due from other governments	40,972	0	40,972
Prepaid expenses	15,546	0	15,546
Inventories	0	4,163	4,163
Capital assets, net of accumulated depreciation (Note 4)	1,985,542	36,623	2,022,165
TOTAL ASSETS	4,247,028	55,577	4,302,605
LIABILITIES			
Accounts payable	9,551	0	9,551
Salaries and benefits payable	23,142	0	23,142
Deferred revenue:			
Succeeding year property tax	1,338,902	0	1,338,902
Other	0	2,214	2,214
Long-term liabilities (Note 5):			
Portion due within one year:			
Compensated absences	7,961	0	7,961
TOTAL LIABILITIES	1,379,556	2,214	1,381,770
NET ASSETS			
Investment in capital assets, net of related debt	1,992,683	36,623	2,029,306
Restricted for:			
Early intervention	2,191	0	2,191
Talented and gifted	71,366	0	71,366
Phase III	693	0	693
Physical plant & equipment levy	94,400	0	94,400
Management levy	99,366	0	99,366
Other special revenue purposes	63,649	0	63,649
Unrestricted	543,124	16,740	559,864
TOTAL NET ASSETS	\$ 2,867,472	53,363	2,920,835

SEE NOTES TO FINANCIAL STATEMENTS.

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Governmental activities:			
Instruction:			
Regular instruction	\$ 1,817,824	95,938	360,453
Special instruction	476,273	53,320	0
Other instruction	506,579	287,943	0
	<u>2,800,676</u>	<u>437,201</u>	<u>360,453</u>
Support services:			
Student services	156,799	0	0
Instructional staff services	123,173	0	0
Administration services	513,893	0	0
Operation and maintenance of plant services	328,001	0	0
Transportation services	206,046	959	606
	<u>1,327,912</u>	<u>959</u>	<u>606</u>
Non-instructional services:			
Food service	421	0	0
Other expenditures:			
Facilities acquisitions	35,146	0	0
AEA flowthrough	155,888	0	155,888
Depreciation(unallocated)*	148,831	0	0
	<u>339,865</u>	<u>0</u>	<u>155,888</u>
Total governmental activities	4,468,874	438,160	516,947
Business-Type activities:			
Non-instructional programs:			
Nutrition services	212,299	117,405	90,605
Total business-type activities	212,299	117,405	90,605
Total	\$ 4,681,173	555,565	607,552

General Revenues:

Property tax levied for:
 General purposes
 Capital outlay
Local option sales and service tax
Unrestricted state grants
Unrestricted investment earnings
Sale of materials

Total general revenues

Changes in net assets

Net assets beginning of year, as restated (Note 9)

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(1,361,433)	0	(1,361,433)
(422,953)	0	(422,953)
(218,636)	0	(218,636)
(2,003,022)	0	(2,003,022)
(156,799)	0	(156,799)
(123,173)	0	(123,173)
(513,893)	0	(513,893)
(328,001)	0	(328,001)
(204,481)	0	(204,481)
(1,326,347)	0	(1,326,347)
(421)	0	(421)
(35,146)	0	(35,146)
0	0	0
(148,831)	0	(148,831)
(183,977)	0	(183,977)
(3,513,767)	0	(3,513,767)
0	(4,289)	(4,289)
0	(4,289)	(4,289)
(3,513,767)	(4,289)	(3,518,056)
\$ 1,585,474	0	1,585,474
177,332	0	177,332
7,137	0	7,137
1,459,419	0	1,459,419
17,592	58	17,650
3,408	0	3,408
3,250,362	58	3,250,420
(263,405)	(4,231)	(267,636)
3,130,877	57,594	3,188,471
\$ 2,867,472	53,363	2,920,835

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Physical			Total
		Management Levy	Plant and Equipment Levy	Other Governmental Funds	
ASSETS					
Cash and pooled investments	\$ 530,370	99,461	92,325	67,632	789,788
Receivables:					
Property tax					
Delinquent	49,852	724	2,625	2,861	56,062
Succeeding year	1,313,902	25,000	0	0	1,338,902
Accounts	19,919	0	0	297	20,216
Due from other governments	40,972	0	0	0	40,972
Prepaid expenses	15,546	0	0	0	15,546
TOTAL ASSETS	\$ 1,970,561	125,185	94,950	70,790	2,261,486
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 8,182	819	550	0	9,551
Salaries and benefits payable	23,142	0	0	0	23,142
Deferred revenue:					
Succeeding year property tax	1,313,902	25,000	0	0	1,338,902
Total liabilities	1,345,226	25,819	550	0	1,371,595
Fund balances:					
Reserved for:					
Early intervention	2,191	0	0	0	2,191
Talanted and gifted	71,366	0	0	0	71,366
Phase III	693	0	0	0	693
Unreserved:					
Undesignated	551,085	99,366	94,400	70,790	815,641
Total fund balances	625,335	99,366	94,400	70,790	889,891
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,970,561	125,185	94,950	70,790	2,261,486

SEE NOTES TO FINANCIAL STATEMENTS.

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2004

Total fund balances of governmental funds (page 17) \$ 889,891

*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 report as
assets in in the governmental funds. 1,985,542

Compensated absences liabilities are not due and
payable in the current period and, therefore, are not
reported as liabilities in the governmental funds. (7,961)

Net assets of governmental activites (page 14) \$ 2,867,472

SEE NOTES TO FINANCIAL STATEMENTS.

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

	General	Physical		Other Governmental Funds	Total
		Levy	Plant and Equipment Levy		
REVENUES:					
Local sources:					
Local tax	\$ 1,542,033	43,441	177,332	0	1,762,806
LOSST	0	0	0	7,137	7,137
Tuition	149,258	0	0	0	149,258
Other	113,311	245	4,246	188,692	306,494
State sources	1,827,871	1,519	6,214	0	1,835,604
Federal sources	140,762	0	0	0	140,762
Total revenues	3,773,235	45,205	187,792	195,829	4,202,061
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	1,816,424	0	0	0	1,816,424
Special instruction	476,273	0	0	0	476,273
Other instruction	280,809	0	54,124	174,677	509,610
	2,573,506	0	54,124	174,677	2,802,307
Support services:					
Student services	156,049	750	0	0	156,799
Instructional staff services	123,173	0	0	0	123,173
Administration services	489,311	24,713	0	0	514,024
Operation and maintenance of plant services	310,029	16,512	0	0	326,541
Transportation services	158,024	9,016	71,000	0	238,040
	1,236,586	50,991	71,000	0	1,358,577
Non-instructional:					
Food service	421	0	0	0	421
Other expenditures:					
Facilities acquisitions	0	0	157,364	0	157,364
AEA flowthrough	155,888	0	0	0	155,888
	155,888	0	157,364	0	313,252
Total expenditures	3,966,401	50,991	282,488	174,677	4,474,557
Excess(deficiency) of revenues over(under) expenditures	(193,166)	(5,786)	(94,696)	21,152	(272,496)
Other financing sources:					
Sales of materials	3,408	0	0	0	3,408
Net change in fund balances	(189,758)	(5,786)	(94,696)	21,152	(269,088)
Fund balance beginning of year	815,093	105,152	189,096	49,638	1,158,979
Fund balance end of year	\$ 625,335	99,366	94,400	70,790	889,891

SEE NOTES TO FINANCIAL STATEMENTS.

ROCKWELL CITY-LYTTON 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, 2004

Net change in fund balances - total governmental funds (page 19) \$ (269,088)

*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 not 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 expenditures exceeded depreciation expense in the current year, as follows:

Capital expenditures	\$ 197,559	
Depreciation expense	(192,007)	5,552

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 fund.

Compensated absences		131
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Changes in net assets of governmental activities (page 16) \$ (263,405)

SEE NOTES TO FINANCIAL STATEMENTS.

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2004

	School Nutrition
ASSETS	
Cash and cash equivalents	\$ 14,791
Inventories	4,163
Capital assets, net of accumulated depreciation	36,623
TOTAL ASSETS	55,577
 LIABILITIES	
Deferred revenues	2,214
 NET ASSETS	
Invested in capital assets, net of related debt	36,623
Unrestricted	16,740
TOTAL NET ASSETS	\$ 53,363

SEE NOTES TO FINANCIAL STATEMENTS.

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Other local sources:	
Sale of lunches and breakfasts:	
Students	\$ 88,247
Adults	8,106
A la carte	21,052
TOTAL OPERATING REVENUES	117,405
OPERATING EXPENSES:	
Food service operations:	
Salaries	91,939
Benefits	15,560
Services	11,727
Supplies	89,940
Depreciation	3,133
TOTAL OPERATING EXPENSES	212,299
OPERATING LOSS	(94,894)
NON-OPERATING REVENUES:	
Interest	58
State sources	2,960
Federal sources	87,645
TOTAL NON-OPERATING REVENUES	90,663
Net loss	(4,231)
Retained earnings at beginning of year	57,594
Retained earnings end of year	\$ 53,363

SEE NOTES TO FINANCIAL STATEMENTS.

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 119,619
Cash payments to employees for services	(107,499)
Cash payments to suppliers for goods or services	(89,207)
Net cash used in operating activities	(77,087)
Cash flows from non-capital financing activities:	
State grants received	2,960
Federal grants received	72,820
Net cash provided by non-capital financing activities	75,780
Cash flows from investing activities:	
Interest on investments	58
Net cash provided by investing activities	58
Cash flows from capital financing activities:	
Purchase of assets	(18,542)
Net cash used in financing activities	(18,542)
Net decrease in cash and cash equivalents	(19,791)
Cash and cash equivalents at beginning of year	34,582
Cash and cash equivalents at end of year	\$ 14,791
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (94,894)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	14,825
Depreciation	3,133
Increase in inventories	(392)
Decrease in accounts payable	(1,973)
Increase in deferred revenue	2,214
Net cash used in operating activities	\$ (77,087)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 14,791
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	

During the year ended June 30, 2004, the District received Federal commodities valued at \$14,825.

SEE NOTES TO FINANCIAL STATEMENTS.

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2004

	<u>Agency</u>
ASSETS	
Cash and investments	\$ 2,009
LIABILITIES	
Due to other groups	<u>2,009</u>
NET ASSETS	<u>\$ 0</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(1) **Summary of Significant Accounting Policies**

The Rockwell City-Lytton Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Rockwell City and Lytton, Iowa, and the predominate agricultural territory in Sac and Calhoun County. 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, Rockwell City-Lytton Community School District has included all funds, organizations, account groups, 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 Rockwell City-Lytton Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Sac and Calhoun County Assessors' Conference Board.

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The Special Revenue - Management Fund is utilized to account for the payment of property insurance and early retirement benefits.

The Special Revenue - Physical Plant and Equipment Levy (PPEL) Fund is used to account for resources used in building improvements and equipment purchases..

The District reports the following major proprietary fund:

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

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

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board

Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

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

D. Assets, Liabilities and Fund Equity

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 the governmental funds are accounted for using the modified accrual basis of accounting.

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on

January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

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

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

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

Asset Class	Amount
Land	\$ 3,500
Buildings	3,500
Improvements other than buildings	3,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	3,500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Live (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable- Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is 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 represent the amount of assets that have been recognized, but the related revenue has not been recognized

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

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

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 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, 2004. 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. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements in the other expenditures functional program area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2004 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.

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$6,995 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

(3) Transfers

The detail of transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
Management	General	\$ 36,850

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year, as restated (Note 9)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 92,000	0	0	92,000
Total capital assets not being depreciated	92,000	0	0	92,000
Capital assets being depreciated:				
Buildings	3,173,780	0	0	3,173,780
Land improvements	2,455,475	122,218	0	2,577,693
Machinery and equipment	828,724	75,341	0	904,065
Total capital assets being depreciated	6,457,979	197,559	0	6,655,538
Less accumulated depreciation for:				
Buildings	2,108,766	51,250	0	2,160,016
Land improvements	1,713,154	97,581	0	1,810,735
Machinery and equipment	748,069	43,176	0	791,245
Total accumulated depreciation	4,569,989	192,007	0	4,761,996
Total capital assets being depreciated, net	1,887,990	5,552	0	1,893,542
Governmental activities capital assets, net \$	1,979,990	5,552	0	1,985,542

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 51,352	18,542	3,983	65,911
Less accumulated depreciation	30,138	3,133	3,983	29,288
Business-type activities capital assets, net	\$ 21,214	15,409	0	36,623

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 1,400
Other		758
Support services:		
Operation and maintenance of plant services		1,460
Transportation		39,558
		43,176
Unallocated depreciation		148,831
Total governmental activities depreciation expense		\$ 192,007
Business-type activities:		
Food services		\$ 3,133

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Compensated absences	\$ 8,092	7,961	8,092	7,961	7,961
Total	\$ 8,092	7,961	8,092	7,961	7,961

(6) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$124,072, \$141,539, and \$139,468 respectively, equal to the required contributions for each year.

(7) Risk Management

Rockwell City-Lytton Community School District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: medical, dental, vision, and prescription drugs.

Each member's contributions to ISEBA funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$307,243.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2003, no liability has been recorded in the District's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage.

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

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

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$155,888 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Accounting Change and Restatements

Governmental Accounting Standards Board Interpretation No.6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No.38, Certain Financial Statement Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended June 30, 2004. The statement create new basic financial statements for reporting the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements separate the District's programs between governmental and business type activities. The beginning net assets for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

Beginning capital assets for governmental activities of \$5,467,841 were restated to \$6,549,979. The restatement primarily added assets that were not previously reported prior to an inventory count by the District.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Fund				Total
	General	Levy	Physical Plant and Equipment Levy	Other Governmental Funds	
Net assets, June 30, 2003, as previously reported	\$ 815,093	105,152	189,096	49,638	1,158,979
GASB Interpretation 6 adjustments	0	0	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	\$ 815,093	105,152	189,096	49,638	1,158,979
GASB 34 adjustments:					
Capital assets, net of accumulated depreciation of \$4,569,989					1,979,990
Long-term liabilities:					
Compensated absences					(8,092)
Net assets July 1, 2003, as restated					\$ 3,130,877

(10) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2004, disbursements in the other disbursements functional program area exceeded the amount budgeted.

REQUIRED SUPPLEMENTAL INFORMATION

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF RECEIPTS, DISBURSEMENTS AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 2,183,305	119,677
State sources	1,826,355	2,960
Federal sources	132,586	87,645
Total receipts	<u>4,142,246</u>	<u>210,282</u>
Disbursements:		
Instruction	2,837,424	0
Support services	1,342,040	0
Non-instructional programs	421	230,073
Other expenditures	313,252	0
Total disbursements	<u>4,493,137</u>	<u>230,073</u>
Excess(deficiency) of receipts over(under) disbursements	(350,891)	(19,791)
Other financing sources, net	<u>3,408</u>	<u>0</u>
Excess(deficiency) of receipts and other financing sources over(under) disbursements	(347,483)	(19,791)
Balance beginning of year	<u>1,137,271</u>	<u>34,582</u>
Balance end of year	<u>\$ 789,788</u>	<u>14,791</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
2,302,982	2,452,443	2,452,443	(149,461)
1,829,315	2,004,402	2,004,402	(175,087)
220,231	221,600	221,600	(1,369)
4,352,528	4,678,445	4,678,445	(325,917)
2,837,424	2,915,000	2,915,000	77,576
1,342,040	1,680,000	1,680,000	337,960
230,494	235,000	235,000	4,506
313,252	267,088	267,088	(46,164)
4,723,210	5,097,088	5,097,088	373,878
(370,682)	(418,643)	(418,643)	47,961
3,408	0	0	3,408
(367,274)	(418,643)	(418,643)	51,369
1,171,853	1,346,910	1,346,910	(175,057)
804,579	928,267	928,267	(123,688)

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE-
 BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types		
	Cash Basis	Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 4,142,246	59,815	4,202,061
Expenses	4,493,137	(18,580)	4,474,557
Net	(350,891)	78,395	(272,496)
Other financing sources, net	3,408	0	3,408
Beginning fund balances	1,137,271	21,708	1,158,979
Ending fund balances	\$ 789,788	100,103	889,891

	Proprietary Fund Type		
	Cash Basis	Enterprise Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 210,282	(2,214)	208,068
Expenses	230,073	(17,774)	212,299
Net	(19,791)	15,560	(4,231)
Beginning retained earnings	34,582	23,012	57,594
Ending retained earnings	\$ 14,791	38,572	53,363

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2004

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

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

During the year ended June 30, 2004, disbursements in the other expenditures functional program area exceeded the amount budgeted.

OTHER SUPPLEMENTAL INFORMATION

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2004

	Special Revenue- Student Activity	Capital Projects	Total Nonmajor Governmental Funds
ASSETS			
Cash and pooled investments	\$ 63,352	4,280	67,632
Receivables:			
Property tax:			
Current year delinquent	0	2,861	2,861
Accounts	297	0	297
TOTAL ASSETS	\$ 63,649	7,141	70,790
LIABILITIES AND FUND EQUITY			
Liabilities	\$ 0	0	0
Fund equity:			
Fund balances:			
Unreserved:			
Undesignated	63,649	7,141	70,790
Total fund balances	63,649	7,141	70,790
TOTAL LIABILITIES AND FUND EQUITY	\$ 63,649	7,141	70,790

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2004

	Special Revenue- Student Activity	Capital Projects	Total Nonmajor Governmental Funds
REVENUES:			
Local sources:			
LOSST	0	7,137	7,137
Other	188,688	4	188,692
TOTAL REVENUES	188,688	7,141	195,829
EXPENDITURES:			
Current:			
Instruction:			
Other instruction	174,677	0	174,677
TOTAL EXPENDITURES	174,677	0	174,677
Excess of revenues over expenditures	14,011	7,141	21,152
Fund balance beginning of year	49,638	0	49,638
Fund balance end of year	\$ 63,649	7,141	70,790

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2004

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Athletics	\$ 920	25,373	20,631	5,662
Drama	1,250	858	742	1,366
Speech	932	65	79	918
Musical	4,638	0	(61)	4,699
Band	438	1,256	1,288	406
Band uniforms	192	0	(2)	194
Band trip	576	9,039	4,969	4,646
Chorus	837	1,988	2,825	0
Swing choir	0	1,036	938	98
Choir trip	0	6,152	2,948	3,204
Cheerleaders	1,084	1,698	2,590	192
Drill team	1,285	8,982	8,731	1,536
Drill team trip	0	1,927	523	1,404
Football	637	1,681	990	1,328
Baseball	746	764	1,339	171
Wrestling	915	1,117	1,758	274
Girls basketball	92	6,937	6,040	989
Volleyball	134	535	16	653
Softball	297	0	(4)	301
Class of 2003	234	0	58	176
Class of 2004	6,608	4,158	9,559	1,207
Class of 2005	2,589	14,205	13,782	3,012
Class of 2006	1,354	1,809	148	3,015
Class of 2007	0	905	14	891
FFA	14,605	37,429	35,397	16,637
FLA	0	2,796	2,283	513
Academic society	81	0	44	37
Yearbook	1,388	8,227	8,598	1,017
Art club	757	0	158	599
Spanish club	57	0	(1)	58
French club	2	0	0	2
Student council	0	10,676	10,110	566
S.O.D.A.	63	0	0	63
Revolving	0	17,759	17,758	1
Target project	534	0	0	534
Investments	0	786	786	0
Interest	0	53	53	0
FFA savings	723	14	0	737
MS-athletics	1,838	16,821	14,381	4,278
MS-drama	0	358	358	0
MS-music	0	600	378	222
Calhoun county band festival	950	124	1,074	0
MS-yearbook	84	1,470	1,426	128
MS-student council	2,798	1,090	1,973	1,915
Total	\$ 49,638	188,688	174,677	63,649

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
YEAR ENDED JUNE 30, 2004

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Field Trip				
ASSETS				
Cash and investments	\$ 46	0	46	0
LIABILITIES				
Due to other groups	\$ 46	0	46	0
Community Service				
ASSETS				
Cash and investments	\$ 60	0	60	0
LIABILITIES				
Due to other groups	\$ 60	0	60	0
Swing Choir Trust				
ASSETS				
Cash and investments	\$ 470	0	470	0
LIABILITIES				
Due to other groups	\$ 470	0	470	0
Middle School Pop				
ASSETS				
Cash and investments	\$ 398	168	1,503	(937)
LIABILITIES				
Due to other groups	\$ 398	168	1,503	(937)
Elementary Mini-Society				
ASSETS				
Cash and investments	\$ 19	0	0	19
LIABILITIES				
Due to other groups	\$ 19	0	0	19
Middle School Raffle				
ASSETS				
Cash and investments	\$ 1,192	0	552	640
LIABILITIES				
Due to other groups	\$ 1,192	0	552	640

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
YEAR ENDED JUNE 30, 2004

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Middle School Mini Society				
ASSETS				
Cash and investments	\$ 154	0	39	115
LIABILITIES				
Due to other groups	\$ 154	0	39	115
Middle School Puppet				
ASSETS				
Cash and investments	\$ 266	0	257	9
LIABILITIES				
Due to other groups	\$ 266	0	257	9
Prairie Project				
ASSETS				
Cash and investments	\$ 25	0	0	25
LIABILITIES				
Due to other groups	\$ 25	0	0	25
High School Pop				
ASSETS				
Cash and investments	\$ 352	340	419	273
LIABILITIES				
Due to other groups	\$ 352	340	419	273
Student Exchange Program				
ASSETS				
Cash and investments	\$ 3,441	0	3,441	0
LIABILITIES				
Due to other groups	\$ 3,441	0	3,441	0
Adult Education				
ASSETS				
Cash and investments	\$ 119	0	119	0
LIABILITIES				
Due to other groups	\$ 119	0	119	0
Elementary Donations				
ASSETS				
Cash and investments	\$ 148	0	148	0
LIABILITIES				
Due to other groups	\$ 148	0	148	0

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
YEAR ENDED JUNE 30, 2004

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Middle School Donations				
ASSETS				
Cash and investments	\$ 144	0	144	0
LIABILITIES				
Due to other groups	\$ 144	0	144	0
High School Donations				
ASSETS				
Cash and investments	\$ 860	618	241	1,237
LIABILITIES				
Due to other groups	\$ 860	618	241	1,237
RCE Pop				
ASSETS				
Cash and investments	\$ 234	394	0	628
LIABILITIES				
Due to other groups	\$ 234	394	0	628
Other Accounts				
ASSETS				
Cash and investments	\$ 1,129	0	1,129	0
LIABILITIES				
Due to other groups	\$ 1,129	0	1,129	0
Totals - All Agency Funds				
ASSETS				
Cash and investments	\$ 9,057	1,520	8,568	2,009
LIABILITIES				
Due to other groups	\$ 9,057	1,520	8,568	2,009

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 1,762,806	1,856,450	1,813,153	1,766,527
LOSST	7,137	0	0	0
Tuition	149,258	192,333	164,933	159,799
Other	306,494	367,067	266,747	290,975
Intermediate sources	0	8,876	0	0
State sources	1,835,604	1,760,030	1,828,523	1,802,575
Federal sources	140,762	148,024	107,825	99,665
Total	\$ 4,202,061	4,332,780	4,181,181	4,119,541
Expenditures:				
Instruction:				
Regular instruction	\$ 1,816,424	1,750,949	1,761,136	1,766,993
Special instruction	476,273	447,655	401,283	366,413
Other instruction	509,610	529,842	417,472	419,165
Support services:				
Student services	156,799	147,733	169,411	141,014
Instructional staff services	123,173	16,226	150,775	132,894
Administration services	514,024	591,083	455,138	414,895
Operation and maintenance of plant services	326,541	346,380	292,737	371,086
Transportation services	238,040	161,720	271,502	231,086
Non-instructional:				
Food service	421	2,510	1,472	958
Other expenditures:				
Facilities acquisitions	157,364	48,303	138,108	63,340
Long Term Debt:				
AEA flow-through	155,888	164,761	166,472	172,790
Total	\$ 4,474,557	4,207,162	4,225,506	4,080,634

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
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Telephone (641) 792-1910

Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Board of Education of the
Rockwell City-Lytton Community School District:

We have audited the financial statements of Rockwell City-Lytton Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated August 25, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved except for II-A-04.

Internal Control Over Financial Reporting

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all

reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04 is a material weakness. Prior year reportable conditions have all been resolved, except for I-A-04 and I-B-04.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Rockwell City-Lytton Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

August 25, 2004

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. 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 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 - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

I-B-04 Rent - We noted during our audit that the district receives money for rent and it is receipted into the PPEL Fund.

Recommendation - Chapter 297.9 and 297.10 of the code of Iowa requires rent of school facilities to be receipted into the General Fund. The district should receipt rent collected for facility usage into the General Fund.

Response - We will make the necessary changes for recording rents collected.

Conclusion - Response accepted.

I-C-04 Invoices - We noted during our audit that not all invoices paid by the District had purchase orders, were cancelled, or specified which account to charge.

Recommendation - The District has policies in place for payments of bills, they should be followed.

Response - We will review current procedures and make necessary changes to comply with the recommendation.

Conclusion - Response accepted.

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part II: Other Findings Related to Statutory Reporting

II-A-04 Official Depositories - A resolution naming official depositories has been approved by the Board. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2004.

Recommendation - The district should increase their depository limits.

Response - We will raise them in the future.

Conclusion - Response accepted.

II-B-04 Certified Budget - District disbursements for the year ended June 30, 2004, exceeded the amount budgeted in the other expenditures functional program area.

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

Response - We raised the depository limits in July 2004.

Conclusion - Response accepted.

II-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-04 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-E-04 Business Transactions – Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Jo Godahl, Board Member Owner of Agents, Inc.	Property insurance (bid)	\$46,069

In accordance with Chapter 279.7A of the Code of Iowa, the transactions with the Board Member does not appear to be a conflict of interest as the insurance was bid competitively.

II-F-04 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-H-04 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of students which were open enrolled out was overstated by one student.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Iowa Department of Education and the Department of Management .

Conclusion - Response accepted.

II-I-04 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-J-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.