

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

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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 2004 Election)		
Ross Simpson	President	2005
Jo Grodahl	Vice President	2004
Peggy Stoolman	Board Member	2006
Marc DeMoss	Board Member (Resigned)	2006
Joy Monahan	Board Member	2004
Board of Education (After September 2004 Election)		
Jo Grodahl	President	2006
Peggy Stoolman	Vice President	2006
John Weiss	Board Member	2007
Mike Sexton	Board Member	2007
Ross Simpson	Board Member	2005
School Officials		
Dwayne Cross	Superintendent	2005
Sandra Buhl	District Secretary/ Business Manager	2005
Colin McCullough	Attorney	2005

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3050

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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, the business-type activities, each major fund and the aggregate remaining fund information of Rockwell City-Lytton Community School District, Rockwell City, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. 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 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 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 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, the business type activities, each major fund and the aggregate remaining fund information of Rockwell City-Lytton Community School District at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

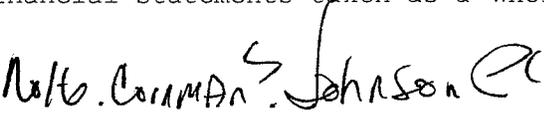
In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2005 on our consideration of Rockwell City-Lytton Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our 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 our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 34 through 37 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions 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 the three years ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary 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, P.C.

December 15, 2005

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, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,773,235 in fiscal 2004 to \$3,891,866 in fiscal 2005, while General Fund expenditures increased from \$3,966,401 in fiscal 2004 to \$4,061,253 in fiscal 2005. This resulted in a decrease in the District's General Fund balance from \$625,335 in fiscal 2004 to a balance of \$455,963 in fiscal 2005, a 27% decrease from the prior year. The minimal increase in General Fund revenues was attributable to a reduction in the tax levy.
- The District had its first full-year of local option sales and service tax (LOSST) from Sac County. LOSST revenues started in FY05 from Calhoun County, which have replaced the tax levy in the PPEL Fund. With these monies, the District will be able to fund new projects and take care of necessary expenditures in the future.
- The School Nutrition Fund was able to overcome the increase in expenditures with an increase in revenues from sales service and federal sources, with a net result of revenues exceeding expenditures by \$2,077. However, a loss on disposal of capital assets of \$2,843 caused the fund balance to decrease \$766 during the year.

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 School District.

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.

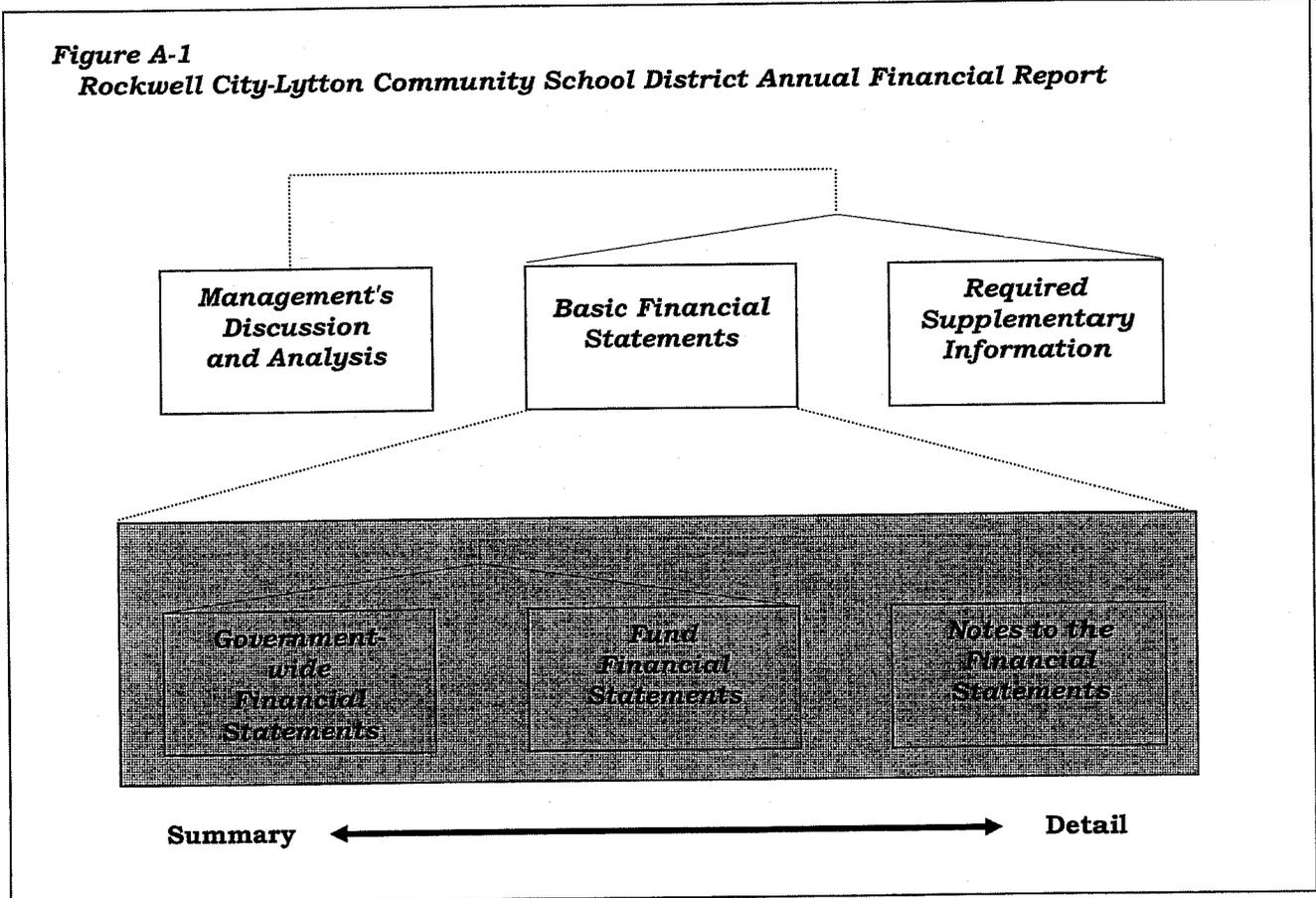


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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, 2005 compared to June 30, 2004.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Current and other assets	\$ 2,186,959	2,261,486	25,670	18,954	2,212,629	2,280,440	-2.97%
Capital assets	1,849,209	1,985,542	29,004	36,623	1,878,213	2,022,165	-7.12%
Total assets	<u>4,036,168</u>	<u>4,247,028</u>	<u>54,674</u>	<u>55,577</u>	<u>4,090,842</u>	<u>4,302,605</u>	<u>-4.92%</u>
Long-term obligations	16,982	7,961	0	0	16,982	7,961	113.31%
Other liabilities	1,455,434	1,371,595	2,077	2,214	1,457,511	1,373,809	6.09%
Total liabilities	<u>1,472,416</u>	<u>1,379,556</u>	<u>2,077</u>	<u>2,214</u>	<u>1,474,493</u>	<u>1,381,770</u>	<u>6.71%</u>
Net assets:							
Invested in capital assets, net of related debt	1,849,209	1,992,683	29,004	36,623	1,878,213	2,029,306	-7.45%
Restricted	358,300	331,665	0	0	358,300	331,665	8.03%
Unrestricted	356,243	543,124	23,593	16,740	379,836	559,864	-32.16%
Total net assets	<u>\$ 2,563,752</u>	<u>2,867,472</u>	<u>52,597</u>	<u>53,363</u>	<u>2,616,349</u>	<u>2,920,835</u>	<u>-10.42%</u>

The District's combined net assets decreased by 10.42%, or \$304,486, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of 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 \$26,635, or 8.03% over the prior year. The increase was primarily a result of the increase in the Capital Projects fund balance.

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 \$180,028, or 32.16%. This decrease in unrestricted net assets was a result of the expenditures exceeding revenues in the District's General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2005 compared to June 30, 2004.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Revenues:							
Program revenues:							
Charges for services	\$ 434,232	438,160	134,075	117,405	568,307	555,565	2.29%
Operating grants and contributions and restricted interest	569,763	516,947	96,403	90,605	666,166	607,552	9.65%
General revenues:							
Property tax	1,318,787	1,769,943	0	0	1,318,787	1,769,943	-25.49%
Local option sales and services tax	245,565	0	0	0	245,565	0	100.00%
Unrestricted state grants	1,781,424	1,459,419	0	0	1,781,424	1,459,419	22.06%
Other	15,205	21,000	42	58	15,247	21,058	-27.60%
Total revenues	4,364,976	4,205,469	230,520	208,068	4,595,496	4,413,537	4.12%
Program expenses:							
Governmental activities:							
Instructional	2,898,337	2,800,676	0	0	2,898,337	2,800,676	3.49%
Support services	1,331,341	1,327,912	0	0	1,331,341	1,327,912	0.26%
Non-instructional programs	396	421	228,443	212,299	228,839	212,720	7.58%
Other expenses	438,622	339,865	0	0	438,622	339,865	29.06%
Total expenses	4,668,696	4,468,874	228,443	212,299	4,897,139	4,681,173	4.61%
Excess(deficiency) of revenues over (under) expenses before loss on disposal of capital assets	(303,720)	(263,405)	2,077	(4,231)	(301,643)	(267,636)	12.71%
Loss on disposal of capital assets	0	0	(2,843)	0	(2,843)	0	-100.00%
Changes in net assets	(303,720)	(263,405)	(766)	(4,231)	(304,486)	(267,636)	13.77%
Beginning net assets	2,867,472	3,130,877	53,363	57,594	2,920,835	3,188,471	-8.39%
Ending net assets	\$ 2,563,752	2,867,472	52,597	53,363	2,616,349	2,920,835	-10.42%

Property tax and unrestricted state grants account for 67% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 86% of the total expenses.

Changes in revenues will be as a result of changes in student participation, whether in the regular, special or extracurricular programs. The most significant change in revenues was due to the decrease in property tax monies. Fluctuations in basic enrollment will significantly impact the

state revenues, as well as property tax revenues, keeping in mind that neither source of funding will be ever fully realized with current law and funding structure as set by the legislature.

The most significant fluctuation in expenditure levels will be caused by increased salary and benefit obligations, in large part resulting from collective bargaining agreements. With a declining enrollment comes lesser ability to fund various programs required by the state and constant evaluation of staffing needs becomes a priority.

The District makes a continual effort to be a good steward of public funds and maintains a philosophy of providing the best education possible, exploring every avenue available to fund the programs, while making certain to keep watch for services that could be merged with other programs. The District saw an overall greater increase in expenditures than in revenues, allowing for a decrease in the financial position for the year.

Governmental Activities

Revenues for governmental activities were \$4,364,976 and expenses were \$4,668,696.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 2,898,337	2,057,180
Support services	1,331,341	1,330,014
Non-instructional programs	396	396
Other expenses	438,622	277,111
Totals	<u>\$ 4,668,696</u>	<u>3,664,701</u>

- The cost financed by users of the District's programs was \$434,232.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$569,763.
- The net cost of governmental activities was financed with \$1,318,787 in local tax, \$245,565 in local option sales and services tax, \$1,781,424 in unrestricted state grants, and \$14,731 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$230,520 and expenses were \$228,443. 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 \$731,525, below last year's ending fund balances of an \$889,891.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the product of many factors.
 - An increase in federal and state revenues increased total revenues; however, a reduction in the tax levy inhibited what the increase could have been.
 - Total expenditures increased \$94,852 during FY05. Increases in costs of transportation along with other support services and the increases in employees' salaries and benefits are the primary causes of the increase in expenditures.
 - With both an increase in expenditures and revenues, the District was not able to offset their declining fund balance. The financial position of the District as of June 30, 2005 was \$625,335, a decrease of \$189,758 or 23% compared to the prior year.
- The Management Levy fund balance decreased again in FY05. With a decrease in the tax levy and an increase in insurance costs, the fund balance dropped \$36,093 to an ending balance of \$63,283.
- The Physical Plant and Equipment Levy (PPEL) fund balance took another big hit again this year. A decrease from \$94,400 to \$8,686 in fund balance is because there were no taxes levied for the PPEL Fund in FY05. The only revenue sources were a transfer from Capital Projects of \$20,000, \$459 from the sale of real property and interest income of \$121.
- The District received \$245,565 in local option sales and service tax during the year, which allowed the Capital Projects fund balance to increase from \$7,141 to \$149,818.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$53,363 at June 30, 2004 to \$52,597 at June 30, 2005, representing a decrease of approximately 1.4%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$372,417 less than budgeted revenues, a variance of 7%. The most significant variance resulted from the District receiving less in federal 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, 2005, the District had invested \$1.9 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 decrease of 7.66% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$172,408.

The original cost of the District's capital assets was \$6,787,733. Governmental funds account for \$6,724,575 with the remainder of \$63,158 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the land improvements category. The District's land improvements totaled \$680,291 at June 30, 2005, compared to \$766,958 reported at June 30, 2004. This decrease resulted from the depreciation expense taken during the current year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
	Land	\$ 92,000	92,000	0	0	92,000	92,000
Buildings	962,514	1,013,764	0	0	962,514	1,013,764	-5.32%
Land improvements	680,291	766,958	0	0	680,291	766,958	-12.74%
Machinery and equipment	114,404	112,820	29,004	36,623	143,408	149,443	-4.21%
Total	\$ 1,849,209	1,985,542	29,004	36,623	1,878,213	2,022,165	-7.66%

Long-Term Debt

At June 30, 2005, the District had long-term debt outstanding of \$16,982 in compensated absences. This represents an increase of approximately 113.3% 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.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2005	2004	
Compensated absences	\$ 16,982	7,961	113.3%

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.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding between state revenues and property taxes.

-
- The District has started to receive local option sales and service tax from SAC and Calhoun Counties. With these monies they will be able to fund new projects and take care of necessary expenditures in the future.

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 central office, 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, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 525,505	20,970	546,475
Receivables:			
Property tax:			
Delinquent	29,346	0	29,346
Succeeding year	1,428,282	0	1,428,282
Accounts	18,425	0	18,425
Due from other governments	169,997	0	169,997
Prepaid expenses	3,819	0	3,819
Inventories	11,585	4,700	16,285
Capital assets, net of accumulated depreciation(Note 4)	1,849,209	29,004	1,878,213
TOTAL ASSETS	4,036,168	54,674	4,090,842
LIABILITIES			
Accounts payable	13,226	0	13,226
Salaries and benefits payable	13,926	0	13,926
Deferred revenue:			
Succeeding year property tax	1,428,282	0	1,428,282
Other	0	2,077	2,077
Long-term liabilities(Note 5):			
Portion due within one year:			
Compensated absences	16,982	0	16,982
TOTAL LIABILITIES	1,472,416	2,077	1,474,493
NET ASSETS			
Investment in capital assets, net of related debt	1,849,209	29,004	1,878,213
Restricted for:			
Talented and gifted	82,045	0	82,045
Phase III	693	0	693
Capital projects	149,818	0	149,818
Management levy	63,283	0	63,283
Physical plant & equipment levy	8,686	0	8,686
Other special revenue purposes	53,775	0	53,775
Unrestricted	356,243	23,593	379,836
TOTAL NET ASSETS	\$ 2,563,752	52,597	2,616,349

SEE NOTES TO FINANCIAL STATEMENTS.

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Governmental activities:			
Instruction:			
Regular instruction	\$ 1,875,677	86,956	406,925
Special instruction	431,196	41,234	0
Other instruction	591,464	306,042	0
	<u>2,898,337</u>	<u>434,232</u>	<u>406,925</u>
Support services:			
Student services	138,557	0	0
Instructional staff services	119,087	0	0
Administration services	546,647	0	0
Operation and maintenance of plant services	334,021	0	0
Transportation services	193,029	0	1,327
	<u>1,331,341</u>	<u>0</u>	<u>1,327</u>
Non-instructional services:			
Food service	396	0	0
Other expenditures:			
Facilities acquisitions	139,194	0	0
AEA flowthrough	161,511	0	161,511
Depreciation(unallocated)*	137,917	0	0
	<u>438,622</u>	<u>0</u>	<u>161,511</u>
Total governmental activities	4,668,696	434,232	569,763
Business-Type activities:			
Non-instructional programs:			
Nutrition services	228,443	134,075	96,403
Total business-type activities	228,443	134,075	96,403
Total	\$ 4,897,139	568,307	666,166

General Revenues:

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

Total general revenues

Excess (deficiency) of revenues over (under) expenses
before loss on disposal of capital assets

Loss on disposal of capital assets

Changes in net assets

Net assets beginning of year

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
(1,381,796)	0	(1,381,796)
(389,962)	0	(389,962)
(285,422)	0	(285,422)
(2,057,180)	0	(2,057,180)
(138,557)	0	(138,557)
(119,087)	0	(119,087)
(546,647)	0	(546,647)
(334,021)	0	(334,021)
(191,702)	0	(191,702)
(1,330,014)	0	(1,330,014)
(396)	0	(396)
(139,194)	0	(139,194)
0	0	0
(137,917)	0	(137,917)
(277,111)	0	(277,111)
(3,664,701)	0	(3,664,701)
0	2,035	2,035
0	2,035	2,035
(3,664,701)	2,035	(3,662,666)
\$ 1,318,787	0	1,318,787
0	0	0
245,565	0	245,565
1,781,424	0	1,781,424
14,731	42	14,773
474	0	474
3,360,981	42	3,361,023
(303,720)	2,077	(301,643)
0	(2,843)	(2,843)
(303,720)	(766)	(304,486)
2,867,472	53,363	2,920,835
\$ 2,563,752	52,597	2,616,349

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	Capital Projects	Other Governmental Funds	Total
ASSETS				
Cash and pooled investments	\$ 381,445	16,761	127,299	525,505
Receivables:				
Property tax				
Delinquent	27,655	0	1,691	29,346
Succeeding year	1,338,282	0	90,000	1,428,282
Accounts	18,425	0	0	18,425
Due from other governments	36,298	133,699	0	169,997
Inventories	11,585	0	0	11,585
Prepaid expenses	3,819	0	0	3,819
TOTAL ASSETS	\$ 1,817,509	150,460	218,990	2,186,959
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 9,910	642	2,674	13,226
Salaries and benefits payable	13,354	0	572	13,926
Deferred revenue:				
Succeeding year property tax	1,338,282	0	90,000	1,428,282
Total liabilities	1,361,546	642	93,246	1,455,434
Fund balances:				
Reserved for:				
Inventories	11,585	0	0	11,585
Prepaid expenses	3,819	0	0	3,819
Talanted and gifted	82,045	0	0	82,045
Phase III	693	0	0	693
Unreserved:				
General	357,821	0	0	357,821
Capital Projects	0	149,818	0	149,818
Management Levy	0	0	63,283	63,283
Physical Plant and Equipment Levy	0	0	8,686	8,686
Other special revenue	0	0	53,775	53,775
Total fund balances	455,963	149,818	125,744	731,525
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,817,509	150,460	218,990	2,186,959

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, 2005

Total fund balances of governmental funds (page 17)	\$ 731,525
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	1,849,209
Compensated absences liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(16,982)</u>
Net assets of governmental activites (page 14)	<u>\$ 2,563,752</u>

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, 2005

	General	Capital Projects	Other Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 1,294,037	0	24,750	1,318,787
LOSST	0	245,565	0	245,565
Tuition	128,190	0	0	128,190
Other	117,071	616	201,682	319,369
Intermediate sources	1,404	0	0	1,404
State sources	2,186,895	0	23	2,186,918
Federal sources	164,269	0	0	164,269
Total revenues	<u>3,891,866</u>	<u>246,181</u>	<u>226,455</u>	<u>4,364,502</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	1,819,657	0	56,020	1,875,677
Special instruction	431,196	0	0	431,196
Other instruction	382,971	0	210,935	593,906
	<u>2,633,824</u>	<u>0</u>	<u>266,955</u>	<u>2,900,779</u>
Support services:				
Student services	138,557	0	0	138,557
Instructional staff services	119,087	0	0	119,087
Administration services	491,121	0	46,505	537,626
Operation and maintenance of plant services	332,561	0	0	332,561
Transportation services	184,196	0	9,435	193,631
	<u>1,265,522</u>	<u>0</u>	<u>55,940</u>	<u>1,321,462</u>
Non-instructional:				
Food service	396	0	0	396
Other expenditures:				
Facilities acquisitions	0	83,504	55,690	139,194
AEA flowthrough	161,511	0	0	161,511
	<u>161,511</u>	<u>83,504</u>	<u>55,690</u>	<u>300,705</u>
Total expenditures	<u>4,061,253</u>	<u>83,504</u>	<u>378,585</u>	<u>4,523,342</u>
Excess(deficiency) of revenues over(under) expenditures	(169,387)	162,677	(152,130)	(158,840)
Other financing sources:				
Transfers in	0	0	20,000	20,000
Transfers out	0	(20,000)	0	(20,000)
Sale of real property	0	0	459	459
Compensation for loss of fixed assets	15	0	0	15
Total other financing sources(uses)	<u>15</u>	<u>(20,000)</u>	<u>20,459</u>	<u>474</u>
Net change in fund balances	(169,372)	142,677	(131,671)	(158,366)
Fund balance beginning of year	625,335	7,141	257,415	889,891
Fund balance end of year	<u>\$ 455,963</u>	<u>149,818</u>	<u>125,744</u>	<u>731,525</u>

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, 2005

Net change in fund balances - total governmental funds (page 19) \$ (158,366)

*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. Amounts for capital outlay expenditures and depreciation expense in the current year are as follows:

Capital expenditures	\$ 30,300	
Depreciation expense	<u>(166,633)</u>	(136,333)

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	<u>(9,021)</u>
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Changes in net assets of governmental activities (page 16) \$ (303,720)

SEE NOTES TO FINANCIAL STATEMENTS.

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2005

	<u>School</u> <u>Nutrition</u>
ASSETS	
Cash and cash equivalents	\$ 20,970
Inventories	4,700
Capital assets, net of accumulated depreciation(Note 4)	<u>29,004</u>
TOTAL ASSETS	<u>54,674</u>
LIABILITIES	
Deferred revenues:	
Other	<u>2,077</u>
NET ASSETS	
Investment in capital assets	29,004
Unrestricted	<u>23,593</u>
TOTAL NET ASSETS	<u>\$ 52,597</u>

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, 2005

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Other local sources:	
Sale of lunches and breakfasts:	
Students	\$ 84,220
Adults	8,380
A la carte	26,410
Miscellaneous	15,065
TOTAL OPERATING REVENUES	<u>134,075</u>
OPERATING EXPENSES:	
Food service operations:	
Salaries	96,556
Benefits	14,585
Services	9,825
Supplies	101,702
Depreciation	5,775
TOTAL OPERATING EXPENSES	<u>228,443</u>
OPERATING LOSS	<u>(94,368)</u>
NON-OPERATING REVENUES:	
Interest	42
State sources	3,131
Federal sources	93,272
TOTAL NON-OPERATING REVENUES	<u>96,445</u>
Change in net assets before other financing uses	2,077
OTHER FINANCING USES	
Loss on disposal of capital assets	<u>(2,843)</u>
Change in net assets	(766)
Net assets at beginning of year	<u>53,363</u>
Net assets end of year	<u>\$ 52,597</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2005

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 118,873
Cash received from miscellaneous operating activities	15,065
Cash payments to employees for services	(111,141)
Cash payments to suppliers for goods or services	(97,239)
Net cash used in operating activities	(74,442)
Cash flows from non-capital financing activities:	
State grants received	3,131
Federal grants received	78,447
Net cash provided by non-capital financing activities	81,578
Cash flows from investing activities:	
Interest on investments	42
Net cash provided by investing activities	42
Cash flows from capital financing activities:	
Purchase of assets	(999)
Net cash used in financing activities	(999)
Net increase in cash and cash equivalents	6,179
Cash and cash equivalents at beginning of year	14,791
Cash and cash equivalents at end of year	\$ 20,970
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (94,368)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	14,825
Depreciation	5,775
Increase in inventories	(537)
Decrease in deferred revenue	(137)
Net cash used in operating activities	\$ (74,442)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 20,970
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
During the year ended June 30, 2005, the District received Federal commodities valued at \$14,825.	

SEE NOTES TO FINANCIAL STATEMENTS.

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2005

	<u>Agency</u>
ASSETS	
Cash and investments	\$ 1,010
Accounts receivable	<u>96</u>
TOTAL ASSETS	<u>\$ 1,106</u>
LIABILITIES	
Due to other groups	<u>\$ 1,106</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

(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, 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 Capital Projects Fund is used to account for all resources used in the acquisition of capital facilities.

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, 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, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

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

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

Capital Assets - Capital assets, which include property, 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 Lives (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 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, 2005. 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, 2005, disbursements in the other expenditures functional program area exceeded the amount budgeted and the District exceeded its General Fund unspent authorized budget.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2005 were entirely covered by federal depository insurance or 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 as follows:

	Amortized Cost
Diversified portfolio	\$ 371,430

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) Transfers

The detail of transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
Special Revenue, Physical Plant and Equipment Levy	Capital Projects	\$ 20,000

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, 2005 is as follows:

	Balance Beginning of Year	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	2,577,693	0	0	2,577,693
Machinery and equipment	904,065	30,300	53,263	881,102
Total capital assets being depreciated	6,655,538	30,300	53,263	6,632,575
Less accumulated depreciation for:				
Buildings	2,160,016	51,250	0	2,211,266
Land improvements	1,810,735	86,667	0	1,897,402
Machinery and equipment	791,245	28,716	53,263	766,698
Total accumulated depreciation	4,761,996	166,633	53,263	4,875,366
Total capital assets being depreciated, net	1,893,542	(136,333)	0	1,757,209
Governmental activities capital assets, net	\$ 1,985,542	(136,333)	0	1,849,209

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 65,911	999	3,752	63,158
Less accumulated depreciation	29,288	5,775	909	34,154
Business-type activities capital assets, net	<u>\$ 36,623</u>	<u>(4,776)</u>	<u>2,843</u>	<u>29,004</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Other	\$ 1,558
Support services:	
Operation and maintenance of plant services	1,460
Transportation	25,698
	<u>28,716</u>
Unallocated depreciation	<u>137,917</u>
Total governmental activities depreciation expense	<u>\$ 166,633</u>
Business-type activities:	
Food services	<u>\$ 5,775</u>

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Compensated absences	\$ 7,961	16,982	7,961	16,982	16,982

(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, 2005, 2004, and 2003 were \$135,782, \$124,072, and \$141,539 respectively, equal to the required contributions for each year.

(7) Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding

employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs..

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members continuing membership in the Association had their deficit recovery assessment included in their annual premium. The total amount of the deficit recoveries of current members is estimated to \$2.2 million. The District's share of this assessment is going to be 2% of the 2004-05 and 2005-06 premiums. As of June 30, 2005 the District had paid \$6,684 of the assessment. The remainder if the 2% assessment will be paid on a monthly basis along with the 2005-2006 premiums. Since the program is now fully insured, there will be no additional assessments due to claims exceeding premiums charged to members.

The District's contributions, which include deficit recovery assessments, 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, 2005 were \$334,205.

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.

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

(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 \$161,511 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) 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, 2005, disbursements in the other expenditures functional program area exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY 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, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual
Receipts:			
Local sources	\$ 1,882,595	133,980	2,016,575
Intermediate sources	1,404	0	1,404
State sources	2,188,012	3,131	2,191,143
Federal sources	192,409	93,272	285,681
Total receipts	<u>4,264,420</u>	<u>230,383</u>	<u>4,494,803</u>
Disbursements:			
Instruction	2,888,984	0	2,888,984
Support services	1,346,245	0	1,346,245
Non-instructional programs	396	224,204	224,600
Other expenditures	293,552	0	293,552
Total disbursements	<u>4,529,177</u>	<u>224,204</u>	<u>4,753,381</u>
Excess(deficiency) of receipts over(under) disbursements	(264,757)	6,179	(258,578)
Other financing sources, net	474	0	474
Excess(deficiency) of receipts and other financing sources over(under) disbursements	(264,283)	6,179	(258,104)
Balance beginning of year	<u>789,788</u>	<u>14,791</u>	<u>804,579</u>
Balance end of year	<u>\$ 525,505</u>	<u>20,970</u>	<u>546,475</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Budgeted Amounts		Final to Actual Variance - Positive (Negative)
Original	Final	
1,820,202	1,820,202	196,373
0	0	1,404
2,397,318	2,397,318	(206,175)
649,700	649,700	(364,019)
<u>4,867,220</u>	<u>4,867,220</u>	<u>(372,417)</u>
3,116,676	3,116,676	227,692
1,950,000	1,950,000	603,755
244,000	244,000	19,400
254,676	254,676	(38,876)
<u>5,565,352</u>	<u>5,565,352</u>	<u>811,971</u>
(698,132)	(698,132)	439,554
500	500	26
(697,632)	(697,632)	439,580
1,068,169	1,068,169	(263,590)
<u>370,537</u>	<u>370,537</u>	<u>175,990</u>

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE-
 BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2005

	Governmental Fund Types		
	Accrual		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 4,264,420	100,082	4,364,502
Expenses	4,529,177	(5,835)	4,523,342
Net	(264,757)	105,917	(158,840)
Other financing sources, net	474	0	474
Beginning fund balances	789,788	100,103	889,891
Ending fund balances	\$ 525,505	206,020	731,525

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 230,383	137	230,520
Expenses	224,204	4,239	228,443
Net	6,179	(4,102)	2,077
Other financing sources, net	0	(2,843)	(2,843)
Beginning fund balances	14,791	38,572	53,363
Ending fund balances	\$ 20,970	31,627	52,597

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except 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 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 that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2005, disbursements in the other expenditures functional program area exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2005

	Management Levy	Physical Plant and Equipment Levy	Student Activity	Total Nonmajor Governmental Funds
ASSETS				
Cash and pooled investments	\$ 62,896	8,250	56,153	127,299
Receivables:				
Property tax:				
Current year delinquent	1,255	436	0	1,691
Succeeding year	90,000	0	0	90,000
Accounts	0	0	0	0
TOTAL ASSETS	\$ 154,151	8,686	56,153	218,990
LIABILITIES AND FUND EQUITY				
Liabilities				
Accounts payable	\$ 296	0	2,378	2,674
Salary and benefits payable	572	0	0	572
Deferred revenues:				
Succeeding year	90,000	0	0	90,000
TOTAL LIABILITIES	90,868	0	2,378	93,246
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	63,283	8,686	53,775	125,744
Total fund balances	63,283	8,686	53,775	125,744
TOTAL LIABILITIES AND FUND EQUITY	\$ 154,151	8,686	56,153	218,990

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, 2005

	Management Levy	Physical Plant and Equipment Levy	Student Activity	Total Nonmajor Governmental Funds
REVENUES:				
Local sources:				
Local tax	\$ 24,750	0	0	24,750
Other	915	121	200,646	201,682
State sources	23	0	0	23
TOTAL REVENUES	<u>25,688</u>	<u>121</u>	<u>200,646</u>	<u>226,455</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	5,416	50,604	0	56,020
Other instruction	415	0	210,520	210,935
	<u>5,831</u>	<u>50,604</u>	<u>210,520</u>	<u>266,955</u>
Student services:				
Administration services	46,505	0	0	46,505
Transportation services	9,435	0	0	9,435
	<u>55,940</u>	<u>0</u>	<u>0</u>	<u>55,940</u>
Other expenditures:				
Facilities acquisitions	0	55,690	0	55,690
TOTAL EXPENDITURES	<u>61,771</u>	<u>106,294</u>	<u>210,520</u>	<u>378,585</u>
Excess of revenues over expenditures	(36,083)	(106,173)	(9,874)	(152,130)
Other financing sources:				
Transfers in	0	20,000	0	20,000
Sale of real property	0	459	0	459
Total other financing sources	<u>0</u>	<u>20,459</u>	<u>0</u>	<u>20,459</u>
Net change in fund balances	(36,083)	(85,714)	(9,874)	(131,671)
Fund balance beginning of year	99,366	94,400	63,649	257,415
Fund balance end of year	<u>\$ 63,283</u>	<u>8,686</u>	<u>53,775</u>	<u>125,744</u>

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, 2005

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Athletics	\$ 5,662	39,294	39,552	5,404
Drama	1,366	1,255	1,398	1,223
Speech	918	7	433	492
Musical	4,699	961	3,278	2,382
Band	406	2,513	2,483	436
Band uniforms	194	2	80	116
Band trip	4,646	12,508	6,677	10,477
Chorus	0	613	382	231
Swing choir	98	1	0	99
Choir trip	3,204	8,094	11,298	0
Cheerleaders	192	202	145	249
Drill team	1,536	4,948	6,192	292
Drill team trip	1,404	3,533	203	4,734
Boys basketball	0	6,972	6,058	914
Football	1,328	2,137	2,642	823
Varsity gold football	0	1,748	475	1,273
Baseball	171	264	376	59
Wrestling	274	0	270	4
Girls basketball	989	1,093	1,310	772
Volleyball	653	678	737	594
Softball	301	293	288	306
Class of 2003	176	0	176	0
Class of 2004	1,207	0	1,101	106
Class of 2005	3,012	5,515	6,152	2,375
Class of 2006	3,015	11,506	12,899	1,622
Class of 2007	891	2,840	1,613	2,118
Class of 2008	0	486	55	431
FFA	16,637	38,856	49,013	6,480
FLA	513	3,837	3,688	662
Academic society	37	1	12	26
Yearbook	1,017	7,219	8,236	0
Art club	599	2	490	111
Spanish club	58	1	0	59
French club	2	0	0	2
Student council	566	10,137	10,528	175
S.O.D.A.	63	0	63	0
Revolving	1	10,578	10,519	60
Target project	534	0	534	0
FFA savings	737	26	0	763
MS-athletics	4,278	17,924	16,498	5,704
MS-drama	0	239	82	157
MS-music	222	605	770	57
MS-yearbook	128	1,387	0	1,515
MS-student council	1,915	2,371	3,814	472
Total	\$ 63,649	200,646	210,520	53,775

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, 2005

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
High School Donations				
ASSETS				
Cash and investments	\$ 1,237	0	1,237	0
LIABILITIES				
Due to other groups	\$ 1,237	0	1,237	0
Elementary Mini-Society				
ASSETS				
Cash and investments	\$ 19	0	19	0
LIABILITIES				
Due to other groups	\$ 19	0	19	0
Middle School Raffle				
ASSETS				
Cash and investments	\$ 640	11	651	0
LIABILITIES				
Due to other groups	\$ 640	11	651	0
Middle School Mini-Society				
ASSETS				
Cash and investments	\$ 115	0	115	0
LIABILITIES				
Due to other groups	\$ 115	0	115	0
Middle School Puppet				
ASSETS				
Cash and investments	\$ 9	0	9	0
LIABILITIES				
Due to other groups	\$ 9	0	9	0
Prairie Project				
ASSETS				
Cash and investments	\$ 25	0	25	0
LIABILITIES				
Due to other groups	\$ 25	0	25	0

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
YEAR ENDED JUNE 30, 2005

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
High School Employee				
ASSETS				
Cash and investments	\$ 273	548	738	83
LIABILITIES				
Due to other groups	\$ 273	548	738	83
Middle School Employee				
ASSETS				
Cash and investments	\$ (937)	1,425	90	398
LIABILITIES				
Due to other groups	\$ (937)	1,425	90	398
Elementary Employee				
ASSETS				
Cash and investments	\$ 628	330	456	502
Accounts receivable	0	96	0	96
TOTAL ASSETS	\$ 628	426	456	598
LIABILITIES				
Due to other groups	\$ 628	426	456	598
Other Accounts				
ASSETS				
Cash and investments	\$ 0	27	0	27
LIABILITIES				
Due to other groups	\$ 0	27	0	27
Totals - All Agency Funds				
ASSETS				
Cash and investments	\$ 2,009	2,341	3,340	1,010
Accounts receivable	0	96	0	96
	\$ 2,009	2,437	3,340	1,106
LIABILITIES				
Due to other groups	\$ 2,009	2,437	3,340	1,106

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,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 1,318,787	1,762,806	1,856,450	1,813,153
LOSST	245,565	7,137	0	0
Tuition	128,190	149,258	192,333	164,933
Other	319,369	306,494	367,067	266,747
Intermediate sources	1,404	0	8,876	0
State sources	2,186,918	1,835,604	1,760,030	1,828,523
Federal sources	164,269	140,762	148,024	107,825
Total	\$ 4,364,502	4,202,061	4,332,780	4,181,181
Expenditures:				
Instruction:				
Regular instruction	\$ 1,875,677	1,816,424	1,750,949	1,761,136
Special instruction	431,196	476,273	447,655	401,283
Other instruction	593,906	509,610	529,842	417,472
Support services:				
Student services	138,557	156,799	147,733	169,411
Instructional staff services	119,087	123,173	16,226	150,775
Administration services	537,626	514,024	591,083	455,138
Operation and maintenance of plant services	332,561	326,541	346,380	292,737
Transportation services	193,631	238,040	161,720	271,502
Non-instructional:				
Food service	396	421	2,510	1,472
Other expenditures:				
Facilities acquisitions	139,194	157,364	48,303	138,108
AEA flow-through	161,511	155,888	164,761	166,472
Total	\$ 4,523,342	4,474,557	4,207,162	4,225,506

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

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 the
Rockwell City-Lytton Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Rockwell City-Lytton Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated December 15, 2005. We conducted our 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 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 an opinion 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 Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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-05 is a material weakness.

Compliance and Other Matters

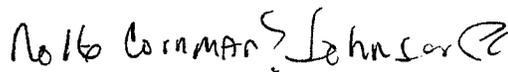
As part of obtaining reasonable assurance about whether Rockwell City-Lytton Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements non-compliance with which 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 our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain

immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

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

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 Rockwell City-Lytton 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.

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.

December 15, 2005

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

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

REPORTABLE CONDITIONS:

I-A-05 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-05 Grants - We noted during our audit, that when expenditures for specific projects were posted; it appeared that the expenses were not always properly posted to those projects.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting for Iowa LEAs and AEAs. The proper coding also allows the district to maintain accountability of the grants by matching the revenues to the expenditures.

Response - The District is attempting to correct this matter.

Conclusion - Response accepted.

ROCKWELL CITY-LYTTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS
 YEAR ENDED JUNE 30, 2005

Part II: Other Findings Related to Statutory Reporting

II-A-05 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

II-B-05 Certified Budget - District disbursements for the year ended June 30, 2005, exceeded the amount budgeted in the other expenditures functional program area. The District also exceeded its unspent authorized budget for the year ended June 30, 2005.

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 will amend the budget in the future, if necessary.

Conclusion - Response accepted.

II-C-05 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-05 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-05 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 Grodahl, Board Member Owner of Agents, Inc.	Property insurance (bid)	\$53,939

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-05 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-05 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-H-05 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-I-05 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-05 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.