

ROCKWELL CITY/LYTTON

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

June 30, 2007

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Independent Auditor's Report

To the Board of Education of
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, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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, 2007, 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 reports dated April 28, 2008, 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, contract 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 35 through 36 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 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 year ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements. The financial statements for the two years ended June 30, 2005, (which are not presented herein) were audited by other auditors who expressed unqualified opinions 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.

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

April 28, 2008

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, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,992,321 in fiscal 2006 to \$4,219,499 in fiscal 2007, while General Fund expenditures increased from \$4,167,813 in fiscal 2006 to \$4,300,658 in fiscal 2007. The District's General Fund balance decreased from \$281,963 in fiscal 2006 to \$203,904 in fiscal 2007, a 27% decrease.
- The increase in General Fund revenues was attributable to an increase in property tax and state and federal grant revenue in fiscal 2007. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures. One reason the General Fund balance decreased is because the negotiated salary and benefits settlement was greater than the District's increase in General Fund revenue for fiscal 2007. As a result, the District funded a portion of the current year General Fund salaries and benefits from the carryover fund balance.

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 custodian for the benefit of those outside of District government.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

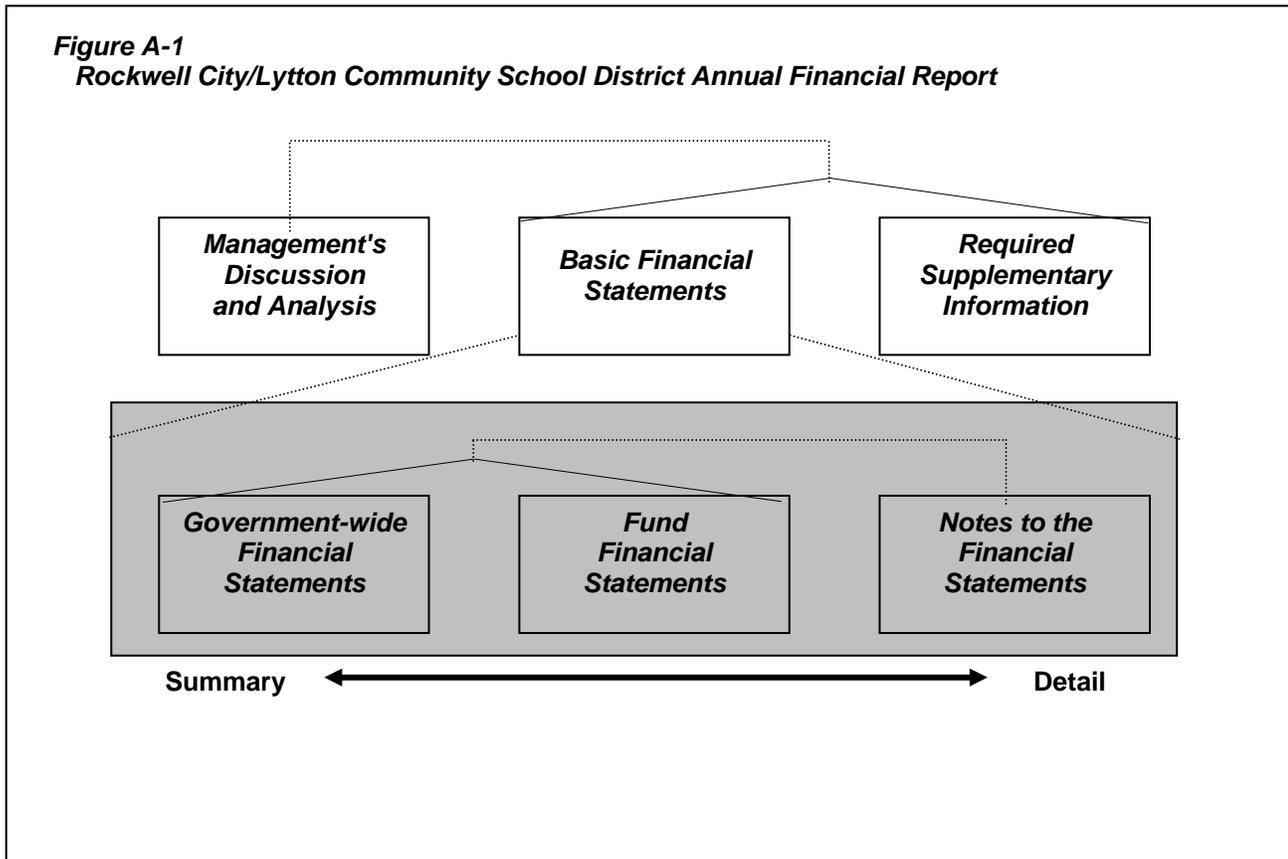


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

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

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.
- 3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Agency Funds.
- Agency Funds – These are funds through which the District administers and accounts for certain monies on behalf of other entities.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2007-2006
	Governmental Activities		Business-type Activities		Total School District		
	2007	2006	2007	2006	2007	2006	
	\$	\$	\$	\$	\$	\$	
Current and other assets	2,852,679	2,660,413	29,189	22,464	2,881,868	2,682,877	8%
Capital assets	1,675,280	1,771,157	26,452	24,909	1,701,732	1,796,066	-5%
Total assets	4,527,959	4,431,570	55,641	47,373	4,583,600	4,478,943	2%
Long-term liabilities	-	15,745	-	-	-	15,745	-100%
Other liabilities	2,073,304	1,940,993	2,244	2,040	2,075,548	1,943,033	7%
Total liabilities	2,073,304	1,956,738	2,244	2,040	2,075,548	1,958,778	6%
Net Assets:							
Invested in capital assets, net of related debt	1,675,280	1,771,157	26,452	24,909	1,701,732	1,796,066	-5%
Restricted	575,471	442,168	-	-	575,471	442,168	30%
Unrestricted	203,904	261,507	26,945	20,424	230,849	281,931	-18%
TOTAL NET ASSETS	2,454,655	2,474,832	53,397	45,333	2,508,052	2,520,165	-.5%

The District's combined net assets decreased by nearly .5%, or approximately \$12,000, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$133,000 or 30% over the prior year. The increase was primarily a result of decreased expenditures.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$51,000, or 18%. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

Figure A-4 shows the change in net assets for the years ended June 30, 2007 and 2006.

Figure A-4

	Change in Net Assets						Percentage Change 2007-2006
	Governmental Activities		Business-type Activities		Total School District		
	2007	2006	2007	2006	2007	2006	
	\$	\$	\$	\$	\$	\$	
Revenues							
Program Revenues:							
Charges for services	499,997	584,095	128,963	120,894	628,960	704,989	-11%
Operating grants & contributions and restricted interest	611,658	547,481	105,414	101,096	717,072	648,577	11%
Capital grants & contributions and restricted interest	-	25,000	-	-	-	25,000	-100%
General Revenues:							
Property taxes	1,675,046	1,427,833	-	-	1,675,046	1,427,833	17%
Income Surtax	-	-	-	-	-	-	0%
Local option sales tax	317,442	259,675	-	-	317,442	259,675	22%
Unrestricted state grants	1,731,760	1,745,030	-	-	1,731,760	1,745,030	-1%
Unrestricted investment earnings	34,213	27,584	107	75	34,320	27,659	24%
Other revenue	10,709	14,081	-	-	10,709	14,081	-24%
Total Revenues	4,880,825	4,630,779	234,484	222,065	5,115,309	4,852,844	5%
Expenses:							
Instruction	3,094,130	3,002,017	-	-	3,094,130	3,002,017	3%
Support services	1,381,510	1,414,554	-	-	1,381,510	1,414,554	-2%
Non-instructional programs	262	299	226,420	229,329	226,682	229,628	-1%
Other expenditures	425,100	302,829	-	-	425,100	302,829	40%
Total expenses	4,901,002	4,719,699	226,420	229,329	5,127,422	4,949,028	4%
Change in net assets before Transfers	(20,177)	(88,920)	8,064	(7,264)	(12,113)	(96,184)	87%
Transfers	-	-	-	-	-	-	
CHANGE IN NET ASSETS	(20,177)	(88,920)	8,064	(7,264)	(12,113)	(96,184)	87%
Net assets beginning of year	2,474,832	2,563,752	45,333	52,597	2,520,165	2,616,349	-4%
Net assets end of year	2,454,655	2,474,832	53,397	45,333	2,508,052	2,520,165	-5%

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 87% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$4,480,825 and expenses were \$4,901,002. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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 2007 \$	Total Cost of Services 2006 \$	Net Cost of Services 2007 \$	Net Cost of Services 2006 \$
Instruction	3,091,130	3,002,017	2,182,095	2,073,165
Support Services	1,381,510	1,414,554	1,350,614	1,375,012
Non-instructional Programs	262	299	262	299
Other Expenses	425,100	302,829	256,376	114,647
TOTAL	4,901,002	4,719,699	3,789,347	3,563,123

- The cost financed by users of the District's programs was \$499,997. Most of these revenues are derived from tuition charged to other school districts and from student activities.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$611,658.
- The net cost of governmental activities was financed with \$1,992,488 in property and other taxes and \$1,731,760 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$234,214 and expenses were \$226,420. 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, 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 a combined fund balance of \$779,375, well above last year's ending fund balances of \$719,420.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the result of many factors. Growth during the year in tax and grants resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures requiring the District to use carryover fund balance to meet its financial obligations during the year.
- The General Fund balance decreased from \$281,637 to \$203,904, due in part to the negotiated salary and benefits settlement, the prior year reduction in state aid and existing expenditure commitments of the District.
- The Capital Projects Fund balance increased due to keeping expenditures less than revenues. Fiscal 2007 ended with a balance of \$438,662.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from a deficit of \$16,885 in fiscal 2006 to 6,124 in fiscal 2007.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$45,333 at June 30, 2006 to \$53,397 at June 30, 2007, representing an increase of approximately 18%. For fiscal 2007, more students have been choosing to eat breakfast due to the school offering more take and go items. Students have also been choosing more items off the a la carte which brings in more revenue for the lunch program.

BUDGETARY HIGHLIGHTS

The District's receipts were \$32,802 more than budgeted receipts, a variance of .5%. The most significant variance resulted from the District receiving less in local income than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$1.7 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 represents a net decrease of 5% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$165,723.

During fiscal year 2007 the District purchased a \$58,000 bus, \$15,000 of computers and spend \$16,000 to update the playground.

Figure A-6

Capital Assets (net of depreciation)

	Governmental Activities		Business type Activities		Total School District		Percentage Change 2007-2006
	2007	2006	2007	2006	2007	2006	
	\$	\$	\$	\$	\$	\$	
Land	92,000	92,000	-	-	92,000	92,000	0%
Buildings	921,831	972,324	-	-	921,831	972,324	-5%
Improvements	538,148	599,735	-	-	538,148	599,735	-10%
Equipment & Furniture	123,301	107,098	26,452	24,909	149,753	132,007	13%
TOTAL	1,675,280	1,771,157	26,452	24,909	1,701,732	1,796,066	-5%

Long-Term Debt

We had no long-term debt at June 30, 2007.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

- The school met before the SBRC due to the over spending in the 2007 Fiscal school year and discussed with them a corrective action plan the school can put together to move the district to a positive unspent balance within the next three years or sooner. The corrective action plan that will be put in place will both increase revenue and decrease expenditures

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 Superintendent, Dale Black, 1000 Tonawanda, Rockwell City, Iowa 50579.

BASIC FINANCIAL STATEMENTS

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2007

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	980,542	26,345	1,006,887
Receivables:			
Property tax:			
Delinquent	21,558	-	21,558
Succeeding year	1,683,284	-	1,683,284
Accounts	-	180	180
Due from other governments	167,295	-	167,295
Inventories	-	2,664	2,664
Capital assets, net of accumulated depreciation	1,675,280	26,452	1,701,732
Total assets	4,527,959	55,641	4,583,600
Liabilities			
Warrants issued in excess of bank balance	94,097	-	94,097
Salaries and benefits payable	291,967	-	291,967
Deferred revenue:			
Succeeding year property tax	1,683,284	-	1,683,284
Other	3,956	2,244	6,200
Total Liabilities	2,073,304	2,244	2,075,548
Net assets			
Invested in capital assets, net of related debt	1,675,280	26,452	1,701,732
Restricted for:			
Management levy	78,454	-	78,454
Physical plant and equipment levy	6,124	-	6,124
Other special revenue purposes	52,231	-	52,231
Local option sales tax capital projects	438,662	-	438,662
Unrestricted	203,904	26,945	230,849
Total net assets	2,454,655	53,397	2,508,052

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular	2,069,171	184,159	317,975	-
Special	454,385	132,076	41,471	-
Other	570,574	182,368	53,986	-
	<u>3,094,130</u>	<u>498,603</u>	<u>413,432</u>	<u>-</u>
Support services:				
Student	165,587	-	-	-
Instructional staff	124,663	-	27,829	-
Administration	504,078	-	-	-
Operation and maintenance of plant	388,332	1,394	-	-
Transportation	198,850	-	1,673	-
	<u>1,381,510</u>	<u>1,394</u>	<u>29,502</u>	<u>-</u>
Non-instructional programs	<u>262</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	124,287	-	-	-
AEA flowthrough	168,724	-	168,724	-
Depreciation (unallocated)*	132,089	-	-	-
	<u>425,100</u>	<u>-</u>	<u>168,724</u>	<u>-</u>
Total governmental activities	4,901,002	499,997	611,658	-
Business type activities:				
Non-instructional programs:				
Food service operations	226,420	128,963	105,414	-
Total	<u>5,127,422</u>	<u>628,960</u>	<u>717,072</u>	<u>-</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Capital outlay				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				

Change in net assets

Net assets beginning of year

Net assets end of year

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

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2007

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
\$	\$	\$
(1,567,037)	-	(1,567,037)
(280,838)	-	(280,838)
(334,220)	-	(334,220)
<u>(2,182,095)</u>	<u>-</u>	<u>(2,182,095)</u>
(165,587)	-	(165,587)
(96,834)	-	(96,834)
(504,078)	-	(504,078)
(386,938)	-	(386,938)
(197,177)	-	(197,177)
<u>(1,350,614)</u>	<u>-</u>	<u>(1,350,614)</u>
(262)	-	(262)
(124,287)	-	(124,287)
-	-	-
<u>(132,089)</u>	<u>-</u>	<u>(132,089)</u>
<u>(256,376)</u>	<u>-</u>	<u>(256,376)</u>
(3,789,347)	-	(3,789,347)
-	7,957	7,957
<u>(3,789,347)</u>	<u>7,957</u>	<u>(3,781,390)</u>
1,624,510	-	1,624,510
50,536	-	50,536
317,442	-	317,442
1,731,760	-	1,731,760
34,213	107	34,320
10,709	-	10,709
<u>3,769,170</u>	<u>107</u>	<u>3,769,277</u>
(20,177)	8,064	(12,113)
<u>2,474,832</u>	<u>45,333</u>	<u>2,520,165</u>
<u><u>2,454,655</u></u>	<u><u>53,397</u></u>	<u><u>2,508,052</u></u>

See notes to financial statements.

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2007

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	531,298	314,122	135,122	980,542
Receivables:				
Property tax:				
Delinquent	19,870	-	1,688	21,558
Succeeding year	1,546,826	-	136,458	1,683,284
Due from other governments	42,755	124,540	-	167,295
Total assets	<u>2,140,749</u>	<u>438,662</u>	<u>273,268</u>	<u>2,852,679</u>
Liabilities and Fund Balances				
Liabilities:				
Warrants issued in excess of bank balance	94,097	-	-	94,097
Salaries and benefits payable	291,966	-	1	291,967
Deferred revenue:				
Succeeding year property tax	1,546,826	-	136,458	1,683,284
Other	3,956	-	-	3,956
Total liabilities	<u>1,936,845</u>	<u>-</u>	<u>136,459</u>	<u>2,073,304</u>
Fund balances:				
Unreserved reported in:				
General fund	203,904	-	-	203,904
Special revenue funds	-	-	136,809	136,809
Capital projects funds	-	438,662	-	438,662
Total fund balances	<u>203,904</u>	<u>438,662</u>	<u>136,809</u>	<u>779,375</u>
Total liabilities and fund balances	<u>2,140,749</u>	<u>438,662</u>	<u>273,268</u>	<u>2,852,679</u>

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2007

	\$
Total fund balances of governmental funds (Exhibit C)	779,375
<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 the governmental funds.	<u>1,675,280</u>
Net assets of governmental activities (Exhibit A)	<u><u>2,454,655</u></u>

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2007

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,544,481	-	130,565	1,675,046
Local option sales tax	-	317,442	-	317,442
Tuition	223,674	-	-	223,674
Other	107,926	6,075	203,818	317,819
State sources	2,196,873	-	-	2,196,873
Federal sources	146,545	-	-	146,545
Total revenues	<u>4,219,499</u>	<u>323,517</u>	<u>334,383</u>	<u>4,877,399</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,010,403	44,509	30,448	2,085,360
Special	454,385	-	-	454,385
Other	372,456	-	198,118	570,574
	<u>2,837,244</u>	<u>44,509</u>	<u>228,566</u>	<u>3,110,319</u>
Support services:				
Student	165,587	-	-	165,587
Instructional staff	124,663	-	-	124,663
Administration	494,305	3,556	18,717	516,578
Operation and maintenance of plant	348,035	6,573	33,724	388,332
Transportation	161,838	59,776	8,016	229,630
	<u>1,294,428</u>	<u>69,905</u>	<u>60,457</u>	<u>1,424,790</u>
Non-instructional programs	<u>262</u>	<u>-</u>	<u>-</u>	<u>262</u>
Other expenditures:				
Facilities acquisition	-	94,876	21,899	116,775
AEA flowthrough	168,724	-	-	168,724
	<u>168,724</u>	<u>94,876</u>	<u>21,899</u>	<u>285,499</u>
Total expenditures	<u>4,300,658</u>	<u>209,290</u>	<u>310,922</u>	<u>4,820,870</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(81,159)</u>	<u>114,227</u>	<u>23,461</u>	<u>56,529</u>
Other financing sources (uses):				
Compensation for loss of fixed assets	2,029	-	-	2,029
Sales of equipment and real property	1,397	-	-	1,397
Total other financing sources (uses)	<u>3,426</u>	<u>-</u>	<u>-</u>	<u>3,426</u>
Net change in fund balances	(77,733)	114,227	23,461	59,955
Fund balances beginning of year	<u>281,637</u>	<u>324,435</u>	<u>113,348</u>	<u>719,420</u>
Fund balances end of year	<u>203,904</u>	<u>438,662</u>	<u>136,809</u>	<u>779,375</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, 2007

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		59,955

**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 not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the current year, as follows:

Expenditures for capital assets	65,529	
Depreciation expense	<u>(161,406)</u>	(95,877)

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

Termination benefits	12,500	
Compensated absences	<u>3,245</u>	<u>15,745</u>

Changes in net assets of governmental activities (Exhibit B)		<u><u>(20,177)</u></u>
---	--	------------------------

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2007

	Nonmajor School Nutrition
	<u>\$</u>
Assets	
Cash and cash equivalents	26,345
Accounts receivable	180
Inventories	2,664
Capital assets, net of accumulated depreciation	<u>26,452</u>
Total assets	55,641
Liabilities	
Deferred revenue	<u>2,244</u>
Net assets	
Invested in capital assets, net of related debt	26,452
Unrestricted	<u>26,945</u>
Total net assets	<u><u>53,397</u></u>

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds

Year ended June 30, 2007

	Nonmajor School Nutrition
	<u>\$</u>
Operating revenues:	
Local sources:	
Charges for service	<u>128,963</u>
Operating expenses:	
Non-instructional programs:	
Salaries	95,705
Benefits	15,324
Purchased services	6,298
Supplies	102,250
Depreciation	4,317
Other	2,526
	<u>226,420</u>
Operating gain (loss)	<u>(97,457)</u>
Non-operating revenues:	
State sources	3,068
Federal sources	102,346
Interest income	107
Total non-operating revenues	<u>105,521</u>
Change in net assets	8,064
Net assets beginning of year	<u>45,333</u>
Net assets end of year	<u><u>53,397</u></u>

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2007

	Nonmajor School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	129,142
Cash payments to employees for services	(111,029)
Cash payments to suppliers for goods or services	<u>(98,139)</u>
Net cash used by operating activities	<u>(80,026)</u>
Cash flows from non-capital financing activities:	
State grants received	3,068
Federal grants received	<u>89,647</u>
Net cash provided by non-capital financing activities	<u>92,715</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	<u>(5,860)</u>
Cash flows from investing activities:	
Interest on investments	<u>107</u>
Net increase (decrease) in cash and cash equivalents	6,936
Cash and cash equivalents at beginning of year	<u>19,409</u>
Cash and cash equivalents at end of year	<u><u>26,345</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(97,457)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	12,699
Depreciation	4,317
Decrease (increase) in inventories	236
Decrease (increase) in accounts receivable	(25)
(Decrease) increase in deferred revenue	<u>204</u>
Net cash used in operating activities	<u><u>(80,026)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2007, the District received \$12,699 of federal commodities.

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2007

	<u>Agency</u>
	\$
Assets	
Cash and pooled investments	981
Due from others	<u>205</u>
Total Assets	<u>1,186</u>
Liabilities	
Accounts payable	27
Other payables	<u>1,159</u>
Total liabilities	<u>1,186</u>
Net Assets	<u><u>-</u></u>

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2007

1. Summary of Significant Accounting Policies

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. The geographic area served includes the Cities of Rockwell City and Lytton, Iowa and the predominately agricultural territory in a portion of Sac and Calhoun Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, 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 that 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 does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the County Assessor's Conference Board.

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues 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 instruction, support and other costs.

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

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

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

The 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 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 judgements, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

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

The District maintains its financial records on the 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 financial statements:

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, have a maturity date no longer than three months.

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the

District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006, through June 30, 2007, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

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 and governmental funds are recorded as expenses when consumed rather than when purchased or received.

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

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	3,500
Buildings	3,500
Improvements other than buildings	3,500
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	3,500

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	50 years
Improvements other than buildings	20 years
Furniture and equipment	5-12 years

The District's collection of library books and other similar materials are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to District policy that requires proceeds from the sale of these items, if any, to be used to acquire other collection items.

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 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 in the Statement of Net Assets consists of unspent grant proceeds, amounts received in advance for meal sales and 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 hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the 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, 2007. 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 not available for appropriation or 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 are 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, 2007, the District did not exceed its published budget however it did exceed its General Fund spending authority.

2. **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain

registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
	\$
Diversified Portfolio	531,189

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

Credit risk: The investment in the Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investors Service.

3. Capital Assets

Capital assets activity for the year ended June 30, 2007 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	92,000	-	-	92,000
Capital assets being depreciated:				
Buildings	3,207,390	-	-	3,207,390
Improvements other than buildings	2,577,693	19,967	-	2,597,660
Furniture and equipment	904,065	73,041	22,963	954,143
Total capital assets being deprec.	<u>6,689,148</u>	<u>93,008</u>	<u>22,963</u>	<u>6,759,193</u>
Less accumulated depreciation for:				
Buildings	2,235,066	50,536	43	2,285,559
Improvements other than buildings	1,977,958	81,553	(1)	2,059,512
Furniture and equipment	796,967	29,317	(4,558)	830,842
Total accumulated depreciation	<u>5,009,991</u>	<u>161,406</u>	<u>(4,516)</u>	<u>5,175,913</u>
Total capital assets being depreciated, net	<u>1,679,157</u>	<u>(68,398)</u>	<u>27,479</u>	<u>1,583,280</u>
Governmental activities capital assets, net	<u>1,771,157</u>	<u>(68,398)</u>	<u>27,479</u>	<u>1,675,280</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	63,158	5,860	-	69,018
Less accumulated depreciation	<u>38,249</u>	<u>4,317</u>	<u>-</u>	<u>42,566</u>
Business type activities capital assets, net	<u>24,909</u>	<u>1,543</u>	<u>-</u>	<u>26,452</u>

Depreciation expense was charged to the following functions:

	<u>Amount</u>
	\$
Governmental activities:	
Instruction:	
Regular	2,281
Support services:	
Transportation	<u>27,036</u>
	29,317
Unallocated depreciation	<u>132,089</u>
Total depreciation expense – governmental activities	<u><u>161,406</u></u>
Business type activities:	
Food services	<u><u>4,317</u></u>

4. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2007, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Compensated absences	3,245	-	3,245	-	-
Termination benefits	<u>12,500</u>	-	<u>12,500</u>	-	-
Total	<u><u>15,745</u></u>	-	<u><u>15,745</u></u>	-	-

Termination Benefits

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least twenty years of full-time service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education.

At June 30, 2007, the District has no early retirement liability.

Actual early retirement expenditures for the year ended June 30, 2007 totaled \$12,500.

5. 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 that 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 covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$161,025, \$151,295, and \$135,782 respectively, equal to the required contributions for each year.

6. Risk Management

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

7. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$168,724 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

8. Related Party Transactions

Jo Grodahl, a board member, is the owner of Agents, Inc. During the year ended June 30, 2007 Rockwell City/Lytton Community School District paid approximately \$55,856 for property, liability and workmen's compensation insurance premiums through this business.

9. Lawsuit

The District is named in a lawsuit regarding wrongful dismissal. The District's liability is unknown at this time.

10. Operating leases

The District has entered into non-cancelable operating leases for copy machines typically for 60 monthly payments on each lease. Payments are due as follows:

Year Ended <u>June 30</u>	\$
2008	7,380
2009	6,964
2010	6,756
2011	1,126

REQUIRED SUPPLEMENTARY INFORMATION

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures, and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2007

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	2,533,981	129,070	2,663,051	2,575,786	2,575,786	87,265
Intermediate sources	-	-	-	2,000	2,000	(2,000)
State sources	2,196,873	3,068	2,199,941	2,236,295	2,236,295	(36,354)
Federal sources	146,545	102,346	248,891	265,000	265,000	(16,109)
Total revenues	<u>4,877,399</u>	<u>234,484</u>	<u>5,111,883</u>	<u>5,079,081</u>	<u>5,079,081</u>	<u>32,802</u>
Expenditures:						
Instruction	3,110,319	-	3,110,319	3,379,189	3,379,189	268,870
Support services	1,424,790	-	1,424,790	1,480,000	1,480,000	55,210
Non-instructional programs	262	226,420	226,682	315,873	315,873	89,191
Other expenditures	285,499	-	285,499	679,373	679,373	393,874
Total expenditures	<u>4,820,870</u>	<u>226,420</u>	<u>5,047,290</u>	<u>5,854,435</u>	<u>5,854,435</u>	<u>807,145</u>
Excess (deficiency) of revenues over (under) expenditures	56,529	8,064	64,593	(775,354)	(775,354)	839,947
Other financing sources (uses) net	<u>3,426</u>	<u>-</u>	<u>3,426</u>	<u>-</u>	<u>-</u>	<u>3,426</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	59,955	8,064	68,019	(775,354)	(775,354)	843,373
Balance beginning of year	<u>719,420</u>	<u>45,333</u>	<u>764,753</u>	<u>1,296,284</u>	<u>1,296,284</u>	<u>(531,531)</u>
Balance end of year	<u><u>779,375</u></u>	<u><u>53,397</u></u>	<u><u>832,772</u></u>	<u><u>520,930</u></u>	<u><u>520,930</u></u>	<u><u>311,842</u></u>

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2007

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 Internal Service, 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 a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. 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 function 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, 2007 the District exceeded its General Fund spending authority.

OTHER SUPPLEMENTARY INFORMATION

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2007

Assets	Special Revenue Funds			Total
	Management	Student	Physical	
	Levy	Activity	Plant and	
		Fund	Equipment	
	\$	\$	\$	\$
Cash and pooled investments	77,425	52,231	5,466	135,122
Receivables:				
Property tax:				
Delinquent	1,030	-	658	1,688
Succeeding year	85,000	-	51,458	136,458
Total assets	163,455	52,231	57,582	273,268
Liabilities & Fund Balances				
Liabilities:				
Salaries and benefits payable	1	-	-	1
Deferred revenue:				
Succeeding year property tax	85,000	-	51,458	136,458
Total liabilities	85,001	-	51,458	136,459
Fund balances:				
Unreserved reported in:				
Special revenue funds	78,454	52,231	6,124	136,809
Total liabilities and fund balances	163,455	52,231	57,582	273,268

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2007

	Special Revenue Funds			Total
	Management	Student	Physical	
	Levy	Activity	Plant and	
	\$	Fund	Equipment	\$
	\$	\$	Levy	\$
Revenues:				
Local sources:				
Local tax	80,029	-	50,536	130,565
Other	-	199,562	4,256	203,818
Total revenues	<u>80,029</u>	<u>199,562</u>	<u>54,792</u>	<u>334,383</u>
Expenditures:				
Current:				
Instruction:				
Regular	20,564	-	9,884	30,448
Other	-	198,118	-	198,118
Support services:				
Administration	18,717	-	-	18,717
Operation and maintenance of plant	31,624	2,100	-	33,724
Transportation	8,016	-	-	8,016
Other expenditures:				
Facilities acquisition	-	-	21,899	21,899
Total expenditures	<u>78,921</u>	<u>200,218</u>	<u>31,783</u>	<u>310,922</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,108</u>	<u>(656)</u>	<u>23,009</u>	<u>23,461</u>
Fund balances beginning of year	<u>77,346</u>	<u>52,887</u>	<u>(16,885)</u>	<u>113,348</u>
Fund balances end of year	<u><u>78,454</u></u>	<u><u>52,231</u></u>	<u><u>6,124</u></u>	<u><u>136,809</u></u>

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2007

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Intra-fund Transfers	Balance End of Year
	\$	\$	\$	\$	\$
Athletics	12,294	34,433	34,668	(5,671)	6,388
Drama	611	840	598	-	853
Speech	443	-	197	-	246
Musical	2,382	2,433	2,836	-	1,979
Band	417	2,641	3,044	-	14
Band uniforms	158	-	42	-	116
Band trip	1,608	9,769	5,392	-	5,985
Chorus	1,103	642	1,744	-	1
Swing choir	78	-	-	-	78
Choir trip	2,791	13,471	15,988	-	274
Cheerleaders- basketball	451	2,492	1,853	(896)	194
Cheerleaders- wrestling	-	-	229	590	361
Cheerleaders- football	-	-	-	306	306
Drill team	1,145	3,206	1,803	1	2,549
Boys basketball	3,738	1,082	1,364	-	3,456
Football	722	739	701	-	760
Varsity gold football	1,051	1,620	853	-	1,818
Baseball	1,031	951	1,102	-	880
Wrestling	4	-	-	-	4
Shared wrestling	-	3,423	4,223	800	-
Girls basketball	500	20	169	-	351
Volleyball	573	1,030	947	-	656
Softball	306	500	512	-	294
Class of 2004	106	-	-	(106)	-
Class of 2006	455	-	-	(455)	-
Class of 2007	1,075	5,415	5,836	(654)	-
Class of 2008	1,811	11,011	12,410	-	412
Class of 2009	222	1,840	1,607	-	455
Class of 2010	-	580	47	-	533
FFA	6,732	45,690	48,883	-	3,539
FLA	331	6,752	5,963	-	1,120
Academic society	1	-	-	-	1
Yearbook	-	8,006	10,018	2,928	916
Chess club	-	320	323	3	-
Art club	66	-	-	-	66
Spanish club	59	-	-	(59)	-
French club	2	370	177	-	195
Student council	317	4,790	6,470	2,279	916
Revolving	(716)	5,280	4,972	408	-
Target project	507	506	506	(507)	-

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2007

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Intra-fund Transfers	Balance End of Year
	\$	\$	\$	\$	\$
FFA savings	775	74	-	-	849
Fine arts booster fund	25	-	-	(25)	-
Investments	136	-	-	1,058	1,194
Interest-activity checking	161	176	-	-	337
MS athletics	7,631	23,965	20,070	(155)	11,371
MS drama	-	83	238	155	-
MS music	158	790	465	-	483
MS yearbook	454	846	360	-	940
MS student council	115	4,834	3,608	-	1,341
Ending accrual	1,058	(1,058)	-	-	-
Total	<u>52,887</u>	<u>199,562</u>	<u>200,218</u>	<u>-</u>	<u>52,231</u>

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities
Agency Fund

Year ended June 30, 2007

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
	\$	\$	\$	\$
Assets				
Cash	-	981	-	981
Other receivables	1,405	-	1,200	205
	<u>1,405</u>	<u>-</u>	<u>1,200</u>	<u>205</u>
Total assets	<u>1,405</u>	<u>981</u>	<u>1,200</u>	<u>1,186</u>
Liabilities				
Warrants issued in excess of bank balance	780	-	780	-
Accounts payable	-	27	-	27
Other payables	625	534	-	1,159
	<u>625</u>	<u>534</u>	<u>-</u>	<u>1,159</u>
Total liabilities	<u>1,405</u>	<u>561</u>	<u>780</u>	<u>1,186</u>

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			
	2007	2006	2005	2004
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,675,046	1,427,833	1,318,787	1,762,806
Local option sales tax	317,442	259,675	245,565	7,137
Tuition	223,674	210,691	128,190	149,258
Other	317,819	402,903	319,369	306,494
Intermediate sources	-	-	1,404	-
State sources	2,196,873	2,161,904	2,186,918	1,835,604
Federal sources	146,545	155,607	164,269	140,762
Total revenues	<u>4,877,399</u>	<u>4,618,613</u>	<u>4,364,502</u>	<u>4,202,061</u>
Expenditures:				
Instruction:				
Regular	2,085,360	1,891,028	1,875,677	1,816,424
Special	454,385	483,038	431,196	476,273
Other	570,574	615,451	593,906	509,610
Support services:				
Student	165,587	143,896	138,557	156,799
Instructional staff	124,663	131,507	119,087	123,173
Administration	516,578	550,555	537,626	514,024
Operation and maintenance of plant	388,332	382,870	332,561	326,541
Transportation	229,630	189,952	193,631	238,040
Non-instructional programs	262	299	396	421
Other expenditures:				
Facilities acquisition	116,775	99,357	139,194	157,364
AEA flowthrough	168,724	163,182	161,511	155,888
Total expenditures	<u>4,820,870</u>	<u>4,651,135</u>	<u>4,523,342</u>	<u>4,474,557</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
Government Auditing Standards

To the Board of Education of
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, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated April 28, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Rockwell City/Lytton Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Rockwell City/Lytton Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Rockwell City/Lytton Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Rockwell City/Lytton Community School District's financial statements that is more than inconsequential will not be prevented or detected by Rockwell City/Lytton Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Rockwell City/Lytton Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items 07-I-A and 07-I-B are material weaknesses.

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 and Responses.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 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.

Rockwell City/Lytton Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the District's responses, we did not audit Rockwell City/Lytton Community School District's responses and, accordingly, we express no opinion on them.

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

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

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

April 28, 2008

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

June 30, 2007

Part I: Findings Related to the Financial Statements:

Significant deficiencies:

07-I-A Segregation of Duties: The limited number of personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, preparing checks and bank reconciliations, preparing and posting general journal entries, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although we noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

Recommendation: We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures and investigate methods to increase monitoring activities to obtain the maximum internal control possible under the circumstances.

District Response: The District is aware of the lack of complete segregation of duties and will make changes as the opportunity arises.

Conclusion: Response accepted.

07-I-B Financial Statement Preparation: Financial statement preparation is the responsibility of the District. At the present time District personnel do not have the skills necessary to be able to write the District's financial statements and the related note disclosures. This is not an unusual situation for small governmental entities.

Recommendation: District personnel should attend any governmental accounting and reporting training sessions that may be offered by the Iowa Department of Education, State Auditor's Office or Iowa Association of School Business Officials. The school business office should also have governmental accounting and reporting reference materials.

District Response: As a school we certainly understand the need for continuing education classes for all of our staff. However, we have a limited budget and must continually prioritize needs. At this point in time it is not cost effective to train our staff to the level necessary that would enable them to write the financial statements, nor is it feasible to hire additional employees that already possess the skills.

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings

June 30, 2007

Part II: Other Findings Related to Statutory Reporting:

07-II-A Certified Budget: Expenditures for the year ended June 30, 2007, did not exceed the amounts of the published budget by function, however the District did exceed its General Fund spending authority.

Recommendation: The District needs to closely monitor its spending in relation to its spending authority in the General Fund to avoid exceeding its spending authority.

District Response: Future spending will be monitored to avoid exceeding our spending authority.

Conclusion: Response accepted.

07-II-B Questionable Expenditures: No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

07-II-C Travel Expenses: 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.

07-II-D Business Transactions: Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Ross Simpson, Board Member, Owner of Ross Plumbing & Heating	Supplies	\$ 42
Jo Grodahl, Board Member, Owner of Agents, Inc.	Insurance	58,856

In accordance with Chapter 279.7A of the Code of Iowa, the transaction with the Board Member for insurance does not appear to be a conflict of interest because the contract was competitively bid. The transaction for supplies does not appear to be a conflict of interest because the amount is less than \$2,500 as allowed by Iowa law.

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

07-II-F Board Minutes: We noted no transactions requiring Board approval that had not been approved by the Board.

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings

June 30, 2007

Part II: Other Findings Related to Statutory Reporting (Continued):

07-II-G Certified Enrollment: The number of basic resident students reported to the Iowa Department of Education on Line 1 of the Certified Enrollment Certification Form for October, 2006, was overstated by three students.

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

District Response: We will contact these departments.

Conclusion: Response accepted.

07-II-H 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.

07-II-I Certified Annual Report: The Certified Annual Report was not certified to the Iowa Department of Education by September 28, 2007. We noted no significant deficiencies in the amounts reported.

Recommendation: In the future, the District should ensure the Certified Annual Report is timely certified to the Iowa Department of Education.

District Response: We will do so in the future.

Conclusion: Response accepted.

07-II-J Reclassification of Student Activity Fund Accounts: There are some accounts in the Student Activity Fund that may belong more appropriately in other funds.

Recommendation: We recommend these accounts be reviewed and transferred to the proper fund.

District Response: We will review the accounts and make any necessary adjustments.

Conclusion: Response accepted.

07-II-K Allocation of Interest: We noted that interest from a pooled bank account is not being allocated to the Management or PPEL Funds.

Recommendation: The District should allocate interest revenue to each fund within a pooled bank account.

District Response: We will review our procedures and make any necessary adjustments.

Conclusion: Response accepted.

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings

June 30, 2007

Part II: Other Findings Related to Statutory Reporting (Continued):

07-II-L Capital Projects(LOST): We noted that expenditures from this fund included some purchases for maintenance or individual items of equipment with a cost of less than \$500.

Recommendation: The District should be aware of the limitation on types of expenditures allowed from this fund.

District Response: We will monitor the expenditures from this fund in the future to assure that only allowable expenditures are made from this fund.

Conclusion: Response accepted.

07-II-M Signature on Checks: We noted that lunch and activity checks were not signed by the board secretary. All District checks are to be signed by the Board President and Board Secretary. The Board may designate another individual to sign when the Board President is unavailable.

Recommendation: The District should revise its check signing procedures.

District Response: We will review our procedures and make any necessary changes to be in compliance with the Code of Iowa.

Conclusion: Response accepted.

06-II-N After Prom Funds: We noted the After Prom organization was using the District's identification numbers but the District does not keep the organization's financial records.

Recommendation: The After Prom accounts should cease using the District's identification numbers.

District Response: We have talked to them about this issue.

Conclusion: Response accepted.