

ROCKWELL CITY/LYTTON

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

June 30, 2010

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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, 2010, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Rockwell City/Lytton Community School District at June 30, 2010, 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 26, 2011 on our consideration of Rockwell City/Lytton Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information, and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 13 and 37 through 39 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 four years ended June 30, 2009 (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 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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 26, 2011

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, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$4,714,774 in fiscal 2009 to \$4,878,291 in fiscal 2010, while General Fund expenditures decreased from \$4,876,368 in fiscal 2009 to \$4,300,248 in fiscal 2010. The District's General Fund balance increased from \$(371,492) in fiscal 2009 to \$237,856 in fiscal 2010, a 164% increase.
- The increase in General Fund revenues was attributable to an increase in property tax and state and federal grant revenue in fiscal 2009. The decrease in expenditures was due primarily to a reduction in staff members and the closing of the Lytton school building.

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.

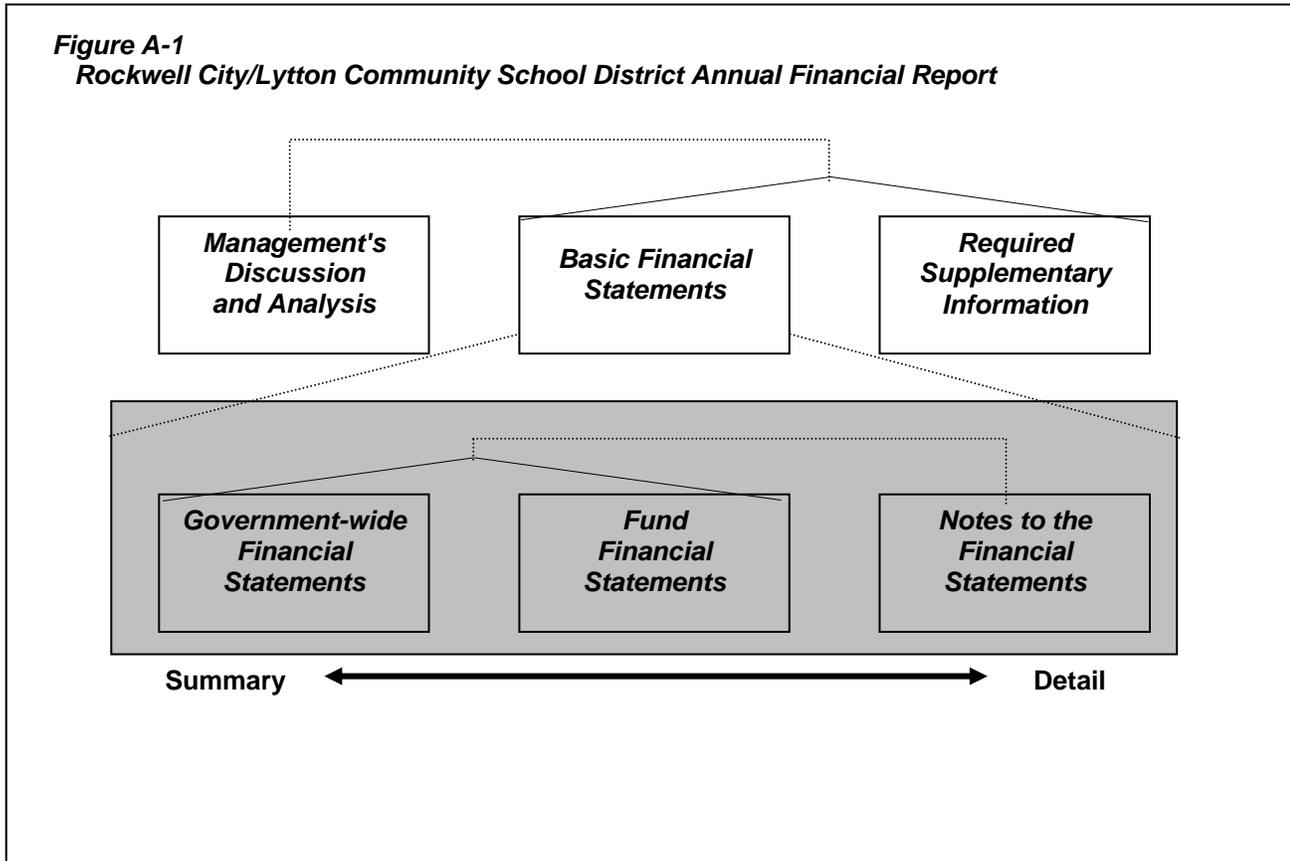


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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, 2010 compared to June 30, 2009.

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2010-2009
	Governmental Activities		Business-type Activities		Total School District		
	2009	2010	2009	2010	2009	2010	
	\$	\$	\$	\$	\$	\$	
Current and other assets	4,724,508	4,372,120	7,335	41,859	4,731,843	4,413,979	-7%
Capital assets	1,579,137	1,507,803	19,388	14,846	1,598,525	1,522,649	-5%
Total assets	6,303,645	5,879,923	26,723	56,705	6,330,368	5,936,628	-6%
Long-term liabilities	166,875	144,644	-	-	166,875	144,644	-13%
Other liabilities	4,174,118	3,005,198	2,414	2,503	4,176,532	3,007,701	-28%
Total liabilities	4,340,993	3,149,842	2,414	2,503	4,343,407	3,152,345	-27%
Net Assets:							
Invested in capital assets, net of related debt	1,579,137	1,507,803	19,388	14,846	1,598,525	1,522,649	-5%
Restricted	999,642	1,443,516	-	-	999,642	1,443,516	44%
Unrestricted	(616,127)	(221,238)	4,921	39,356	(611,206)	(181,882)	70%
TOTAL NET ASSETS	1,962,652	2,730,081	24,309	54,202	1,986,961	2,784,283	40%

The District’s combined net assets increased by nearly 40%, or approximately \$797,322, 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 \$443,874 or 44% over the prior year. The increase was primarily a result of decreased expenditures. The Local Option Sales Tax balance increased for spending on future planned projects.

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 – increased approximately \$429,324, or 70%.

Figure A-4 shows the change in net assets for the years ended June 30, 2010 and 2009.

Figure A-4

	Change in Net Assets						Percentage Change 2009-2010
	Governmental Activities		Business-type Activities		Total School District		
	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	
Revenues							
Program Revenues:							
Charges for services	537,492	648,033	138,226	127,840	675,718	775,873	15%
Operating grants & contributions and restricted interest	904,171	1,072,904	110,428	115,778	1,014,599	1,188,682	17%
Capital grants & contributions and restricted interest	-	5,000	-	-	-	5,000	100%
General Revenues:							
Property taxes	1,959,967	2,304,407	-	-	1,959,967	2,304,407	18%
Statewide sales & services tax	292,832	299,386	-	-	292,832	299,386	2%
Unrestricted state grants	1,650,573	1,298,816	-	-	1,650,573	1,298,816	-21%
Unrestricted investment earnings	35,118	21,791	13		35,131	21,791	-38%
Other revenue	2,696	12,306	-	11	2,696	12,317	357%
Gain (loss) on disposal of capital assets	-	(16,119)	-	3,623	-	(12,496)	-100%
Total Revenues	5,382,849	5,646,524	248,667	247,252	5,631,516	5,893,776	5%
Expenses:							
Instruction	3,849,138	3,224,052	-	-	3,849,138	3,224,052	-16%
Support services	1,368,062	1,308,623	-	-	1,368,062	1,308,623	-4%
Non-instructional programs	196	96	257,282	217,359	257,478	217,455	-15%
Other expenditures	322,679	346,324	-	-	322,679	346,324	7%
Total expenses	5,540,075	4,879,095	257,282	217,359	5,797,357	5,096,454	-12%
CHANGE IN NET ASSETS	(157,226)	767,429	(8,615)	29,893	(165,841)	797,322	581%
Net assets beginning of year	2,119,878	1,962,652	32,924	24,309	2,152,802	1,986,961	-8%
Net assets end of year	1,962,652	2,730,081	24,309	54,202	1,986,961	2,784,283	40%

Property tax and unrestricted state grants account for 61% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 89% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$5,646,524 and expenses were \$4,879,095. In a difficult budget year, the District reduced by reducing staff members and closing a building.

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 2009 \$	Total Cost of Services 2010 \$	Net Cost of Services 2009 \$	Net Cost of Services 2010 \$
Instruction	3,849,138	3,224,052	2,593,115	1,706,403
Support Services	1,368,062	1,308,623	1,365,425	1,303,785
Non-instructional Programs	196	96	196	96
Other Expenses	322,679	346,324	139,676	142,874
TOTAL	5,540,075	4,879,095	4,098,412	3,153,158

- The cost financed by users of the District’s programs was \$648,033. 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 \$1,072,904.
- The net cost of governmental activities was financed with \$2,603,793 in property and other taxes and \$1,298,816 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$247,252 and expenses were \$217,359. 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 \$1,366,922, above last year’s ending fund balances of \$550,390.

Governmental Fund Highlights

- The District’s improved General Fund financial position is the result of many factors. Growth during the year in tax and grants resulted in an increase in revenues.
- The General Fund balance increased from \$(371,492) to \$237,856, due in part to the reductions of staff and the closing of a building.
- The Capital Projects Fund balance increased due to keeping expenditures less than revenues. Fiscal 2010 ended with a balance of \$764,036.

- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$71,725 in fiscal 2009 to 140,466 in fiscal 2010.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$24,309 at June 30, 2009 to \$54,202 at June 30, 2010, representing an increase of approximately 123%.

BUDGETARY HIGHLIGHTS

The District's receipts were \$400,119 less than budgeted receipts, a variance of 6%. 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, 2010 the District had invested \$1.5 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 5 to the financial statements. Depreciation expense for the year was \$179,596.

During fiscal year 2010 the District's main expenditures for in the Capital Assets area related to technology.

Figure A-6

Capital Assets (net of depreciation)

	Governmental Activities		Business type Activities		Total School District		Percentage Change 2010-2009
	2009	2010	2009	2010	2009	2010	
	\$	\$	\$	\$	\$	\$	
Land	92,000	92,000	-	-	92,000	92,000	0%
Buildings	965,008	874,201	-	-	965,008	874,201	-9%
Improvements	413,741	327,290	-	-	413,741	327,290	-21%
Equipment & Furniture	108,388	214,312	19,388	14,846	127,776	229,158	79%
TOTAL	1,579,137	1,507,803	19,388	14,846	1,598,525	1,522,649	-5%

Long-Term Debt

At June 30, 2010 the District had \$144,644 in long-term debt outstanding.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Percentage
	2009	2010	Change
	\$	\$	2009-2010
Termination benefits	138,030	104,092	-25%
Compensated absences	28,845	32,550	13%
Net OPEB liability	-	8,002	100%
	<u>166,875</u>	<u>144,644</u>	<u>-13%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

- The school followed the corrective action plan with the SBRC to make the necessary changes to improve the districts' finances.
- The school will enter into whole grade sharing with SC beginning in the fall of 2011.
- Enrollment trend continues to decline.

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, Jeff Kruse, 1000 Tonawanda, Rockwell City, Iowa 50579.

BASIC FINANCIAL STATEMENTS

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2010

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	1,522,113	38,600	1,560,713
Receivables:			
Property tax:			
Delinquent	26,885	-	26,885
Succeeding year	2,555,574	-	2,555,574
Accounts	3,065	4	3,069
Due from other governments	264,483	-	264,483
Inventories	-	3,255	3,255
Capital assets, net of accumulated depreciation	1,507,803	14,846	1,522,649
Total assets	5,879,923	56,705	5,936,628
Liabilities			
Warrants issued in excess of bank balance	1,921	-	1,921
Accounts payable	56,438	-	56,438
Salaries and benefits payable	379,178	-	379,178
Deferred revenue:			
Succeeding year property tax	2,555,574	-	2,555,574
Other	12,087	2,503	14,590
Long-term liabilities:			
Portion due within one year:			
Termination benefits	23,568	-	23,568
Compensated absences	10,850	-	10,850
Portion due after one year:			
Termination benefits	80,524	-	80,524
Compensated absences	21,700	-	21,700
Net OPEB liability	8,002	-	8,002
Total Liabilities	3,149,842	2,503	3,152,345
Net assets			
Invested in capital assets, net of related debt	1,507,803	14,846	1,522,649
Restricted for:			
Categorical funding	418,542	-	418,542
Management levy	37,065	-	37,065
Physical plant and equipment levy	140,466	-	140,466
Other special revenue purposes	83,407	-	83,407
Sales tax capital projects	764,036	-	764,036
Unrestricted	(221,238)	39,356	(181,882)
Total net assets	2,730,081	54,202	2,784,283

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2010

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular	1,927,830	336,012	715,920	-
Special	479,227	72,755	95,379	-
Other	816,995	236,081	61,502	-
	<u>3,224,052</u>	<u>644,848</u>	<u>872,801</u>	<u>-</u>
Support services:				
Student	51,646	-	-	-
Instructional staff	108,114	-	-	-
Administration	609,293	-	-	-
Operation and maintenance of plant	328,212	3,185	-	-
Transportation	211,358	-	1,653	-
	<u>1,308,623</u>	<u>3,185</u>	<u>1,653</u>	<u>-</u>
Non-instructional programs	96	-	-	-
Other expenditures:				
Facilities acquisition	26,238	-	-	5,000
AEA flowthrough	198,450	-	198,450	-
Depreciation (unallocated)*	121,636	-	-	-
	<u>346,324</u>	<u>-</u>	<u>198,450</u>	<u>5,000</u>
Total governmental activities	4,879,095	648,033	1,072,904	5,000
Business type activities:				
Non-instructional programs:				
Food service operations	217,359	127,840	115,778	-
Total	<u>5,096,454</u>	<u>775,873</u>	<u>1,188,682</u>	<u>5,000</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Capital outlay				
Statewide sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Gain (loss) on disposal of capital assets				
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.

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$	\$	\$
(875,898)	-	(875,898)
(311,093)	-	(311,093)
(519,412)	-	(519,412)
<u>(1,706,403)</u>	<u>-</u>	<u>(1,706,403)</u>
(51,646)	-	(51,646)
(108,114)	-	(108,114)
(609,293)	-	(609,293)
(325,027)	-	(325,027)
(209,705)	-	(209,705)
<u>(1,303,785)</u>	<u>-</u>	<u>(1,303,785)</u>
(96)	-	(96)
(21,238)	-	(21,238)
-	-	-
(121,636)	-	(121,636)
<u>(142,874)</u>	<u>-</u>	<u>(142,874)</u>
(3,153,158)	-	(3,153,158)
-	26,259	26,259
<u>(3,153,158)</u>	<u>26,259</u>	<u>(3,126,899)</u>
2,245,815	-	2,245,815
58,592	-	58,592
299,386	-	299,386
1,298,816	-	1,298,816
21,791	-	21,791
12,306	11	12,317
(16,119)	3,623	(12,496)
<u>3,920,587</u>	<u>3,634</u>	<u>3,924,221</u>
767,429	29,893	797,322
1,962,652	24,309	1,986,961
<u>2,730,081</u>	<u>54,202</u>	<u>2,784,283</u>

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2010

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	605,575	555,323	361,215	1,522,113
Receivables:				
Property tax:				
Delinquent	24,088	-	2,797	26,885
Succeeding year	2,323,470	-	232,104	2,555,574
Accounts	3,065	-	-	3,065
Interfund receivable	-	93,529	2,899	96,428
Due from other governments	128,169	136,314	-	264,483
Total assets	3,084,367	785,166	599,015	4,468,548
Liabilities and Fund Balances				
Liabilities:				
Warrants issued in excess of bank balance	-	1,921	-	1,921
Accounts payable	35,348	19,209	1,881	56,438
Salaries and benefits payable	379,178	-	-	379,178
Interfund payable	96,428	-	-	96,428
Deferred revenue:				
Succeeding year property tax	2,323,470	-	232,104	2,555,574
Other	12,087	-	-	12,087
Total liabilities	2,846,511	21,130	233,985	3,101,626
Fund balances:				
Reserved for:				
Categorical funding	418,542	-	-	418,542
Unreserved reported in:				
General fund	(180,686)	-	-	(180,686)
Special revenue funds	-	-	365,030	365,030
Capital projects funds	-	764,036	-	764,036
Total fund balances	237,856	764,036	365,030	1,366,922
Total liabilities and fund balances	3,084,367	785,166	599,015	4,468,548

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

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

June 30, 2010

	\$
Total fund balances of governmental funds (Exhibit C)	1,366,922
<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.	1,507,803
Long-term liabilities, including termination benefits, compensated absences, and other postemployment benefits are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(144,644)</u>
Net assets of governmental activities (Exhibit A)	<u><u>2,730,081</u></u>

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local property tax	2,066,530	-	237,877	2,304,407
Statewide sales tax	-	299,386	-	299,386
Tuition	265,388	-	-	265,388
Other	174,804	5,614	241,324	421,742
State sources	1,958,762	-	151	1,958,913
Federal sources	412,807	-	-	412,807
Total revenues	<u>4,878,291</u>	<u>305,000</u>	<u>479,352</u>	<u>5,662,643</u>
Expenditures:				
Current:				
Instruction:				
Regular	1,881,605	80,834	-	1,962,439
Special	482,257	-	-	482,257
Other	595,129	-	221,866	816,995
	<u>2,958,991</u>	<u>80,834</u>	<u>221,866</u>	<u>3,261,691</u>
Support services:				
Student	51,646	-	-	51,646
Instructional staff	107,498	-	-	107,498
Administration	532,107	19,072	53,793	604,972
Operation and maintenance of plant	287,158	10,250	31,513	328,921
Transportation	164,302	115,814	8,409	288,525
	<u>1,142,711</u>	<u>145,136</u>	<u>93,715</u>	<u>1,381,562</u>
Non-instructional programs	<u>96</u>	<u>-</u>	<u>-</u>	<u>96</u>
Other expenditures:				
Facilities acquisition	-	45,617	-	45,617
AEA flowthrough	198,450	-	-	198,450
	<u>198,450</u>	<u>45,617</u>	<u>-</u>	<u>244,067</u>
Total expenditures	<u>4,300,248</u>	<u>271,587</u>	<u>315,581</u>	<u>4,887,416</u>
Excess (deficiency) of revenues over (under) expenditures	578,043	33,413	163,771	775,227
Other financing sources (uses):				
Sales of equipment & real property	31,305	-	10,000	41,305
Net change in fund balances	609,348	33,413	173,771	816,532
Fund balances beginning of year	<u>(371,492)</u>	<u>730,623</u>	<u>191,259</u>	<u>550,390</u>
Fund balances end of year	<u><u>237,856</u></u>	<u><u>764,036</u></u>	<u><u>365,030</u></u>	<u><u>1,366,922</u></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, 2010

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		816,532
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
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 and disposal of capital assets exceeded capital outlay expenditures in the current year, as follows:		
Disposal of capital assets	(57,424)	
Expenditures for capital assets	162,598	
Depreciation expense	<u>(176,508)</u>	(71,334)
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	33,938	
Compensated absences	(3,705)	
Other postemployment benefits	<u>(8,002)</u>	<u>22,231</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>767,429</u></u>

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2010

	Nonmajor School Nutrition
	<u>\$</u>
Assets	
Cash and cash equivalents	38,600
Accounts receivable	4
Inventories	3,255
Capital assets, net of accumulated depreciation	<u>14,846</u>
Total assets	<u>56,705</u>
Liabilities	
Deferred revenue	<u>2,503</u>
Net assets	
Invested in capital assets	14,846
Unrestricted	<u>39,356</u>
Total net assets	<u><u>54,202</u></u>

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds

Year ended June 30, 2010

	Nonmajor School Nutrition
	\$
Operating revenues:	
Local sources:	
Charges for service	127,840
Operating expenses:	
Non-instructional programs:	
Salaries	86,008
Benefits	17,826
Purchased services	5,561
Supplies	104,876
Depreciation	3,088
Total operating expenses	217,359
Operating gain (loss)	(89,519)
Non-operating revenues:	
State sources	2,311
Federal sources	113,467
Interest income	11
Gain on disposal of equipment	3,623
Total non-operating revenues	119,412
Change in net assets	29,893
Net assets beginning of year	24,309
Net assets end of year	54,202

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2010

	Nonmajor School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	127,987
Cash payments to employees for services	(103,834)
Cash payments to suppliers for goods or services	(87,823)
Net cash used by operating activities	<u>(63,670)</u>
Cash flows from non-capital financing activities:	
State grants received	2,311
Federal grants received	91,284
Net cash provided by non-capital financing activities	<u>93,595</u>
Cash flows from capital and related financing activities:	
Sale of capital assets	<u>5,077</u>
Cash flows from investing activities:	
Interest on investments	<u>11</u>
Net increase (decrease) in cash and cash equivalents	35,013
Cash and cash equivalents at beginning of year	<u>3,587</u>
Cash and cash equivalents at end of year	<u><u>38,600</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(89,519)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	22,183
Depreciation	4,542
Decrease (increase) in inventories	431
Decrease (increase) in accounts receivable	58
(Decrease) increase in deferred revenue	89
Net cash used by operating activities	<u><u>(62,216)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2010, the District received \$22,183 of federal commodities.

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2010

	<u>Agency</u>
	\$
Assets	
Cash and pooled investments	590
Liabilities	
Other payables	<u>590</u>
Net Assets	<u><u>-</u></u>

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2010

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 attributable 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 instructional, 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 the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and 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, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2009.

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 and intangibles, 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
Intangibles	25,000
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 Lives</u>
Buildings	50 years
Improvements other than buildings	20 years
Intangibles	3-10 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 sick leave 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, 2010. 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, 2010, the District did not exceed its published budget.

2. **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2010 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, 2010, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
	\$
Diversified Portfolio	1,131,579

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. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2010 is as follows:

Receivable Fund	Payable Fund	Amount
		\$
Capital Projects Fund	General Fund	93,529
Nonmajor Governmental, Management Fund	General Fund	2,899

The Management and Capital Projects funds loaned the General Fund money for cash flow.

4. Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. Bankers Trust Co. NA is the trustee for the program.

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. The District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The interest rate on the Series 2009-10A warrants was 2.5%. The interest rate on the Series 2009-10B warrants is a variable rate, calculated daily based upon the Bankers Trust Co., NA prime rate plus 50 basis points with a minimum interest rate of 4.5%. A summary of the District's ISCAP activity for the year ended June 30, 2010, is as follows:

Series	Warrant Date	Final Warrant Maturity Date	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
			\$	\$	\$	\$
2009-10A	6/25/09	6/23/10	-	200,000	200,000	-
2009-10B	2/1/10	1/21/11	-	-	-	-
			-	200,000	200,000	-

During the year ended June 30, 2010, the District paid \$21,511 of interest on the ISCAP warrants.

5. Capital Assets

Capital assets activity for the year ended June 30, 2010 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	3,357,186	-	638,140	2,719,046
Improvements other than buildings	2,618,410	-	45,959	2,572,451
Furniture and equipment	1,007,423	162,598	99,866	1,070,155
Total capital assets being deprec.	<u>6,983,019</u>	<u>162,598</u>	<u>783,965</u>	<u>6,361,652</u>
Less accumulated depreciation for:				
Buildings	2,392,178	58,864	606,197	1,844,845
Improvements other than buildings	2,204,669	60,973	20,481	2,245,161
Furniture and equipment	899,035	56,671	99,863	855,843
Total accumulated depreciation	<u>5,495,882</u>	<u>176,508</u>	<u>726,541</u>	<u>4,945,849</u>
Total capital assets being depreciated, net	<u>1,487,137</u>	<u>(13,910)</u>	<u>57,424</u>	<u>1,415,803</u>
Governmental activities capital assets, net	<u>1,579,137</u>	<u>(13,910)</u>	<u>57,424</u>	<u>1,507,803</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	69,597	-	11,109	58,488
Less accumulated depreciation	<u>50,209</u>	<u>3,088</u>	<u>9,655</u>	<u>43,642</u>
Business type activities capital assets, net	<u>19,388</u>	<u>(3,088)</u>	<u>1,454</u>	<u>14,846</u>

Depreciation expense was charged to the following functions:

	Amount
	\$
Governmental activities:	
Instruction:	
Regular	15,838
Special	262
Support services:	
Operation and maintenance	125
Transportation	<u>38,647</u>
	54,872
Unallocated depreciation	<u>121,636</u>
Total depreciation expense – governmental activities	<u>176,508</u>

Business type activities:
Food services

3,088

6. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2010, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Governmental activities:					
Termination benefits	138,030	-	33,938	104,092	23,568
Compensated absences	28,845	3,705	-	32,550	10,850
Net OPEB liability	-	8,002	-	8,002	-
Totals	<u>166,875</u>	<u>11,707</u>	<u>33,938</u>	<u>144,644</u>	<u>34,418</u>

Termination Benefits

The District offered a voluntary early retirement plan to its employees. Eligible employees must have completed at least fifteen 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 commenced.

At June 30, 2010, the District has obligations to four participants with a total liability of \$104,092. Actual early retirement expenditures for the year ended June 30, 2010 totaled \$33,938.

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 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 4.30% of their annual salary and the District is required to contribute 6.65% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$180,620, \$189,095, and \$177,201 respectively, equal to the required contributions for each year.

8. Other Postemployment Benefits (OPEB)

The District implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions during the year ended June 30, 2010.

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 25 active and 4 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

	\$
Annual required contribution	13,319
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	<u>13,319</u>
Contributions made	<u>5,317</u>
Increase in net OPEB obligation	8,002
Net OPEB obligation beginning of year	<u>-</u>
Net OPEB obligation end of year	<u>8,002</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the District contributed \$5,317 to the medical plan.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
	\$		\$
June 30, 2010	13,319	40%	8,002

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$122,179, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$122,179. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,066,000, and the ratio of the UAAL to covered payroll was 11.5%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes

to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions includes a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, projected to 2000. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

The UAAL is being amortized over 30 years.

9. 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.

10. 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 \$198,450 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

11. Related Party Transactions

Jo Grodahl, a board member, is the owner of Agents, Inc. During the year ended June 30, 2010 Rockwell City/Lytton Community School District paid approximately \$63,490 for property, liability and workmen's compensation insurance premiums through this business.

12. Fund Deficit

The General Fund has a deficit unreserved fund balance of \$180,686 at June 30, 2010.

13. Categorical Funding

The District's reserved fund balance for categorical funding at June 30, 2010 is comprised of the following programs:

<u>Program</u>	<u>Amount</u>
	\$
Gifted and talented	10,852
At risk	11,795
Returning dropout and dropout prevention	162,350
Teacher salary supplement	54,081
Educator quality, professional development	24,193
Core curriculum	12,268
Voluntary four-year-old preschool program	77,180
Early intervention	5,343
Teacher mentoring	2,146
Market factor	4,148
Professional development other	10,299
Public school child development	43,887
	<u>418,542</u>

REQUIRED SUPPLEMENTARY INFORMATION

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2010

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	3,290,923	127,851	3,418,774	3,303,581	3,303,581	115,193
State sources	1,958,913	2,311	1,961,224	2,552,810	2,552,810	(591,586)
Federal sources	412,807	113,467	526,274	450,000	450,000	76,274
Total revenues	<u>5,662,643</u>	<u>243,629</u>	<u>5,906,272</u>	<u>6,306,391</u>	<u>6,306,391</u>	<u>(400,119)</u>
Expenditures/Expenses:						
Instruction	3,261,691	-	3,261,691	3,579,866	3,579,866	318,175
Support services	1,381,562	-	1,381,562	2,138,239	2,138,239	756,677
Non-instructional programs	96	217,359	217,455	300,000	300,000	82,545
Other expenditures	244,067	-	244,067	742,619	742,619	498,552
Total expenditures/expenses	<u>4,887,416</u>	<u>217,359</u>	<u>5,104,775</u>	<u>6,760,724</u>	<u>6,760,724</u>	<u>1,655,949</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	775,227	26,270	801,497	(454,333)	(454,333)	1,255,830
Other financing sources (uses) net	<u>41,305</u>	<u>3,623</u>	<u>44,928</u>	<u>23,000</u>	<u>23,000</u>	<u>21,928</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses	816,532	29,893	846,425	(431,333)	(431,333)	1,277,758
Balance beginning of year	<u>550,390</u>	<u>24,309</u>	<u>574,699</u>	<u>728,461</u>	<u>728,461</u>	<u>(153,762)</u>
Balance end of year	<u><u>1,366,922</u></u>	<u><u>54,202</u></u>	<u><u>1,421,124</u></u>	<u><u>297,128</u></u>	<u><u>297,128</u></u>	<u><u>1,123,996</u></u>

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2010

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. The District did not amend the budget during the year.

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Schedule of Funding Progress for the Retiree Health Plan

Required Supplementary Information

Actuarial Valuation Date	Actuarial Value of Assets (a) \$	Actuarial Accrued Liability (AAL) (b) \$	Unfunded AAL (UAAL) (b-a) \$	Funded Ratio (a/b) %	Covered Payroll (c) \$	UAAL as a Percentage of Covered Payroll ((b-a)/c) %
July 1, 2009	-	122,179	122,179	0.0%	1,066,000	11.5%

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2010

Assets	Special Revenue Funds			Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	
	\$	\$	\$	\$
Cash and pooled investments	137,770	83,686	139,759	361,215
Receivables:				
Property tax:				
Delinquent	2,090	-	707	2,797
Succeeding year	170,000	-	62,104	232,104
Interfund receivable	2,899	-	-	2,899
Total assets	312,759	83,686	202,570	599,015
Liabilities & Fund Balances				
Liabilities:				
Accounts payable	1,602	279	-	1,881
Deferred revenue:				
Succeeding year property tax	170,000	-	62,104	232,104
Total liabilities	171,602	279	62,104	233,985
Fund balances:				
Unreserved reported in:				
Special revenue funds	141,157	83,407	140,466	365,030
Total liabilities and fund balances	312,759	83,686	202,570	599,015

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	Special Revenue Funds			Total
	Management	Student	Physical	
	Levy	Activity	Plant and	
		Fund	Equipment	
	\$	\$	Levy	\$
Revenues:				
Local sources:				
Local tax	179,285	-	58,592	237,877
Other	12,306	228,907	111	241,324
State sources	113	-	38	151
Total revenues	<u>191,704</u>	<u>228,907</u>	<u>58,741</u>	<u>479,352</u>
Expenditures:				
Current:				
Instruction:				
Other	-	221,866	-	221,866
Support services:				
Administration	53,793	-	-	53,793
Operation and maintenance of plant	31,513	-	-	31,513
Transportation	8,409	-	-	8,409
Total expenditures	<u>93,715</u>	<u>221,866</u>	<u>-</u>	<u>315,581</u>
Excess (deficiency) of revenues over (under) expenditures	97,989	7,041	58,741	163,771
Other financing sources (uses):				
Sales of real property	-	-	10,000	10,000
Excess (deficiency) of revenues and other financing sources over (under) expenditures	97,989	7,041	68,741	173,771
Fund balances beginning of year	<u>43,168</u>	<u>76,366</u>	<u>71,725</u>	<u>191,259</u>
Fund balances end of year	<u><u>141,157</u></u>	<u><u>83,407</u></u>	<u><u>140,466</u></u>	<u><u>365,030</u></u>

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2010

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Intra-fund Transfers	Balance End of Year
	\$	\$	\$	\$	\$
Athletics	11,221	45,019	43,263	(4,834)	8,143
Drama	921	-	3	-	918
Speech	662	3,479	2,617	-	1,524
Musical	1,871	1,058	1,596	-	1,333
Band	662	6,852	8,751	2,147	910
Band uniforms	-	2,664	2,639	50	75
Band trip	2,994	5,288	3,558	(2,198)	2,526
Chorus	1,439	2,597	3,352	-	684
Swing choir	79	-	-	-	79
Choir trip	1,599	14,163	14,706	-	1,056
Cheerleaders- basketball	1,094	1,097	1,005	-	1,186
Cheerleaders- wrestling	649	1,054	1,302	-	401
Cheerleaders- football	421	449	376	-	494
Drill team	2,741	5,576	5,258	(15)	3,044
Drill team trip	-	-	15	15	-
Boys basketball	930	3,261	1,434	-	2,757
Football	730	-	69	-	661
Varsity gold football	1,736	6,025	5,523	-	2,238
Baseball	-	8,347	9,253	906	-
Wrestling	4	-	-	(4)	-
Shared wrestling	421	6,315	7,629	893	-
Girls basketball	321	198	198	-	321
Volleyball	607	1,705	1,469	-	843
Softball	294	-	90	(483)	(279)
Shared softball	(1)	2,311	3,850	1,540	-
Class of 2008	(1)	-	-	1	-
Class of 2009	-	-	436	436	-
Class of 2010	2,714	4,242	5,440	(1,516)	-
Class of 2011	1,603	8,939	6,637	-	3,905
Class of 2012	465	1,348	379	-	1,434
Class of 2013	-	400	84	-	316
FFA	10,350	60,114	49,912	100	20,652
FCCLA	1,071	5,358	6,151	(278)	-
Academic society	1	-	-	-	1
Yearbook	1,176	5,321	7,375	880	2
Art club	206	89	157	-	138
French club	169	-	168	-	1
Student council	154	3,013	3,429	364	102
FFA savings	952	18	-	-	970
Investments	5,702	181	-	-	5,883

See accompanying independent auditor's report.

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2010

<u>Account</u>	Balance Beginning of Year \$	Revenues \$	Expenditures \$	Intra-fund Transfers \$	Balance End of Year \$
Interest-activity checking	63	30	-	(93)	-
MS athletics	13,644	20,528	17,096	2,089	19,165
MS drama	256	87	380	37	-
MS music	51	349	276	(36)	88
MS yearbook	1,421	826	927	-	1,320
MS student council	335	-	200	-	135
Middle school field trips	962	-	961	(1)	-
Elementary student council	3,677	606	3,902	-	381
	<u>76,366</u>	<u>228,907</u>	<u>221,866</u>	<u>-</u>	<u>83,407</u>
Total	<u>76,366</u>	<u>228,907</u>	<u>221,866</u>	<u>-</u>	<u>83,407</u>

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities
Agency Fund

Year ended June 30, 2010

		Balance Beginning of Year	Additions	Deductions	Balance End of Year
		\$	\$	\$	\$
	Assets				
Cash		543	331	284	590
	Liabilities				
Other payables		543	331	284	590
Total liabilities		543	331	284	590

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Fund Types

For the Last Seven Years

	Modified Accrual Basis						
	2010	2009	2008	2007	2006	2005	2004
	\$	\$	\$	\$	\$	\$	\$
Revenues:							
Local sources:							
Local property tax	2,304,407	1,959,964	1,679,089	1,675,046	1,427,833	1,318,787	1,762,806
Statewide sales tax	299,386	292,832	285,718	317,442	259,675	245,565	7,137
Tuition	265,388	241,541	283,393	223,674	210,691	128,190	149,258
Other	421,742	331,071	286,213	317,819	402,903	319,369	306,494
Intermediate sources	-	-	-	-	-	1,404	-
State sources	1,958,913	2,388,024	2,190,480	2,196,873	2,161,904	2,186,918	1,835,604
Federal sources	412,807	166,721	147,238	146,545	155,607	164,269	140,762
Total revenues	<u>5,662,643</u>	<u>5,380,153</u>	<u>4,872,131</u>	<u>4,877,399</u>	<u>4,618,613</u>	<u>4,364,502</u>	<u>4,202,061</u>
Expenditures:							
Instruction:							
Regular	1,962,439	2,356,905	2,166,862	2,085,360	1,891,028	1,875,677	1,816,424
Special	482,257	561,012	553,393	454,385	483,038	431,196	476,273
Other	816,995	839,233	603,167	570,574	615,451	593,906	509,610
Support services:							
Student	51,646	52,991	160,507	165,587	143,896	138,557	156,799
Instructional staff	107,498	102,894	114,508	124,663	131,507	119,087	123,173
Administration	604,972	618,598	581,393	516,578	550,555	537,626	514,024
Operation and maintenance	328,921	403,425	451,085	388,332	382,870	332,561	326,541
Transportation	288,525	190,569	178,534	229,630	189,952	193,631	238,040
Non-instructional programs	96	196	220	262	299	396	421
Other expenditures:							
Facilities acquisition	45,617	47,367	168,626	116,775	99,357	139,194	157,364
AEA flowthrough	198,450	183,003	171,748	168,724	163,182	161,511	155,888
Total expenditures	<u>4,887,416</u>	<u>5,356,193</u>	<u>5,150,043</u>	<u>4,820,870</u>	<u>4,651,135</u>	<u>4,523,342</u>	<u>4,474,557</u>

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures \$</u>
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY10	15,357
National School Lunch Program (non-cash)	10.555	FY10	22,183
National School Lunch Program	10.555	FY10	75,927
			<u>113,467</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	FY10	47,032
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY10	10,662
			<u>57,694</u>
Safe and Drug Free Schools and Communities - State Grants	84.186	FY10	250
Improving Teacher Quality State Grants	84.367	FY10	24,141
Grants for State Assessments and Related Activities	84.369	FY10	3,102
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	FY10	228,433
Prairie Lakes Area Education Agency:			
Special Education Cluster (IDEA)			
Special Education - Grants to States	84.027	FY10	24,801
ARRA - Special Education Grants to States, Recovery Act	84.391	FY10	67,906
			<u>92,707</u>
Southeast Webster-Grand Community School District:			
Career and Technical Education - Basic Grants to States	84.048	FY10	3,807
Total			<u>523,601</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Rockwell City/Lytton Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated April 26, 2011. 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 an 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items 10-II-A and 10-II-B to be 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 IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2010 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 Questioned Costs. 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, including federal awarding agencies and pass-through entities, and 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 26, 2011

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Independent Auditor's Report on Compliance with Requirements that Could have a Direct
and Material Effect on Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

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

Compliance

We have audited Rockwell City/Lytton Community School District's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Rockwell City/Lytton Community School District's major federal programs for the year ended June 30, 2010. Rockwell City/Lytton Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Rockwell City/Lytton Community School District's management. Our responsibility is to express an opinion on Rockwell City/Lytton Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Rockwell City/Lytton Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Rockwell City/Lytton Community School District's compliance with those requirements.

In our opinion, Rockwell City/Lytton Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of Rockwell City/Lytton Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Rockwell City/Lytton Community School District's internal control over compliance with requirements that could

have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Rockwell City/Lytton Community School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 10-III-A to be a material weakness.

Rockwell City/Lytton Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Rockwell City/Lytton Community School District's responses and, accordingly, we express no opinion on the responses.

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, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

April 26, 2011

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2010

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.394 – ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act
 - Child Nutrition Cluster
 - CFDA Number 10.553 – School Breakfast Program
 - CFDA Number 10.555 – National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Rockwell City/Lytton Community School District did not qualify as a low-risk auditee.

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2010

Part II: Findings Related to the Financial Statements:

Internal Control Deficiencies:

10-II-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: We will continue to review our procedures and implement additional controls where possible.

Conclusion: Response accepted.

10-II-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 and Questioned Costs

June 30, 2010

Part III: Findings and Questioned Costs For Federal Awards:

Instances of Non-Compliance:

No matters were noted.

Internal Control Deficiencies:

CFDA Number 10.553: School Breakfast Program
CFDA Number 10.555: National School Lunch Program and
Federal Award Year: 2010
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.394: ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants,
Recovery Act
Federal Award Year: 2010
U.S. Department of Education
Passed through the Iowa Department of Education

10-III-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: We will continue to review our procedures and implement additional controls where possible.

Conclusion: Response accepted.

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting:

10-IV-A Certified Budget: Expenditures for the year ended June 30, 2010, did not exceed the amounts budgeted.

10-IV-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.

10-IV-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.

10-IV-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>
		\$
Jo Grodahl, Board Member, Owner of Agents, Inc.	Insurance	63,490
Roscoe Simpson, Board Member, Owner of Ross Plumbing & Heating	Winterize building	5,566
Brad Assman, Board Member	Employee of local bank	

Recommendation: Business with district officials is not a conflict of interest if bids are taken or total amount is less than \$2,500. The District should consult legal council regarding these matters.

District Response: We will consult with our attorney.

Conclusion: Response accepted.

10-IV-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.

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

09-IV-G Certified Enrollment: No variances in the basic enrollment data certified to the Department of Education were noted.

10-IV-H Supplementary Weighting: No variances regarding supplementary weighting certified to the Department of Education were noted.

10-IV-I 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.

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting (Continued):

10-IV-J Certified Annual Report: The Certified Annual Report was certified to the Iowa Department of Education timely.

10-IV-K Categorical Funding: Except as noted, no instances were noted of categorical funding being used to supplant rather than supplement other funds. The District allocated \$162,350 for administrative and regular classroom teaching salaries and benefits to the District's Returning Dropout and Dropout Prevention program. The \$162,350 cost allocation does not appear to be an allowable cost for this program in accordance with Chapter 256D.2 of the Code of Iowa and Iowa Department of Education administrative rules. Only expenditures directly related to the Returning Dropout and Dropout Prevention program may be charged to the program.

According to administrative rules, "Categorical funding shall not be commingled with other funding. School districts shall use a project code and program code as defined by Uniform Financial Accounting." We noted that during the year some categorical funding expenditures were commingled with other General Fund expenditures, and then were reclassified as categorical spending at the end of the year.

Recommendation: The District should contact the Iowa Department of Education regarding corrective action required. In the future, the District should not allocate administrative and regular classroom salary and benefit costs to the Returning Dropout and Dropout Prevention program. The questioned costs of \$162,350 have been reported as reserved fund balance.

Also, all categorical funding expenditures should be posted to the correct expenditure accounts as the expenditures are incurred.

District Response: As recommended, we will contact the Iowa Department of Education to determine the corrective action required. We have revised our procedures for identifying categorical expenditures so that they will be coded to the correct expenditure accounts.

Conclusion: Response accepted.

10-IV-L Statewide Sales, Services and Use Tax: Sales tax proceeds may be spent to purchase or lease a single unit of equipment or technology exceeding \$500 in value per unit. We noted that \$1,782 of sales tax proceeds were used to purchase six table tops. This does not appear to be an allowable use.

Recommendation: The District should be aware of the limitation on types of expenditures allowed from the sales tax. The General Fund should reimburse the Sales Tax Capital Projects Fund for these expenditures.

District Response: We will monitor expenditures from sales tax and make the reimbursement.

Conclusion: Response accepted.

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting (Continued):

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax revenue are as follows:

Beginning balance	\$	\$
		730,623
Statewide sales, services and use tax	299,386	
Donations	5,000	
Interest	<u>614</u>	305,000
Expenditures/transfers out:		
School infrastructure:		
Buildings and building improvements	45,617	
Equipment	<u>225,970</u>	<u>271,587</u>
Ending balance		<u><u>764,036</u></u>

The statewide sales, services and use tax revenue received during the year ended June 30, 2010 is equivalent to a reduction in the following levies:

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
	\$	\$
Physical plant and equipment levy	1.6802	299,386

10-IV-M Financial Condition: The District has unreserved deficit fund balance in the General Fund of \$180,686 at June 30, 2010.

Recommendation: The District should continue to monitor this fund and investigate alternatives to eliminate the deficit.

District Response: We are working on ways to eliminate the deficit.

Conclusion: Response accepted.

10-IV-N Interfund loans: On October 22, 2009 the Iowa Department of Education issued a Declaratory Order covering interfund loans. The Order states that all loans between funds must be approved by the board of directors, interest must be paid on the interfund loan and the loan must be repaid before the October 1, after each year-end.

We noted that the District has General Fund loans payable to the Capital Projects and Management Funds that were not repaid by October 1, and that have not been incurring interest.

ROCKWELL CITY/LYTTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting (Continued):

Recommendation: The District should follow the October 22, 2009 Declaratory Order with respect to the interfund loans.

District Response: We will follow the Declaratory Order on interfund loans.

Conclusion: Response accepted.