

**ROCK VALLEY  
COMMUNITY SCHOOL DISTRICT**

**Rock Valley, Iowa**

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**Independent Auditor's Reports  
Basic Financial Statements and Supplemental Information  
Schedule of Findings**

**June 30, 2006**

ROCK VALLEY COMMUNITY SCHOOL DISTRICT

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ROCK VALLEY COMMUNITY SCHOOL DISTRICT

OFFICIALS

JUNE 30, 2006

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>BOARD OF EDUCATION</u> <u>(Before September 2005 Election)</u>		
Kevin Boeve	President	September 2007
Brian Nelson	Vice President	September 2005
Mary Pat Miller	Board Member	September 2005
Gary Miller	Board Member	September 2005
Al Vermeer	Board Member	September 2006

BOARD OF EDUCATION  
(After September 2005 Election)

Kevin Boeve	President	September 2007
Brian Nelson	Vice President	September 2008
Mary Pat Miller	Board Member	September 2008
Gary Miller	Board Member	September 2006
Al Vermeer	Board Member	September 2006

SCHOOL OFFICIALS

Dennis Mozer	Superintendent	June 30, 2006
Randy Taylor	Board Secretary	June 30, 2006
Maureen McGill Hoogeveen	Attorney	Indefinite



KING, REINSCH, PROSSER & CO., L.L.P.  
Certified Public Accountants

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Education of  
Rock Valley 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 Rock Valley Community School District (the District), Rock Valley, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with accounting standards generally accepted in the United States of America 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 opinion.

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 the District at June 30, 2006 and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2006, on our consideration of the 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. 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.



KING, REINSCH, PROSSER & CO., L.L.P.  
Certified Public Accountants

To the Board of Education of  
Rock Valley Community School District

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 30 through 32 are not required parts of the basic financial statements, but are supplementary 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 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 the 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, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in 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. The supplementary information included in Schedules 1 through 4 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

November 22, 2006  
Sioux City, Iowa

*King, Reinsch, Prosser & Co., L.L.P.*

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Rock Valley Community School District (the District) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2006 Financial Highlights**

- General Fund revenues increased from \$4,448,013 in fiscal 2005 to \$4,822,916 in fiscal 2006, while General Fund expenditures increased from \$4,561,325 in fiscal 2005 to \$4,577,638 in fiscal 2006. The District's General Fund balance increased from \$889,651 in fiscal 2005 to \$1,117,299 in fiscal 2006, a 26 percent increase.
- The increase in General Fund revenues was primarily attributable to various state sources including teacher compensation monies, Medicaid and Part B (special education) funding. The District also experienced increased revenue from higher property tax valuations and more open enrollments. The increase in expenditures was due primarily to increased salaries, although the increase was held in check due to three retirements with replacement of only two and one-half positions at beginning teacher salaries.

### **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 the 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 the District's operations in more detail than the government-wide statements by providing information about the most significant funds.

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

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

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds.

## **Reporting the District's Financial Activities**

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

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

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

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

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

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

The District has two kinds of funds.

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

The District's governmental funds include the General Fund, Management Levy, Physical Plant and Equipment Levy (PPEL) Fund, Student Activity, Debt Service and Capital Projects Fund.

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

2. **Proprietary Funds** - Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Fund, one type of proprietary fund, are the same as its business type activities, but provides more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

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

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

### **Government-Wide Financial Analysis**

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

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

	Governmental Activities		Business Type Activities		Total District		Total Percentage Change
	2006	2005	2006	2005	2006	2005	2005-2006
Current and other assets	\$ 11,832	\$ 4,529	\$ 134	\$ 124	\$ 11,966	\$ 4,653	157.2%
Capital assets, net	3,083	2,156	38	42	3,121	2,198	42.0%
Total assets	\$ 14,915	\$ 6,685	\$ 172	\$ 166	\$ 15,087	\$ 6,851	120.2%
Long-term liabilities	\$ 7,086	\$ 91	\$ -	\$ -	\$ 7,086	\$ 91	7,686.8%
Other liabilities	2,481	1,817	3	3	2,484	1,820	36.5%
Total liabilities	\$ 9,567	\$ 1,908	\$ 3	\$ 3	\$ 9,570	\$ 1,911	400.8%
Net assets:							
Invested in capital assets, net of related debt	\$ 2,059	\$ 2,156	\$ 38	\$ 42	\$ 2,097	\$ 2,198	(4.6)%
Restricted	2,172	1,732	-	-	2,172	1,732	25.4%
Unrestricted	1,117	889	131	121	1,248	1,010	23.6%
Total net assets	\$ 5,348	\$ 4,777	\$ 169	\$ 163	\$ 5,517	\$ 4,940	11.7%

The largest portion of the District's net assets is the invested in capital assets (e.g., land, buildings and equipment). Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements.

Figure A-2 shows the change in net assets for the years ended June 30, 2006 and 2005.

Figure A-2 (In Thousands)  
Changes in Net Assets

	Governmental Activities		Business Type Activities		Total District		Total Percentage Change
	2006	2005	2006	2005	2006	2005	2005-2006
<b>Revenues:</b>							
<b>Program revenues:</b>							
Charges for services	\$ 867	\$ 776	\$ 146	\$ 150	\$ 1,013	\$ 926	9.4%
Operating grants, contributions and restricted interest	779	658	143	119	922	777	18.7%
<b>General revenues:</b>							
Property tax	1,954	1,996	-	-	1,954	1,996	(2.1)%
Unrestricted state grants	1,825	1,743	-	-	1,825	1,743	4.7%
Unrestricted investment earnings	357	82	5	3	362	85	325.9%
Other	3	1	-	-	3	1	200.0%
<b>Total revenues</b>	<b>\$ 5,785</b>	<b>\$ 5,256</b>	<b>\$ 294</b>	<b>\$ 272</b>	<b>\$ 6,079</b>	<b>\$ 5,528</b>	<b>10.0%</b>
<b>Program expenses:</b>							
Instruction	\$ 3,498	\$ 3,421	\$ -	\$ -	\$ 3,498	\$ 3,421	2.3%
Support services	1,359	1,263	-	-	1,359	1,263	7.6%
Non-instructional programs	-	-	289	276	289	276	4.7%
Other expenses	356	178	-	-	356	178	100.0%
<b>Total expenses</b>	<b>\$ 5,213</b>	<b>\$ 4,862</b>	<b>\$ 289</b>	<b>\$ 276</b>	<b>\$ 5,502</b>	<b>\$ 5,138</b>	<b>7.1%</b>
<b>Change in net assets</b>	<b>\$ 572</b>	<b>\$ 394</b>	<b>\$ 5</b>	<b>\$ (4)</b>	<b>\$ 577</b>	<b>\$ 390</b>	<b>47.9%</b>

Property tax and unrestricted state grants account for 62.1 percent of the total revenue (67.6 percent in 2005). The District's expenses primarily relate to instruction and support services, which account for 88.3 percent of the total expenses (91.2 percent in 2005).

Governmental Activities - Revenues for governmental activities were \$5,784,650 and expenses were \$5,213,172.

The following table presents the total and net cost of the District's major governmental activities for the years ended June 30, 2006 and 2005.

Figure A-3 (In Thousands)  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	Percent Change			Percent Change		
	2006	2005	2005-2006	2006	2005	2005-2006
Instruction	\$ 3,498	\$ 3,421	2.3%	\$ 2,115	\$ 2,235	(5.4)%
Support services	1,359	1,263	7.6%	1,284	1,193	7.6%
Other expenses	356	178	100.0%	168	-	100.0%
<b>Totals</b>	<b>\$ 5,213</b>	<b>\$ 4,862</b>	<b>7.2%</b>	<b>\$ 3,567</b>	<b>\$ 3,428</b>	<b>4.1%</b>

- The cost financed by users of the District’s programs was \$867,232 (\$775,841 in 2005).
- Federal and state governments subsidized certain programs with grants and contributions totaling \$778,832 (\$658,345 in 2005).
- The net cost of governmental activities was financed with \$1,954,019 in property and other taxes (\$1,995,560 in 2005) and \$1,824,786 in unrestricted state grants (\$1,743,356 in 2005).

*Business Type Activities* - Revenues for business type activities were \$294,507 (\$272,202 in 2005) and expenses were \$288,896 (\$276,067 in 2005). The District’s business type activities consist of the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

**Governmental Fund Analysis**

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$9,520,016, above last year’s ending fund balances of \$2,712,522. The District’s proprietary fund reported end of year net assets of \$168,397, above last year's ending net assets of \$162,786.

**Governmental Fund Highlights**

The District’s General Fund maintains a strong financial position with \$1,117,299 in its fund balance. The General Fund balance increased \$227,648 from last year due primarily to increased funding from state sources, property taxes and open enrollment revenue. Expenditures increased only slightly due to salary increases being offset by the retirement of three long time employees and replaced by two and one-half beginning salaries.

The Capital Projects Fund was created in 2004 as the result of a Sioux County voter-approved one percent local sales and services tax for the period January 1, 2004 through December 31, 2013. The funds generated will be used for construction, repairs and/or remodeling of school property.

The Capital Projects Fund Balance increased \$6,654,837 during the year which primarily represents the difference between the proceeds of General Obligation School Bonds and construction related expenditures during the year.

### Proprietary Fund Highlights

Revenues for business type activities were \$294,507 and expenses were \$288,896. The District's business type activities included the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income.

### Budgetary Highlights

The District's actual receipts were \$7,292,459 more than budgeted receipts due primarily to excluding the expected bond proceeds from the budget. Excluding this factor, the District's actual receipts were \$280,613 more than budgeted due primarily to over estimating revenues from local sources.

The District's actual disbursements were less than budget due primarily to under spending of all expenditure budgets.

The District does attempt to budget as closely as possible to what management believes actual receipts and expenditures will be. Ideally, management attempts to exceed all revenue budgets and under spend all expenditure budgets.

### Capital Assets and Debt Administration

Capital Assets - At June 30, 2006, the District had invested \$3,120,898, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-4) More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$189,994.

The original cost of the District's capital assets was \$6,814,836. Governmental funds account for \$6,752,588, with the remainder of \$62,248 accounted for in the Proprietary, School Nutrition Fund.

Figure A-4 (In Thousands)  
Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total District		Percent
	2006	2005	2006	2005	2006	2005	Change
Land	\$ 53	\$ 53	\$ -	\$ -	\$ 53	\$ 53	0.0%
Land improvements	176	199	-	-	176	199	(11.6)%
Construction in progress	1,111	50	-	-	1,111	50	2,122.0%
Buildings and improvements	1,187	1,245	-	-	1,187	1,245	(4.6)%
Vehicles	234	255	-	-	234	255	(8.2)%
Machinery and equipment	322	354	38	42	360	396	(9.0)%
Totals	\$ 3,083	\$ 2,156	\$ 38	\$ 42	\$ 3,121	\$ 2,198	42.0%

Long-Term Debt - At June 30, 2006, the District had \$136,060 early retirement payable and \$6,950,000 bonds payable. Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

### **Economic Factors Bearing on the District's Future**

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

Effective October 5, 2005, the District issued \$6,950,000 General Obligation School Bonds for the purpose of the construction of a new elementary facility, library and reconstruction of existing junior/senior high school rooms to accommodate a middle school for grades 6-8. The bonds will be repaid over a period of 20 years using proceeds from local option sales tax and a debt service tax levy.

The District is also planning on using \$750,000 from the PPEL fund and \$331,000 from the Capital Projects Fund over the next several years to complete the project.

### **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 Randy Taylor, Board Secretary, Rock Valley Community School District, 1712 20th Avenue, Rock Valley, Iowa 51247.

## BASIC FINANCIAL STATEMENTS

## ROCK VALLEY COMMUNITY SCHOOL DISTRICT

## STATEMENT OF NET ASSETS

JUNE 30, 2006

	<u>Governmental</u>	<u>Business Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
<u>ASSETS</u>			
Cash and cash equivalents	\$ 9,329,474	\$ 121,214	\$ 9,450,688
Receivables:			
Property tax:			
Current year	22,498	-	22,498
Succeeding year	2,041,296	-	2,041,296
Accounts	33,793	1,422	35,215
Accrued interest	70,986	-	70,986
Due from other funds	3,090	-	3,090
Due from other governments	321,345	-	321,345
Inventories	9,497	11,540	21,037
Capital assets, net of accumulated depreciation	<u>3,083,440</u>	<u>37,458</u>	<u>3,120,898</u>
 Total assets	 <u>\$ 14,915,419</u>	 <u>\$ 171,634</u>	 <u>\$ 15,087,053</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 182,201	\$ -	182,201
Salaries and benefits payable	74,439	-	74,439
Due to other funds	3,090	-	3,090
Accrued interest	168,942	-	168,942
Deferred revenue - succeeding year property tax	2,041,296	-	2,041,296
Deferred revenue - other	10,937	3,237	14,174
Long-term liabilities:			
Portion due within one year:			
Early retirement	30,760	-	30,760
General obligation capital loan notes	50,000	-	50,000
Portion due after one year:			
Early retirement	105,300	-	105,300
General obligation capital loan notes	<u>6,900,000</u>	<u>-</u>	<u>6,900,000</u>
Total liabilities	<u>\$ 9,566,965</u>	<u>\$ 3,237</u>	<u>\$ 9,570,202</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	\$ 2,059,332	\$ 37,458	2,096,790
Restricted for:			
Management levy	290,098	-	290,098
Physical plant and equipment levy	706,847	-	706,847
Other special revenue purposes	157,418	-	157,418
Capital projects	1,014,370	-	1,014,370
Debt service	3,090	-	3,090
Unrestricted	<u>1,117,299</u>	<u>130,939</u>	<u>1,248,238</u>
Total net assets	<u>\$ 5,348,454</u>	<u>\$ 168,397</u>	<u>\$ 5,516,851</u>
 Total liabilities and net assets	 <u>\$ 14,915,419</u>	 <u>\$ 171,634</u>	 <u>\$ 15,087,053</u>

ROCK VALLEY COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Service</u>	<u>Operating Grants and Contributions</u>
<b>FUNCTIONS/PROGRAMS:</b>			
Governmental activities:			
Instruction:			
Regular instruction	\$ 2,371,752	\$ 604,131	\$ 403,371
Special instruction	617,526	70,658	85,956
Other instruction	<u>509,212</u>	<u>192,443</u>	<u>26,928</u>
	<u>\$ 3,498,490</u>	<u>\$ 867,232</u>	<u>\$ 516,255</u>
Support services:			
Student services	\$ 194,108	\$ -	\$ -
Instructional staff services	78,188	-	-
Administration services	495,116	-	-
Operation and maintenance of plant services	409,306	-	-
Transportation services	<u>182,395</u>	-	<u>74,704</u>
	<u>\$ 1,359,113</u>	<u>\$ -</u>	<u>\$ 74,704</u>
Other expenses:			
Long-term debt interest	\$ 167,696	\$ -	\$ -
AEA flow through	<u>187,873</u>	-	<u>187,873</u>
	<u>\$ 355,569</u>	<u>\$ -</u>	<u>\$ 187,873</u>
Total governmental activities	<u>\$ 5,213,172</u>	<u>\$ 867,232</u>	<u>\$ 778,832</u>
Business type activities:			
Non-instructional programs:			
Food service operations	<u>\$ 288,896</u>	<u>\$ 145,958</u>	<u>\$ 143,444</u>
Total business type activities	<u>\$ 288,896</u>	<u>\$ 145,958</u>	<u>\$ 143,444</u>
Total	<u>\$ 5,502,068</u>	<u>\$ 1,013,190</u>	<u>\$ 922,276</u>
<b>GENERAL REVENUES:</b>			
Property and other tax levied for:			
General purposes			
Capital projects (local option sales tax)			
Physical plant and equipment levy			
Unrestricted state grants			
Unrestricted investment earnings			
Sale of equipment			
Other			
Total general revenues			
Change in net assets			
Net assets beginning of year			
Net assets end of year			

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (1,364,250)	\$ -	\$ (1,364,250)
(460,912)	-	(460,912)
<u>(289,841)</u>	<u>-</u>	<u>(289,841)</u>
<u>\$ (2,115,003)</u>	<u>\$ -</u>	<u>\$ (2,115,003)</u>
\$ (194,108)	\$ -	\$ (194,108)
(78,188)	-	(78,188)
(495,116)	-	(495,116)
(409,306)	-	(409,306)
<u>(107,691)</u>	<u>-</u>	<u>(107,691)</u>
<u>\$ (1,284,409)</u>	<u>\$ -</u>	<u>\$ (1,284,409)</u>
\$ (167,696)	\$ -	\$ (167,696)
-	-	-
<u>\$ (167,696)</u>	<u>\$ -</u>	<u>\$ (167,696)</u>
<u>\$ (3,567,108)</u>	<u>\$ -</u>	<u>\$ (3,567,108)</u>
\$ -	\$ 506	\$ 506
<u>\$ -</u>	<u>\$ 506</u>	<u>\$ 506</u>
<u>\$ (3,567,108)</u>	<u>\$ 506</u>	<u>\$ (3,566,602)</u>
\$ 1,501,246	\$ -	\$ 1,501,246
302,496	-	302,496
150,277	-	150,277
1,824,786	-	1,824,786
356,734	5,105	361,839
1,767	-	1,767
<u>1,280</u>	<u>-</u>	<u>1,280</u>
<u>\$ 4,138,586</u>	<u>\$ 5,105</u>	<u>\$ 4,143,691</u>
\$ 571,478	\$ 5,611	\$ 577,089
<u>4,776,976</u>	<u>162,786</u>	<u>4,939,762</u>
<u>\$ 5,348,454</u>	<u>\$ 168,397</u>	<u>\$ 5,516,851</u>

## ROCK VALLEY COMMUNITY SCHOOL DISTRICT

## BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2006

<u>ASSETS</u>	<u>General</u>	<u>Management Levy</u>	<u>Physical Plant and Equipment Levy</u>	<u>Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
Cash and pooled investments	\$ 1,020,714	\$ 427,230	\$ 692,604	\$ 7,044,996	\$ 143,930	\$ 9,329,474
Receivables:						
Property tax:						
Current year	20,698	-	1,800	-	-	22,498
Succeeding year	1,421,873	52,055	154,607	-	412,761	2,041,296
Accounts	33,079	-	-	-	714	33,793
Accrued interest	33,117	-	12,443	20,410	5,016	70,986
Due from other funds	-	-	-	-	3,090	3,090
Due from other governments	270,238	-	-	51,107	-	321,345
Inventory	-	-	-	-	9,497	9,497
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 2,799,719</u>	<u>\$ 479,285</u>	<u>\$ 861,454</u>	<u>\$ 7,116,513</u>	<u>\$ 575,008</u>	<u>\$ 11,831,979</u>
 <u>LIABILITIES AND FUND BALANCES</u>						
Liabilities:						
Accounts payable	\$ 176,243	\$ -	\$ -	\$ 4,219	\$ 1,739	\$ 182,201
Salaries and benefits payable	73,367	1,072	-	-	-	74,439
Due to other funds	-	-	-	3,090	-	3,090
Deferred revenue:						
Succeeding year property tax	1,421,873	52,055	154,607	-	412,761	2,041,296
Deferred revenue - other	10,937	-	-	-	-	10,937
Total liabilities	<u>\$ 1,682,420</u>	<u>\$ 53,127</u>	<u>\$ 154,607</u>	<u>\$ 7,309</u>	<u>\$ 414,500</u>	<u>\$ 2,311,963</u>
Fund balances:						
Reserved for debt service	\$ -	\$ -	\$ -	\$ -	\$ 3,090	\$ 3,090
Unreserved	1,117,299	426,158	706,847	7,109,204	157,418	9,516,926
Total fund balances	<u>\$ 1,117,299</u>	<u>\$ 426,158</u>	<u>\$ 706,847</u>	<u>\$ 7,109,204</u>	<u>\$ 160,508</u>	<u>\$ 9,520,016</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities and fund balances	<u>\$ 2,799,719</u>	<u>\$ 479,285</u>	<u>\$ 861,454</u>	<u>\$ 7,116,513</u>	<u>\$ 575,008</u>	<u>\$ 11,831,979</u>

ROCK VALLEY COMMUNITY SCHOOL DISTRICT

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS

TO THE STATEMENT OF NET ASSETS

JUNE 30, 2006

Total fund balances of governmental funds	\$ 9,520,016
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	3,083,440
Long-term liabilities, including bonds payable and early-retirement, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(7,086,060)
Accrued interest payable on long-term debt is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	<u>(168,942)</u>
Net assets of governmental activities	<u>\$ 5,348,454</u>

## ROCK VALLEY COMMUNITY SCHOOL DISTRICT

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -

## GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2006

	General	Management Levy	Physical Plant and Equipment Levy	Capital Projects	Nonmajor Special Revenue	Total
<b>Revenues:</b>						
Local sources:						
Local tax	\$ 1,501,246	\$ -	\$ 150,277	\$ 302,496	\$ -	\$ 1,954,019
Tuition	548,739	-	-	-	-	548,739
Other	166,360	-	72,511	235,745	200,611	675,227
State sources	2,378,930	-	94	-	-	2,379,024
Federal sources	225,874	-	-	-	-	225,874
Total revenues	<u>\$ 4,821,149</u>	<u>\$ -</u>	<u>\$ 222,882</u>	<u>\$ 538,241</u>	<u>\$ 200,611</u>	<u>\$ 5,782,883</u>
<b>Expenditures:</b>						
Current:						
Instruction:						
Regular instruction	\$ 2,201,180	\$ 46,541	\$ -	\$ -	\$ -	\$ 2,247,721
Special instruction	594,036	-	-	-	-	594,036
Other instruction	287,504	-	-	-	203,367	490,871
	<u>\$ 3,082,720</u>	<u>\$ 46,541</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 203,367</u>	<u>\$ 3,332,628</u>
Support services:						
Student services	\$ 213,440	\$ -	\$ -	\$ -	\$ -	\$ 213,440
Instructional staff services	75,214	-	-	-	-	75,214
Administration services	476,282	-	-	-	-	476,282
Operation and maintenance of plant services	374,703	31,416	-	-	-	406,119
Transportation services	167,406	8,051	-	-	-	175,457
	<u>\$ 1,307,045</u>	<u>\$ 39,467</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,346,512</u>
Other expenditures:						
Facilities acquisition	\$ -	\$ -	\$ 206,223	\$ 855,166	\$ -	\$ 1,061,389
AEA flow through	187,873	-	-	-	-	187,873
Fees associated with bond issuance	-	-	-	61,833	-	61,833
	<u>\$ 187,873</u>	<u>\$ -</u>	<u>\$ 206,223</u>	<u>\$ 916,999</u>	<u>\$ -</u>	<u>\$ 1,311,095</u>
Total expenditures	<u>\$ 4,577,638</u>	<u>\$ 86,008</u>	<u>\$ 206,223</u>	<u>\$ 916,999</u>	<u>\$ 203,367</u>	<u>\$ 5,990,235</u>
Excess (deficiency) of revenue over (under) expenditures	\$ 243,511	\$ (86,008)	\$ 16,659	\$ (378,758)	\$ (2,756)	\$ (207,352)
Other financing sources (uses):						
Long-term debt issued	\$ -	\$ -	\$ -	\$ 6,950,000	\$ -	\$ 6,950,000
Premium associated with bond issuance	-	-	-	63,079	-	63,079
Sale of equipment	1,767	-	-	-	-	1,767
Operating transfers in	-	17,630	-	20,516	-	38,146
Operating transfers out	(17,630)	-	(20,516)	-	-	(38,146)
Total other financing sources (uses)	<u>\$ (15,863)</u>	<u>\$ 17,630</u>	<u>\$ (20,516)</u>	<u>\$ 7,033,595</u>	<u>\$ -</u>	<u>\$ 7,014,846</u>
Net change in fund balances	\$ 227,648	\$ (68,378)	\$ (3,857)	\$ 6,654,837	\$ (2,756)	\$ 6,807,494
Fund balances beginning of year	889,651	494,536	710,704	454,367	163,264	2,712,522
Fund balances end of year	<u>\$ 1,117,299</u>	<u>\$ 426,158</u>	<u>\$ 706,847</u>	<u>\$ 7,109,204</u>	<u>\$ 160,508</u>	<u>\$ 9,520,016</u>

## ROCK VALLEY COMMUNITY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES ANDCHANGES IN FUND BALANCES - GOVERNMENTAL FUNDSTO THE STATEMENT OF ACTIVITIESYEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds	\$	6,807,494
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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 capitalized in the Statement of Net Assets and are expensed over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$	1,112,664	
Depreciation expense		<u>(185,028)</u>	927,636

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure, in contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which proceeds exceeded repayments.

(6,950,000)
-------------

Early retirement expenses reported in the Statement of Activities are measured by the amount incurred during the year. However, in the governmental funds, early retirement expenditures are measured by the amount actually paid.

(44,710)
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues regardless of when it is due.

<u>(168,942)</u>
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Change in net assets of governmental activities	\$	<u>571,478</u>
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ROCK VALLEY COMMUNITY SCHOOL DISTRICTSTATEMENT OF NET ASSETS - PROPRIETARY FUNDJUNE 30, 2006

	<u>School Nutrition</u>
<b>ASSETS:</b>	
Cash and cash equivalents	\$ 121,214
Accounts receivable	1,422
Inventories	11,540
Capital assets, net of accumulated depreciation	<u>37,458</u>
 Total assets	 <u>\$ 171,634</u>
<b>LIABILITIES:</b>	
Deferred revenue	<u>\$ 3,237</u>
Total liabilities	<u>\$ 3,237</u>
<b>NET ASSETS:</b>	
Invested in capital assets, net of related debt	\$ 37,458
Unrestricted	<u>130,939</u>
Total net assets	<u>\$ 168,397</u>
 Total liabilities and net assets	 <u>\$ 171,634</u>

ROCK VALLEY COMMUNITY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -PROPRIETARY FUNDYEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for service	\$ <u>145,958</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	\$ 88,667
Benefits	20,255
Supplies	139,852
Other	35,156
Depreciation	<u>4,966</u>
Total operating expenses	\$ <u>288,896</u>
Operating loss	\$ <u>(142,938)</u>
Non-operating revenues:	
Interest income	\$ 5,105
State sources	28,155
Federal sources	91,376
Food distribution	<u>23,913</u>
Total non-operating revenues	\$ <u>148,549</u>
Change in net assets	\$ 5,611
Net assets beginning of year	<u>162,786</u>
Net assets end of year	<u>\$ 168,397</u>

ROCK VALLEY COMMUNITY SCHOOL DISTRICTSTATEMENT OF CASH FLOWS - PROPRIETARY FUNDYEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 147,785
Cash paid to employees for services	(108,922)
Cash paid to suppliers for goods or services	<u>(153,093)</u>
Net cash used by operating activities	<u>\$ (114,230)</u>
Cash flows from non-capital financing activities:	
State grants received	\$ 28,155
Federal grants received	<u>91,376</u>
Net cash provided by non-capital financing activities	<u>\$ 119,531</u>
Cash flows from investing activities:	
Interest on investments	<u>\$ 6,148</u>
Net change in cash and cash equivalents	\$ 11,449
Cash and cash equivalents beginning of year	<u>109,765</u>
Cash and cash equivalents end of year	<u>\$ 121,214</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (142,938)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	22,166
Depreciation	4,966
Decrease in accounts receivable	1,725
Increase in inventories	(251)
Increase in deferred revenues	<u>102</u>
Net cash used by operating activities	<u>\$ (114,230)</u>

## Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received \$23,913 of federal commodities.

ROCK VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Rock Valley Community School District (the District) is a political subdivision of the State of Iowa and operates public schools for children in grades transitional kindergarten through twelve. In addition, the District either operates or sponsors various adult education programs. The geographic areas served includes the City of Rock Valley, Iowa, and the predominant agricultural territory in Sioux and Lyon Counties in Iowa. The District is governed by a Board of Education whose members are elected on a nonpartisan basis.

The District's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

A. Reporting Entity - For financial reporting purposes, the 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 GASB 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 District has no component units which meet the GASB criteria.

B. Basis of Presentation

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

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

ROCK VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Invested in Capital Assets, Net of Related Debt - Consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets plus unspent bond proceeds.

Restricted Net Assets - Result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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

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

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

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

The Management Levy Fund is used to account for certain costs, primarily insurance and early retirement benefits.

ROCK VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

The Physical Plant and Equipment Levy is used to account for certain costs, primarily land and facilities, improvements and transportation equipment.

The Capital Projects Fund is used to account for certain costs, primarily construction, repairs and/or remodeling of school property.

The District reports the following major proprietary fund:

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

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

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

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

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

ROCK VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

The proprietary fund of the District applies all Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989 except for those that conflict with or contradict GASB pronouncements.

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

ROCK VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Property tax receivable is recognized in these funds on the legally enforceable claim date, which is the date that the tax asking is certified by the Board of Education. Current year 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 becomes due and collectible in September and March of the fiscal year with a 1-1/2 percent per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2005.

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

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

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of \$1,000 and estimated useful lives in excess of two years.

ROCK VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20 years
Furniture and equipment	5-15 years

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

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

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

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

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

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

ROCK VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements did not exceed budgeted amounts in any functional areas.

NOTE 2 - CASH AND POOLED INVESTMENTS:

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had investments as follows:

Certificates of Deposit	<u>\$ 9,850,177</u>
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The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940. The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

NOTE 3 - INTERFUND TRANSFERS:

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
Management Fund	General Fund	<u>\$ 17,630</u>
Capital Projects Fund	Physical Plant and Equipment Levy	<u>\$ 20,516</u>

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

ROCK VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 4 - DUE FROM AND DUE TO OTHER FUNDS:

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Debt Service Fund	Capital Projects Fund	<u>\$ 3,090</u>

The due from and due to other funds balance at June 30, 2006 comprise of revenues collected by one fund on behalf of another fund and is awaiting disbursement of those revenues.

NOTE 5 - CAPITAL ASSETS:

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

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 52,853	\$ -	\$ -	\$ 52,853
Construction in progress	<u>50,124</u>	<u>1,061,389</u>	<u>-</u>	<u>1,111,513</u>
Total capital assets not being depreciated	<u>\$ 102,977</u>	<u>\$ 1,061,389</u>	<u>\$ -</u>	<u>\$ 1,164,366</u>
Capital assets being depreciated:				
Land improvements	\$ 341,424	\$ 1,319	\$ -	\$ 342,743
Buildings and improvements	3,599,866	12,150	-	3,612,016
Vehicles	410,508	-	-	410,508
Machinery and equipment	<u>1,185,149</u>	<u>37,806</u>	<u>-</u>	<u>1,222,955</u>
Total capital assets being depreciated	<u>\$ 5,536,947</u>	<u>\$ 51,275</u>	<u>\$ -</u>	<u>\$ 5,588,222</u>
Less accumulated depreciation for:				
Land improvements	\$ 142,789	\$ 23,608	\$ -	\$ 166,397
Buildings and improvements	2,354,619	70,694	-	2,425,313
Vehicles	155,093	21,004	-	176,097
Machinery and equipment	<u>831,619</u>	<u>69,722</u>	<u>-</u>	<u>901,341</u>
Total accumulated depreciation	<u>\$ 3,484,120</u>	<u>\$ 185,028</u>	<u>\$ -</u>	<u>\$ 3,669,148</u>
Total capital assets being depreciated, net	<u>\$ 2,052,827</u>	<u>\$ (133,753)</u>	<u>\$ -</u>	<u>\$ 1,919,074</u>
Governmental activities capital assets, net	<u>\$ 2,155,804</u>	<u>\$ 927,636</u>	<u>\$ -</u>	<u>\$ 3,083,440</u>

ROCK VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 5 - CAPITAL ASSETS (CONTINUED):

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Business type activities:				
Machinery and equipment	\$ 62,248	\$ -	\$ -	\$ 62,248
Less accumulated depreciation	<u>19,824</u>	<u>4,966</u>	<u>-</u>	<u>24,790</u>
Business type activities capital assets, net	<u>\$ 42,424</u>	<u>\$ (4,966)</u>	<u>\$ -</u>	<u>\$ 37,458</u>

Depreciation expense was charged to the following functions:

Governmental activities:

    Instruction:

Regular	\$ 88,882
Special	23,490
Other	19,411

    Support services:

Student	8,440
Instructional staff	2,974
Administration	18,834
Operation and maintenance of plant	16,059
Transportation	<u>6,938</u>

        Total depreciation expense - governmental activities \$ 185,028

Business type activities:

Food service operations	<u>\$ 4,966</u>
-------------------------	-----------------

NOTE 6 - LONG-TERM LIABILITIES:

During the year ended June 30, 2006, the District issued \$6,950,000 General Obligation School Bonds for the purpose of the construction of a new elementary facility, library and reconstruction of existing junior/senior high school rooms to accommodate a middle school for grades 6-8. The bonds will be repaid annually over a scheduled maturity of twenty years using proceeds from a local option sales tax and a debt service tax levy.

ROCK VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED):

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ -	\$ 6,950,000	\$ -	\$ 6,950,000	\$ 50,000
Early retirement	<u>91,350</u>	<u>69,081</u>	<u>24,371</u>	<u>136,060</u>	<u>30,760</u>
Total	<u>\$ 91,350</u>	<u>\$ 7,019,081</u>	<u>\$ 24,371</u>	<u>\$ 7,086,060</u>	<u>\$ 80,760</u>

Early Retirement - The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least fifty-five and must have completed ten years of service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee will be based on the age of the applicant as of July 1 and the total salary of the applicant during the most recently completed school year. Early retirement benefits paid during the year ended June 30, 2006 totaled \$24,371. The total liability for early retirement are recorded as long-term liabilities in the government-wide financial statements.

General Obligation Bonds Payable - Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year Ending <u>June30,</u>	Interest <u>Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	3.25%	\$ 50,000	\$ 440,312	\$ 490,312
2008	3.50%	250,000	276,466	526,466
2009	3.50%	260,000	267,716	527,716
2010	4.00%	275,000	258,616	533,616
2011	4.00%	290,000	247,616	537,616
Thereafter	4.00-4.20%	<u>5,825,000</u>	<u>1,962,930</u>	<u>7,787,930</u>
		<u>\$ 6,950,000</u>	<u>\$ 3,453,656</u>	<u>\$ 10,403,656</u>

ROCK VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 7 - PENSION AND RETIREMENT BENEFITS:

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

Plan members are required to contribute 3.70 percent of their annual covered salary and the District is required to contribute 5.75 percent of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$160,661, \$158,555, and \$150,597, respectively, equal to the required contributions for each year.

NOTE 8 - RISK MANAGEMENT:

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

NOTE 9 - AREA EDUCATION AGENCY:

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$187,873 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

NOTE 10 - CONSTRUCTION COMMITMENTS:

As of June 30, 2006, the District had entered into construction contracts with \$6,075,817 remaining to be paid upon completion of the work primarily for the building addition.

**REQUIRED SUPPLEMENTARY INFORMATION**

ROCK VALLEY COMMUNITY SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES

IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS

AND PROPRIETARY FUND

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2006

	Governmental Funds <u>Actual</u>	Proprietary Fund <u>Actual</u>
Receipts:		
Local sources	\$ 3,109,513	\$ 153,933
State sources	2,343,985	28,155
Federal sources	<u>225,861</u>	<u>91,376</u>
Total receipts	<u>\$ 5,679,359</u>	<u>\$ 273,464</u>
Disbursements:		
Instruction	\$ 3,321,196	\$ -
Support services	1,346,512	-
Non-instructional programs	-	262,015
Other expenditures	<u>1,312,862</u>	<u>-</u>
Total disbursements	<u>\$ 5,980,570</u>	<u>\$ 262,015</u>
(Deficiency) excess of receipts (under) over disbursements	\$ (301,211)	\$ 11,449
Other financing sources, net	<u>7,014,846</u>	<u>-</u>
Excess of receipts over disbursements	\$ 6,713,635	\$ 11,449
Balances beginning of year	<u>2,615,839</u>	<u>109,765</u>
Balances end of year	<u>\$ 9,329,474</u>	<u>\$ 121,214</u>

See accompanying independent auditor's report.

Total <u>Actual</u>	Budgeted Amounts		Final to Actual <u>Variance</u>
	<u>Original</u>	<u>Final</u>	
\$ 3,263,446	\$ 2,984,459	\$ 2,984,459	\$ 278,987
2,372,140	2,403,751	2,403,751	(31,611)
<u>317,237</u>	<u>284,000</u>	<u>284,000</u>	<u>33,237</u>
<u>\$ 5,952,823</u>	<u>\$ 5,672,210</u>	<u>\$ 5,672,210</u>	<u>\$ 280,613</u>
\$ 3,321,196	\$ 3,770,525	\$ 3,770,525	\$ 449,329
1,346,512	1,645,500	1,645,500	298,988
262,015	325,000	325,000	62,985
<u>1,312,862</u>	<u>653,445</u>	<u>1,653,445</u>	<u>340,583</u>
<u>\$ 6,242,585</u>	<u>\$ 6,394,470</u>	<u>\$ 7,394,470</u>	<u>\$ 1,151,885</u>
\$ (289,762)	\$ (722,260)	\$ (1,722,260)	\$ (1,432,498)
<u>7,014,846</u>	<u>3,000</u>	<u>3,000</u>	<u>(7,011,846)</u>
\$ 6,725,084	<u>\$ (719,260)</u>	<u>\$ (1,719,260)</u>	<u>\$ (8,444,344)</u>
<u>2,725,604</u>			
<u>\$ 9,450,688</u>			

ROCK VALLEY COMMUNITY SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2006

	<u>Governmental Funds</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Modified Accrual Basis</u>
Revenues	\$ 5,679,359	\$ 103,524	\$ 5,782,883
Expenditures	<u>5,980,570</u>	<u>9,665</u>	<u>5,990,235</u>
Net	\$ (301,211)	\$ 93,859	\$ (207,352)
Other financing sources, net	7,014,846	-	7,014,846
Beginning balance	<u>2,615,839</u>	<u>96,683</u>	<u>2,712,522</u>
Ending balance	<u>\$ 9,329,474</u>	<u>\$ 190,542</u>	<u>\$ 9,520,016</u>

  

	<u>Proprietary Fund</u>		
	<u>Enterprise</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
Revenues	\$ 273,464	\$ 21,043	\$ 294,507
Expenses	<u>262,015</u>	<u>26,881</u>	<u>288,896</u>
Net	\$ 11,449	\$ (5,838)	\$ 5,611
Beginning net assets	<u>109,765</u>	<u>53,021</u>	<u>162,786</u>
Ending net assets	<u>\$ 121,214</u>	<u>\$ 47,183</u>	<u>\$ 168,397</u>

ROCK VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

YEAR ENDED JUNE 30, 2006

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis.

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

During the year ended June 30, 2006, expenditures did not exceed budgeted amounts and the District did not exceed its unspent authorized budget.

**OTHER SUPPLEMENTARY INFORMATION**

ROCK VALLEY COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET - NONMAJOR FUNDS

JUNE 30, 2006

ASSETS

	<u>Student Activity</u>	<u>Debt Service</u>	<u>Total</u>
Cash and pooled investments	\$ 143,930	\$ -	\$ 143,930
Receivables:			
Property tax:			
Succeeding year	-	412,761	412,761
Accounts	714	-	714
Accrued interest	5,016	-	5,016
Due from other funds	-	3,090	3,090
Inventory	<u>9,497</u>	<u>-</u>	<u>9,497</u>
 Total assets	 <u>\$ 159,157</u>	 <u>\$ 415,851</u>	 <u>\$ 575,008</u>

LIABILITIES AND FUND EQUITY

Liabilities:			
Accounts payable	\$ 1,739	\$ -	\$ 1,739
Deferred revenue:			
Succeeding year property tax	<u>-</u>	<u>412,761</u>	<u>412,761</u>
Total liabilities	\$ 1,739	\$ 412,761	\$ 414,500
 Fund equity:			
Unreserved fund balances	<u>157,418</u>	<u>3,090</u>	<u>160,508</u>
 Total liabilities and fund equity	 <u>\$ 159,157</u>	 <u>\$ 415,851</u>	 <u>\$ 575,008</u>

ROCK VALLEY COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN

FUND BALANCES - NONMAJOR FUNDS

YEAR ENDED JUNE 30, 2006

	<u>Student Activity</u>	<u>Debt Service</u>	<u>Total</u>
Revenues:			
Local sources:			
Other	\$ 197,521	\$ 3,090	\$ 200,611
Total revenues	<u>\$ 197,521</u>	<u>\$ 3,090</u>	<u>\$ 200,611</u>
Expenditures:			
Current:			
Instruction:			
Other instruction	\$ 203,367	\$ -	\$ 203,367
Total expenditures	<u>\$ 203,367</u>	<u>\$ -</u>	<u>\$ 203,367</u>
Net change in fund balance	\$ (5,846)	\$ 3,090	\$ (2,756)
Fund balances beginning of year	<u>163,264</u>	<u>-</u>	<u>163,264</u>
Fund balances end of year	<u>\$ 157,418</u>	<u>\$ 3,090</u>	<u>\$ 160,508</u>

ROCK VALLEY COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS

YEAR ENDED JUNE 30, 2006

ACCOUNT:	Balance Beginning of Year	Revenues and Interfund Transfers	Expenditures	Intrafund Transfers	Balance End of Year
Agriculture resale	\$ 214	\$ -	\$ -	\$ -	214
Art resale	2,762	779	2,449	1,214	2,306
Band resale	2,245	4,681	3,632	(1,025)	2,269
TSA resale	4,702	1,156	1,491	(2)	4,365
Spirit Club resale	9,433	18,589	21,621	2,132	8,533
Basketball	4,105	5,679	3,256	(1,623)	4,905
Football	1,848	8,032	20,848	11,568	600
Baseball	(60)	416	3,760	3,451	47
Golf	-	1,237	1,948	711	-
Wrestling	-	8,661	9,137	476	-
Track	-	429	462	33	-
Junior high boys athletics	-	60	1,524	1,464	-
Junior high girls athletics	-	-	1,256	1,256	-
High school girls basketball	3,918	3,699	3,784	-	3,833
High school girls volleyball	1	5,366	6,267	900	-
High school girls track	-	597	1,049	630	178
Tournaments	15,549	9,861	8,885	(1,829)	14,696
Annual 2002	95	400	1,712	1,217	-
Annual 2003	1,218	12,215	14,842	2,220	811
Instrument rent/repair	427	1,762	3,956	1,191	(576)
Band and vocal	1,005	4,431	5,228	-	208
Club reserve	15,054	-	-	666	15,720
Class of 2006	4,878	150	1,173	(3,855)	-
Class of 2007	4,613	2,965	4,004	839	4,413
Class of 2008	6,654	5,898	1,739	-	10,813
Class of 2009	2,865	255	-	746	3,866
Class of 2010	1,244	538	350	1,063	2,495
Class of 2011	-	240	-	1,482	1,722
Cheerleaders	1,858	4,637	5,791	299	1,003
FFA	1,767	21,598	22,281	(10)	1,074
FHA	611	753	727	-	637
Pep club	517	675	494	-	698
Student council	1,297	8,807	8,271	251	2,084
TSA program	2,337	2,859	2,985	(250)	1,961
FCH	406	33	40	-	399
Library club	497	-	-	-	497
Elementary activity	1,512	10,187	10,585	-	1,114
Spanish club	3,061	391	-	-	3,452
Spirit club	6,905	4,071	2,342	(2,132)	6,502
Interest	38,933	5,079	-	(9,664)	34,348
Adult activity tickets	-	5,930	-	(5,930)	-
Magazine sale	-	10,671	6,517	(4,154)	-
Student pictures	17,108	11,867	11,796	688	17,867
Miscellaneous insurance - student	-	1,180	1,180	-	-
Activity tickets	-	4,640	-	(4,640)	-
Drama and speech	-	3,556	5,110	1,554	-
FFA test plot	3,685	2,491	875	(937)	4,364
Total	\$ 163,264	\$ 197,521	\$ 203,367	\$ -	\$ 157,418

ROCK VALLEY COMMUNITY SCHOOL DISTRICTSCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTIONALL GOVERNMENTAL FUNDSFOR THE LAST FOUR YEARS ENDED JUNE 30,

	Modified Accrual Basis			
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenues:				
Local sources:				
Local tax	\$ 1,954,019	\$ 1,995,560	\$ 1,906,606	\$ 1,736,826
Tuition	548,739	474,848	421,841	408,986
Other	675,227	383,855	338,205	377,829
State sources	2,379,024	2,177,666	1,904,478	2,003,399
Federal sources	<u>225,874</u>	<u>224,333</u>	<u>178,225</u>	<u>160,100</u>
Total	<u>\$ 5,782,883</u>	<u>\$ 5,256,262</u>	<u>\$ 4,749,355</u>	<u>\$ 4,687,140</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 2,247,721	\$ 2,238,603	\$ 2,228,859	\$ 2,038,651
Special instruction	594,036	517,314	429,209	567,782
Other instruction	490,871	574,282	521,679	520,355
Support services:				
Student services	213,440	109,853	103,858	87,960
Instructional staff services	75,214	75,229	76,629	86,483
Administration services	476,282	453,033	439,470	430,607
Operation and maintenance of plant services	406,119	492,963	421,840	403,174
Transportation services	175,457	198,364	218,845	163,304
Other expenditures:				
Facilities acquisition	1,061,389	118,224	1,505	55,743
Long-term debt:				
Principal	-	-	13,507	12,656
Interest and other charges	-	-	907	1,758
AEA flow through	<u>187,873</u>	<u>178,464</u>	<u>176,940</u>	<u>189,806</u>
Total	<u>\$ 5,928,402</u>	<u>\$ 4,956,329</u>	<u>\$ 4,633,248</u>	<u>\$ 4,558,279</u>



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS**

To the Board of Education of  
Rock Valley Community School District

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the remaining fund information of the Rock Valley Community School District (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated November 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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 the 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 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-06 is a material weakness. Prior year reportable conditions have all been resolved except for item I-A-06.



To the Board of Education  
Rock Valley Community School District

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the 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, noncompliance 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during 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.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the 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.

November 22, 2006  
Sioux City, Iowa

King, Reinsch, Prosser & Co., L.L.P.

ROCK VALLEY COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Incompatible duties, for accounting control purposes, are those duties that place a person in a position where they could both perpetrate and conceal errors or irregularities. To accomplish proper segregation of duties, the system, insofar as possible, should provide for different individuals to perform the functions of (a) authorizing transactions, (b) recording transactions, (c) maintaining custody of the assets that result from transactions, and (d) comparing assets with the related amounts recorded in the accounting records. In performing our audit, we noted that the Business Manager has primary responsibility for many accounting and financial duties of the general, special revenue and debt service funds. In addition, the Board Secretary has primary responsibility for the enterprise fund.

Recommendation - The size of the District's accounting and administrative staff precludes certain internal controls that would be preferred if the staff were large enough to provide optimum segregation of duties. This situation dictates that the Board of Education and Superintendent remain actively involved in the financial affairs of the District to provide oversight and review functions.

Response - The District understands the nature of the weakness and the necessity for the Board and Superintendent to provide oversight and review functions. The District will review its procedures and implement changes as deemed necessary.

Conclusion - Response accepted.

ROCK VALLEY COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2006

(CONTINUED)

Part II: Other Findings Related to Statutory Reporting

- II-A-06    Certified Budget - Expenditures for the year ended June 30, 2006 did not exceed the amount budgeted in any of the functional areas.
  
- II-B-06    Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
  
- II-C-06    Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
  
- II-D-06    Business Transactions - We noted no business transactions between the District and District officials or employees that would appear to constitute a conflict of interest.
  
- II-E-06    Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
  
- II-F-06    Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
  
- II-G-06    Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
  
- II- H-06    Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
  
- II- I-06    Certified Annual Report - The Certified Annual Report (CAR) was certified to the Iowa Department of Education timely.