



**Auditor of State
Betty Montgomery**



Mary Taylor, CPA
Auditor of State

February 22, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

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RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

River Valley Local School District
Marion County
197 Brocklesby Road
Caledonia, Ohio 43314

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of River Valley Local School District, Marion County, Ohio (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of River Valley Local School District, Marion County, Ohio, as of June 30, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General and Classroom Facilities Maintenance funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The schedule of federal awards receipts and expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the schedule of federal awards receipts and expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

December 29, 2006

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

The discussion and analysis of River Valley Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Highlights for fiscal year 2006 are as follows:

In total, net assets increased \$453,192, or less than 2 percent, an insignificant change from the prior fiscal year.

General revenues were \$14,009,572, or 79 percent of total revenues, and reflect the School District's continued dependence on property taxes and unrestricted state entitlements.

The School District continues to use the five-year forecast as the main financial management tool to determine future levies and/or adjustments to the budget. Assumptions are reviewed carefully by the River Valley Finance Committee to determine their reasonableness. Budget reductions in fiscal years 2004 and 2005, along with an increase in open enrollment students coming into the School District have given the School District the ability to consider various options regarding the timing for asking voters for new monies. In addition, several tax increment financing agreements have been approved which should result in increased revenue through payment in lieu of taxes (PILOT) payments.

The taxing climate in Marion County seems to be improving if the levy is a renewal levy. All renewal levies on the ballot throughout the County passed in November 2006, but a replacement levy did not. The Board continues to consider the climate when considering the timing of a levy for new monies. The Board also has to consider the impact on the homeowner as our tangible personal property value is being reduced. River Valley's tangible personal property value was 18 percent of its total value in Tax Year 2005 and even though current levies will have a revenue replacement mechanism as a result of HB 66, new levies will not, and this will result in the shifting of our tax base to our resident payers.

The School District continues to be self insured for employee medical/drug insurance; OME-RESA Health Benefits serves as the administrator of the insurance plan with Self Funded Plans being the third party administrator. The School District's Employee Benefits Committee reviews the plan annually in an attempt to look at plan design modifications to contain costs. In fiscal year 2006, the Board of Education transferred \$80,000 from the General Fund to the Self Insurance Fund in order to reduce the deficit; however, at June 30, 2006, the Fund continued to have a deficit balance. Changes to the plan document effective July 1, 2006, and increased contributions by employees have resulted in a positive fund balance of approximately \$50,000 at the end of December 2006.

With the increased open enrollment revenue, increased investment income, and the projection of revenues from TIF agreements, the School District's five-year forecast projects a positive carryover balance going into fiscal year 2011. High utility and fuel costs during fiscal year 2006, along with special education expenditures were a challenge to the School District's budget and the increased revenue from the open enrollment helped to manage these increases. Elementary teachers have been added to reduce class size as a result of the increased ADM.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand River Valley Local School District as a financial whole, or as an entire operating entity.

The statement of net assets and the statement of activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds, with all other nonmajor funds presented in total in a single column. For River Valley Local School District, the General Fund, Classroom Facilities Maintenance special revenue fund, and Bond Retirement debt service fund are the most significant funds.

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2006. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the School District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Nonfinancial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, all of the School District's activities are reported as governmental activities including instruction, support services, non-instructional services, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its financial transactions, the fund financial statements focus on the School District's most significant funds. The School District's major funds are the General Fund, Classroom Facilities Maintenance special revenue fund, and Bond Retirement debt service fund.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Proprietary Fund - The internal service fund is an accounting device used to accumulate and allocate costs internally among the School District's other programs and activities.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the School District's programs. These funds use the accrual basis of accounting.

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2006 and fiscal year 2005:

Table 1
Net Assets

	Governmental Activities	
	2006	2005
<u>Assets:</u>		
Current and Other Assets	\$13,481,121	\$13,464,570
Capital Assets, Net	40,996,575	41,851,393
Total Assets	54,477,696	55,315,963
<u>Liabilities:</u>		
Current and Other Liabilities	6,964,009	7,558,943
Long-Term Liabilities	18,105,438	18,801,963
Total Liabilities	25,069,447	26,360,906
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	23,661,575	23,823,185
Restricted	3,475,689	3,394,926
Unrestricted	2,270,985	1,736,946
Total Net Assets	\$29,408,249	\$28,955,057

A review of the above table demonstrates very little in change in assets, liabilities, or net assets. Two items of note within current and other assets include a \$385,689 (approximately 8 percent) increase in cash and cash equivalents mainly due to increased revenue from open enrollment, and increase in interest rates resulting in additional investment revenue, and higher than anticipated tax collections. Property taxes receivable decreased due to the phase out of tangible personal property taxes; however, this revenue source will be replaced through reimbursements from the State until 2011. Net capital assets decreased as a result of depreciation.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

After the Ohio School Facilities Commission construction project was completed the School District closed out remaining funds as per the Ohio Revised Code with transfers being made to the Classroom Facilities Maintenance Fund and the Bond Retirement Fund, in the amount of approximately \$1.4 million dollars.

Table 2 reflects the change in net assets for fiscal year 2006 and 2005.

Table 2
Change in Net Assets

	Governmental Activities	
	2006	2005
<u>Revenues:</u>		
Program Revenues		
Charges for Services	\$2,364,608	\$2,164,629
Operating Grants, Contributions, and Interest	1,320,602	1,131,883
Capital Grants and Contributions	34,744	87,652
Total Program Revenues	<u>3,719,954</u>	<u>3,384,164</u>
General Revenues		
Property Taxes Levied for General Purposes	6,959,322	6,559,714
Property Taxes Levied for Classroom Facilities Maintenance	120,979	112,108
Property Taxes Levied for Debt Service	1,437,925	1,368,675
Property Taxes Levied for Permanent Improvements	5	100
Grants and Entitlements	5,084,599	4,904,674
Interest	230,561	106,895
Gifts and Donations	2,350	1,200
Miscellaneous	173,831	217,568
Total General Revenues	<u>14,009,572</u>	<u>13,270,934</u>
Total Revenues	<u>17,729,526</u>	<u>16,655,098</u>
<u>Expenses:</u>		
Instruction:		
Regular	\$8,502,195	\$8,326,223
Special	1,146,447	974,840
Vocational	143,177	161,802
Support Services:		
Pupils	463,519	447,491
Instructional Staff	790,568	844,674
Board of Education	9,387	11,419
Administration	1,249,342	1,270,686
Fiscal	447,056	531,417
Business	33,928	13,042
Operation and Maintenance of Plant	1,365,071	1,338,891
Pupil Transportation	892,533	864,239
Central	72,007	38,172
Non-Instructional Services	677,012	645,135
Extracurricular Activities	635,892	546,836
Interest and Fiscal Charges	848,200	862,621
Total Expenses	<u>17,276,334</u>	<u>16,877,488</u>
Increase (Decrease) in Net Assets	453,192	(222,390)
Net Assets at Beginning of Year	<u>28,955,057</u>	<u>29,177,447</u>
Net Assets at End of Year	<u>\$29,408,249</u>	<u>\$28,955,057</u>

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Program revenues represent approximately 21 percent of total revenues (just slightly more than fiscal year 2005) and are primarily represented by tuition and fees, charges for extracurricular activities, food service sales, and restricted intergovernmental revenues. Charges for services increased as a result of open enrollment. Operating grants and contributions increased from increases in State foundation due to more students and additional special education funds.

As stated previously, general revenues represent 79 percent of the School District's total revenues, and of this amount, over 61 percent is the result of property taxes. Grants and entitlements, primarily State foundation resources make up the majority of the remaining balance of the School District's general revenues. Other revenue sources, such as interest and donations are somewhat unpredictable revenue sources.

Expenses increased from the prior fiscal year a modest 2 percent. The major program expense for governmental activities, as expected, is for instruction, which accounts for almost 57 percent of all governmental expenses. The instruction category, however, does not include all activities associated with educating students as the pupils, instructional staff, and pupil transportation costs have a significant role in delivering education.

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
Instruction:				
Regular	\$8,502,195	\$8,326,223	\$6,803,493	\$6,757,189
Special	1,146,447	974,840	316,427	252,055
Vocational	143,177	161,802	110,709	132,543
Support Services:				
Pupils	463,519	447,491	453,102	433,847
Instructional Staff	790,568	844,674	790,568	844,674
Board of Education	9,387	11,419	9,387	11,419
Administration	1,249,342	1,270,686	1,249,342	1,270,686
Fiscal	447,056	531,417	447,056	531,417
Business	33,928	13,042	33,928	13,042
Operation and Maintenance of Plant	1,365,071	1,338,891	1,365,071	1,338,891
Pupil Transportation	892,533	864,239	882,789	792,442
Central	72,007	38,172	60,007	26,172
Non-Instructional Services	677,012	645,135	14,016	58,441
Extracurricular Activities	635,892	546,836	172,285	167,885
Interest and Fiscal Charges	848,200	862,621	848,200	862,621
Total Expenses	<u>\$17,276,334</u>	<u>\$16,877,488</u>	<u>\$13,556,380</u>	<u>\$13,493,324</u>

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

The dependence upon tax revenues and unrestricted state entitlements for governmental activities was lessened in fiscal year 2006 due to the implementation of an extracurricular fee with the goal to have a self supporting athletic and music program. However, only a very few of the School District's programs receive a significant amount of program revenues to offset their costs. Again in fiscal year 2006, one of these programs was special instruction which provides for 72 percent of program costs through program revenues, much of this in the form of operating grants restricted for special instruction purposes. Almost 98 percent of non-instructional services were provided for through program revenues. This is primarily due to cafeteria sales, and state and federal subsidies and donated commodities for food service. As stated previously, due to the implementation of an extracurricular fee, 73 percent of extracurricular activities expenses are covered by program revenues. The extracurricular fee is monitored closely to determine the affects on participation as the Board of Education feels strongly that extracurricular activity is a vital part of the life of River Valley students.

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. A review of the School District's major funds demonstrates an increase in fund balance for all three of the major funds.

The increase in the fund balance in the General Fund can be primarily attributed to the increase in open enrollment while carefully monitoring expenditures as a result of the increase in students. There was also an increase in investment earnings.

The increase in fund balance for both the Classroom Facilities Maintenance and Bond Retirement funds can be largely attributed to closing out the Ohio School Facilities Commission construction project and transferring resources to these funds in accordance with the Ohio Revised Code.

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During fiscal year 2006, the School District amended its General Fund budget as needed. For revenues, changes from the original budget to the final budget were largely due to tuition charges for open enrollment. Changes from the final budget to actual revenues were not significant. For expenditures, changes from the original budget to the final budget can also be attributed to additional students obtained through open enrollment as regular instruction costs increased. Again, changes from the final budget to actual expenditures were not significant.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the School District had \$40,996,575 invested in capital assets (net of accumulated depreciation), a decrease of about 2 percent. The decrease was due to depreciation. For further information regarding the School District's capital assets, refer to Note 9 to the basic financial statements.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Debt

The School District's outstanding debt at June 30, 2006, included School Improvement general obligation bonds, in the amount of \$17,335,000. The School District's long-term obligations also include compensated absences. For further information regarding the School District's long-term obligations, refer to Note 15 to the basic financial statements.

Current Issues

The School District's five-year forecast continues to be the instrument used to make future decisions with regard to program and funding strategies. With budget modifications in the way of reductions and realignment, the School District has been able to forecast a positive cash carryover going into fiscal year 2011 (with the assumption that the School District's renewal levies will pass by 2008, the last year of collection). The dynamics in the School District are changing rapidly with the passage of HB66 and the phasing out of tangible personal property value at a much more rapid decline than in previous law. Two implications to this School District in the future will be an increased reliance on State aid (property value is a key component of the State aid formula) and a shifting of taxes paid from the tangible personal property payer to the homeowner.

The turn around in open enrollment students coming into the School District at a greater rate than those leaving continues to be a bright spot. However, the loss of revenue to charter schools is a significant unknown. In fiscal year 2005, the River Valley Digital Academy opened with the River Valley Local School District as its sponsor. The Board continues to monitor this community school to ensure accountability and this, along with other community school options, will also be a major focus for future funding and programming decisions.

The School District is in the process of selling the land from the former school sites with the acreage at the former Caledonia Elementary going up for public auction. Bids coming in at over \$90,000 for the four lots sold in fiscal year 2006. The old high school/middle school campus is in the final stages of remediation and the Board is looking at its options on the disposal of this property.

At the December 2005 regular board meeting, the Board passed a resolution agreeing to support the Marion County Commissioners in approving a tax increment financing agreement for property being developed within the River Valley Local School District. If this development materializes as planned, the School District could begin receiving PILOT payment (payments in lieu of taxes) as early as 2007 for the land value and 2008 for the increased construction costs. The Board of Education also approved a second TIF agreement in August 2006; however, it was a much smaller project. PILOT payments are expected on this property as early as 2008 for the land and in 2009 for construction.

The School District is always looking at other means of revenue besides the taxpayers; PILOT payments, open enrollment, and investment earnings are three areas that have helped overall revenues without going to the voters.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Sharon Malcom, Treasurer, River Valley Local School District, 197 Brocklesby Road, Caledonia, Ohio 43314.

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**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**STATEMENT OF NET ASSETS
PRIMARY GOVERNMENT AND DISCRETELY PRESENTED COMPONENT UNIT
JUNE 30, 2006**

	Primary Governmental Activities	Component Unit River Valley Digital Academy
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$5,491,124	\$59,514
Cash and Cash Equivalents		
with Fiscal Agent	45,562	0
Accounts Receivable	22,473	0
Intergovernmental Receivable	144,669	653
Prepaid Items	26,016	0
Inventory Held for Resale	11,797	0
Materials and Supplies Inventory	44,025	0
Property Taxes Receivable	7,695,455	0
Nondepreciable Capital Assets	1,080,290	0
Depreciable Capital Assets, Net	39,916,285	107,579
Total Assets	54,477,696	167,746
<u>Liabilities:</u>		
Accounts Payable	46,182	0
Contracts Payable	3,000	0
Accrued Wages and Benefits Payable	1,204,387	0
Intergovernmental Payable	363,613	1,500
Deferred Revenue	5,012,732	0
Accrued Interest Payable	139,070	0
Claims Payable	195,025	0
Long-Term Liabilities:		
Due Within One Year	638,772	0
Due in More Than One Year	17,466,666	0
Total Liabilities	25,069,447	1,500
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	23,661,575	107,579
Restricted For:		
Debt Service	1,426,937	0
Capital Projects	305,763	0
Classroom Facilities Maintenance	1,613,229	0
Other Purposes	129,760	0
Unrestricted	2,270,985	58,667
Total Net Assets	\$29,408,249	\$166,246

See Accompanying Notes to the Basic Financial Statements

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**STATEMENT OF ACTIVITIES
PRIMARY GOVERNMENT AND DISCRETELY PRESENTED COMPONENT UNIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions
<u>Governmental Activities:</u>				
Instruction:				
Regular	\$8,502,195	\$1,602,188	\$96,514	\$0
Special	1,146,447	50,734	779,286	0
Vocational	143,177	0	32,468	0
Support Services:				
Pupils	463,519	0	10,417	0
Instructional Staff	790,568	0	0	0
Board of Education	9,387	0	0	0
Administration	1,249,342	0	0	0
Fiscal	447,056	0	0	0
Business	33,928	0	0	0
Operation and Maintenance of Plant	1,365,071	0	0	0
Pupil Transportation	892,533	0	0	9,744
Central	72,007	0	12,000	0
Non-Instructional Services	677,012	462,121	200,875	0
Extracurricular Activities	635,892	249,565	189,042	25,000
Interest and Fiscal Charges	848,200	0	0	0
Total Governmental Activities	\$17,276,334	\$2,364,608	\$1,320,602	\$34,744
<u>Component Unit</u>				
River Valley Digital Academy	\$315,313	\$0	\$9,096	\$0

General Revenues:

Property Taxes Levied for General Purposes
Property Taxes Levied for Classroom Facilities Maintenance
Property Taxes Levied for Debt Service
Property Taxes Levied for Permanent Improvements
Grants and Entitlements not Restricted to Specific Programs
Interest
Gifts and Donations
Miscellaneous
Total General Revenues

Change in Net Assets

Net Assets at Beginning of Year
Net Assets at End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue
and Change in Net Assets

Governmental Activities	River Valley Digital Academy
(\$6,803,493)	\$0
(316,427)	0
(110,709)	0
(453,102)	0
(790,568)	0
(9,387)	0
(1,249,342)	0
(447,056)	0
(33,928)	0
(1,365,071)	0
(882,789)	0
(60,007)	0
(14,016)	0
(172,285)	0
(848,200)	0
<u>(13,556,380)</u>	<u>0</u>
0	(306,217)
6,959,322	0
120,979	0
1,437,925	0
5	0
5,084,599	379,908
230,561	0
2,350	0
173,831	0
<u>14,009,572</u>	<u>379,908</u>
453,192	73,691
<u>28,955,057</u>	<u>92,555</u>
<u><u>\$29,408,249</u></u>	<u><u>\$166,246</u></u>

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	General	Classroom Facilities Maintenance	Bond Retirement	Other Governmental	Total Governmental Funds
<u>Assets:</u>					
Equity in Pooled Cash and Cash Equivalents	\$2,415,024	\$1,572,000	\$1,058,225	\$445,875	\$5,491,124
Cash and Cash Equivalents					
with Fiscal Agent	0	0	0	1,460	1,460
Accounts Receivable	14,270	0	0	8,203	22,473
Intergovernmental Receivable	31,240	54	669	112,706	144,669
Interfund Receivable	66,920	0	0	0	66,920
Prepaid Items	26,016	0	0	0	26,016
Inventory Held for Resale	0	0	0	11,797	11,797
Materials and Supplies Inventory	40,923	0	0	3,102	44,025
Property Taxes Receivable	6,222,273	121,037	1,352,145	0	7,695,455
Total Assets	<u>\$8,816,666</u>	<u>\$1,693,091</u>	<u>\$2,411,039</u>	<u>\$583,143</u>	<u>\$13,503,939</u>
<u>Liabilities and Fund Balances:</u>					
<u>Liabilities</u>					
Accounts Payable	\$23,759	\$1,943	\$0	\$20,480	\$46,182
Contracts Payable	0	0	0	3,000	3,000
Accrued Wages and Benefits Payable	1,136,456	0	0	67,931	1,204,387
Intergovernmental Payable	334,583	0	0	29,030	363,613
Interfund Payable	0	0	0	66,920	66,920
Deferred Revenue	4,422,878	84,194	921,066	19,610	5,447,748
Total Liabilities	<u>5,917,676</u>	<u>86,137</u>	<u>921,066</u>	<u>206,971</u>	<u>7,131,850</u>
<u>Fund Balances:</u>					
Reserved for Interfund Receivable	26,000	0	0	0	26,000
Reserved for Property Taxes	1,811,617	36,886	431,621	0	2,280,124
Reserved for Encumbrances	145,089	28,005	0	70,536	243,630
Unreserved, Designated for Budget Stabilization	85,600	0	0	0	85,600
Unreserved, Undesignated Reported in:					
General Fund	830,684	0	0	0	830,684
Special Revenue Funds	0	1,542,063	0	61,219	1,603,282
Debt Service Fund	0	0	1,058,352	0	1,058,352
Capital Projects Funds	0	0	0	244,417	244,417
Total Fund Balances	<u>2,898,990</u>	<u>1,606,954</u>	<u>1,489,973</u>	<u>376,172</u>	<u>6,372,089</u>
Total Liabilities and Fund Balances	<u>\$8,816,666</u>	<u>\$1,693,091</u>	<u>\$2,411,039</u>	<u>\$583,143</u>	<u>\$13,503,939</u>

See Accompanying Notes to the Basic Financial Statements

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2006**

Total Governmental Fund Balances		\$6,372,089
Amounts reported for governmental activities on the statement of net assets are different because of the following:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		40,996,575
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Accounts Receivable	12,588	
Intergovernmental Receivable	20,840	
Property Taxes Receivable	<u>401,588</u>	
		435,016
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Accrued Interest Payable	(139,070)	
School Improvement Bonds Payable	(17,335,000)	
Compensated Absences Payable	<u>(770,438)</u>	
		(18,244,508)
An internal service fund is used by management to charge the cost of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.		<u>(150,923)</u>
Net Assets of Governmental Activities		<u><u>\$29,408,249</u></u>

See Accompanying Notes to the Basic Financial Statements

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	General	Classroom Facilities Maintenance	Bond Retirement	Other Governmental	Total Governmental Funds
<u>Revenues:</u>					
Property Taxes	\$6,945,867	\$120,585	\$1,431,497	\$17	\$8,497,966
Intergovernmental	5,235,779	12,371	151,421	885,926	6,285,497
Interest	208,403	22,158	0	4,598	235,159
Tuition and Fees	1,626,434	0	0	31,190	1,657,624
Extracurricular Activities	0	0	0	419,370	419,370
Charges for Services	0	0	0	390,013	390,013
Gifts and Donations	0	0	0	27,850	27,850
Miscellaneous	54,800	2,092	0	125,973	182,865
Total Revenues	14,071,283	157,206	1,582,918	1,884,937	17,696,344
<u>Expenditures:</u>					
Current:					
Instruction:					
Regular	7,893,842	0	0	136,766	8,030,608
Special	835,014	0	0	283,746	1,118,760
Vocational	129,499	0	0	2,910	132,409
Support Services:					
Pupils	407,680	0	0	56,329	464,009
Instructional Staff	459,056	0	0	308,044	767,100
Board of Education	9,387	0	0	0	9,387
Administration	1,202,430	0	0	4,257	1,206,687
Fiscal	407,828	2,673	32,894	4,477	447,872
Business	33,928	0	0	0	33,928
Operation and Maintenance of Plant	1,290,635	0	0	16,887	1,307,522
Pupil Transportation	795,815	0	0	815	796,630
Central	60,963	0	0	13,667	74,630
Non-Instructional Services	0	0	0	634,469	634,469
Extracurricular Activities	17,389	0	0	457,875	475,264
Capital Outlay	0	124,271	0	45,642	169,913
Debt Service:					
Principal Retirement	98,208	0	595,000	0	693,208
Interest and Fiscal Charges	3,273	0	843,344	5,357	851,974
Total Expenditures	13,644,947	126,944	1,471,238	1,971,241	17,214,370
Excess of Revenues Over (Under) Expenditures	426,336	30,262	111,680	(86,304)	481,974
<u>Other Financing Sources (Uses):</u>					
Sale of Capital Assets	0	0	0	90,560	90,560
Transfers In	0	1,265,573	210,328	920	1,476,821
Transfers Out	(80,000)	0	0	(1,476,821)	(1,556,821)
Total Other Financing Sources (Uses)	(80,000)	1,265,573	210,328	(1,385,341)	10,560
Changes in Fund Balances	346,336	1,295,835	322,008	(1,471,645)	492,534
Fund Balances at Beginning of Year	2,552,654	311,119	1,167,965	1,847,817	5,879,555
Fund Balances at End of Year	<u>\$2,898,990</u>	<u>\$1,606,954</u>	<u>\$1,489,973</u>	<u>\$376,172</u>	<u>\$6,372,089</u>

See Accompanying Notes to the Basic Financial Statements

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Changes in Fund Balances - Total Governmental Funds \$492,534

Amounts reported for governmental activities on the statement of activities are different because of the following:

Governmental funds report capital outlays as expenditures.

However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current fiscal year:

Capital Outlay - Nondepreciable Capital Assets	13,540	
Capital Outlay - Depreciable Capital Assets	46,164	
Depreciation	(900,344)	(840,640)

The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the cost of the capital assets is removed from the capital asset account on the statement of net assets and is offset against the proceeds from the sale of capital assets resulting in a gain or loss on disposal of capital assets on the statement of activities.

Proceeds from Sale of Capital Assets	(90,560)	
Gain on Disposal of Capital Assets	81,693	
Loss on Disposal of Capital Assets	(5,311)	(14,178)

Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:

Property Taxes	20,277	
Intergovernmental	(65,554)	
Tuition and Fees	(4,736)	
Extracurricular Activities	1,795	
Charges for Services	(203)	
Miscellaneous	(90)	(48,511)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.

693,208

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of net assets.

3,774

Compensated absences reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

3,317

The internal service fund used by management to charge the cost of insurance to individual funds is not reported on the statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The change for governmental funds is reported for the year.

Transfers In	80,000	
Allocated to Activities	83,688	163,688

Change in Net Assets of Governmental Activities \$453,192

See Accompanying Notes to the Basic Financial Statements

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		(Under)
<u>Revenues:</u>				
Property Taxes	\$6,627,532	\$6,739,324	\$6,842,268	\$102,944
Intergovernmental	4,871,956	5,148,945	5,210,507	61,562
Interest	45,000	110,000	208,323	98,323
Tuition and Fees	251,180	1,591,193	1,626,097	34,904
Extracurricular Activities	12,000	12,000	0	(12,000)
Gifts and Donations	1,000	0	0	0
Miscellaneous	44,846	23,283	48,186	24,903
Total Revenues	<u>11,853,514</u>	<u>13,624,745</u>	<u>13,935,381</u>	<u>310,636</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	6,549,107	8,002,172	7,877,968	124,204
Special	651,690	870,615	803,826	66,789
Vocational	133,069	133,969	130,550	3,419
Support Services:				
Pupils	393,588	429,088	405,767	23,321
Instructional Staff	473,009	490,420	474,310	16,110
Board of Education	12,680	13,240	9,387	3,853
Administration	1,150,729	1,152,504	1,217,059	(64,555)
Fiscal	468,222	423,222	424,687	(1,465)
Business	59,500	58,500	58,005	495
Operation and Maintenance of Plant	1,372,593	1,388,162	1,372,951	15,211
Pupil Transportation	753,643	794,643	823,828	(29,185)
Central	53,629	65,927	60,242	5,685
Extracurricular Activities	12,476	12,476	17,969	(5,493)
Debt Service:				
Principal Retirement	80,249	80,249	79,696	553
Interest and Fiscal Charges	3,661	3,662	2,374	1,288
Total Expenditures	<u>12,167,845</u>	<u>13,918,849</u>	<u>13,758,619</u>	<u>160,230</u>
Excess of Revenues Over (Under) Expenditures	<u>(314,331)</u>	<u>(294,104)</u>	<u>176,762</u>	<u>470,866</u>
<u>Other Financing Sources (Uses):</u>				
Refund of Prior Year Expenditures	0	3,500	3,409	(91)
Transfers Out	0	(80,000)	(80,000)	0
Advances In	0	25,000	25,000	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>(51,500)</u>	<u>(51,591)</u>	<u>(91)</u>
Changes in Fund Balance	(314,331)	(345,604)	125,171	470,775
Fund Balance at Beginning of Year	2,097,282	2,097,282	2,097,282	0
Prior Year Encumbrances Appropriated	57,349	57,349	57,349	0
Fund Balance at End of Year	<u>\$1,840,300</u>	<u>\$1,809,027</u>	<u>\$2,279,802</u>	<u>\$470,775</u>

See Accompanying Notes to the Basic Financial Statements

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BASIS) AND ACTUAL
CLASSROOM FACILITIES MAINTENANCE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Property Taxes	\$113,000	\$113,968	\$116,563	\$2,595
Intergovernmental	12,000	34,459	12,371	(22,088)
Interest	0	5,000	22,158	17,158
Miscellaneous	0	0	2,092	2,092
Total Revenues	<u>125,000</u>	<u>153,427</u>	<u>153,184</u>	<u>(243)</u>
<u>Expenditures:</u>				
Current:				
Support Services:				
Fiscal	3,000	3,000	2,673	327
Operation and Maintenance of Plant	101,280	101,280	1,280	100,000
Capital Outlay	62,415	62,415	152,833	(90,418)
Total Expenditures	<u>166,695</u>	<u>166,695</u>	<u>156,786</u>	<u>9,909</u>
Excess of Revenues Over (Under) Expenditures	(41,695)	(13,268)	(3,602)	9,666
<u>Other Financing Sources:</u>				
Transfers In	<u>0</u>	<u>1,265,573</u>	<u>1,265,573</u>	<u>0</u>
Changes in Fund Balance	(41,695)	1,252,305	1,261,971	9,666
Fund Balance at Beginning of Year	217,884	217,884	217,884	0
Prior Year Encumbrances Appropriated	63,695	63,695	63,695	0
Fund Balance at End of Year	<u>\$239,884</u>	<u>\$1,533,884</u>	<u>\$1,543,550</u>	<u>\$9,666</u>

See Accompanying Notes to the Basic Financial Statements

RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY

STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	<u>Governmental Activity</u> <u>Internal Service</u>
<u>Current Assets:</u>	
Cash and Cash Equivalents with Fiscal Agent	\$44,102
<u>Current Liabilities:</u>	
Claims Payable	<u>195,025</u>
<u>Net Assets:</u>	
Unrestricted (Deficit)	<u><u>(\$150,923)</u></u>

See Accompanying Notes to the Basic Financial Statements

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Governmental Activity</u>
	<u>Internal Service</u>
<u>Operating Revenues:</u>	
Charges for Services	<u>\$1,980,034</u>
 <u>Operating Expenses:</u>	
Purchased Services	401,806
Claims	<u>1,494,540</u>
Total Operating Expenses	<u>1,896,346</u>
 Operating Income	83,688
 Transfers In	<u>80,000</u>
 Change in Net Assets	163,688
 Net Assets (Deficit) at Beginning of Year	<u>(314,611)</u>
Net Assets (Deficit) at End of Year	<u><u>(\$150,923)</u></u>

See Accompanying Notes to the Basic Financial Statements

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Governmental Activity</u>
	<u>Internal Service</u>
<u>Increase (Decrease) in Cash and Cash Equivalents</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Transactions with Other Funds	\$1,980,034
Cash Payments for Goods and Services	(401,806)
Cash Payments for Claims	(1,591,641)
Net Cash Used for Operating Activities	<u>(13,413)</u>
 <u>Cash Flows from Non-Capital Financing Activities:</u>	
Cash Payments to Other Funds for Cash Advances	(22,485)
Transfers In	80,000
Net Cash Provided by Non-Capital Financing Activities	<u>57,515</u>
 Net Increase in Cash and Cash Equivalents	44,102
Cash and Cash Equivalents at Beginning of Year	0
Cash and Cash Equivalents at End of Year	<u><u>\$44,102</u></u>
 <u>Reconciliation of Operating Income</u>	
<u>to Net Cash Used for Operating Activities:</u>	
Operating Income	83,688
 <u>Adjustments to Reconcile Operating Income</u>	
<u>to Net Cash Used for Operating Activities:</u>	
Decrease in Claims Payable	(97,101)
Net Cash Used for Operating Activities	<u><u>(\$13,413)</u></u>

See Accompanying Notes to the Basic Financial Statements

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006**

	Private Purpose Trust	Agency
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$1,250	\$123,094
<u>Liabilities:</u>		
Due to Students	0	\$120,690
Undistributed Assets	0	2,404
Total Liabilities	0	\$123,094
<u>Net Assets:</u>		
Held in Trust for Scholarships	\$1,250	

See Accompanying Notes to the Basic Financial Statements

RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

<u>Additions:</u>	
Miscellaneous	\$1,000
<u>Deductions:</u>	
Non-instructional Services	<u>1,250</u>
Change in Net Assets	(250)
Net Assets at Beginning of Year	<u>1,500</u>
Net Assets at End of Year	<u><u>\$1,250</u></u>

See Accompanying Notes to the Basic Financial Statements

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Note 1 - Description of the School District and Reporting Entity

River Valley Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by state and federal guidelines.

The School District was established in 1960 through the consolidation of existing land areas and school districts. The School District serves an area of approximately one hundred thirty-one square miles. It is located in Marion and Morrow Counties, and includes all of the Villages of Caledonia, Claridon, Martel, and Waldo. The School District is the 293rd largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by seventy-three classified employees, one hundred fifteen certified teaching personnel, and eleven administrative employees who provide services to 1,882 students and other community members. The School District currently operates four instructional buildings, an administration building, and a bus garage.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For River Valley Local School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes.

The component unit column on the financial statements identifies the financial data of the School District's component unit, River Valley Digital Academy (RVDA). It is reported separately to emphasize that it is legally separate from the School District. Information about this component unit is presented in Note 21 to the basic financial statements.

River Valley Digital Academy. RVDA is a legally separate, not-for-profit corporation. RVDA, under a contractual agreement with the River Valley Local School District, provides education opportunities through distance learning technologies. River Valley Local School District is RVDA's sponsoring government and RVDA's five member Board of Directors is appointed by River Valley Local School District's Board of Education. River Valley Local School District is financially accountable for RVDA as it appoints RVDA's Board and can impose its will on RVDA. RVDA is reported as a discretely presented component unit on River Valley Local School District's financial statements. Separately issued financial statements for RVDA can be obtained from the Treasurer of the River Valley Local School District, 197 Brocklesby Road, Caledonia, Ohio 43314.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Note 1 - Description of the School District and Reporting Entity (continued)

The School District participates in six jointly governed organizations and an insurance pool. These organizations are the Tri-Rivers Educational Computer Association; the Tri-Rivers Joint Vocational School; the North Central Regional Professional Development Center; the North Central Ohio Special Education Regional Resource Center; the Northwestern Ohio Educational Research Council, Inc.; the Metropolitan Educational Council; and the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan. These organizations are presented in Notes 19 and 20 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The basic financial statements of River Valley Local School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities and to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

The School District's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. These statements usually distinguish between those activities of the School District that are governmental activities (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). However, the School District has no business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants, contributions, and interest that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Note 2 - Summary of Significant Accounting Policies (continued)

Fund Financial Statements

During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the proprietary fund financial statements. Fiduciary funds are reported by type.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are divided into three categories, governmental, proprietary, and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions of the School District are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The School District's three major funds are the General Fund, the Classroom Facilities Maintenance special revenue fund, and the Bond Retirement debt service fund.

General Fund - The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Classroom Facilities Maintenance Fund - The Classroom Facilities Maintenance special revenue fund accounts for proceeds from a .5 mill levy for maintenance of school buildings.

Bond Retirement Fund - The Bond Retirement debt service fund is used to account for the accumulation of resources for and the payment of principal and interest on general obligation bonds for the construction of two elementary schools, a middle school, and a high school.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Note 2 - Summary of Significant Accounting Policies (continued)

Proprietary Fund

Proprietary fund reporting focuses on the determination of operating income, change in net assets, financial position, and cash flows. The School District reports one type of proprietary fund, an internal service fund:

Internal Service Fund - The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's internal service fund accounts for the activities of the self insurance program for employee health care benefits.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District's private purpose trust fund accounts for college scholarships for students after graduation. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for various staff-related and student-managed activities.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the proprietary fund is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of this fund are included on the statement of fund net assets. The statement of revenues, expenses, and change in fund net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The statement of cash flows reflects how the School District finances and meets the cash flow needs of its proprietary fund.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Note 2 - Summary of Significant Accounting Policies (continued)

The private purpose trust fund is accounted for using a flow of economic resources measurement focus.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting; the proprietary fund and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at fiscal year end: property taxes available as an advance, grants, interest, tuition, student fees, and charges for services.

Deferred Revenues

Deferred revenues arise when assets are recognized before revenue recognition criteria has been satisfied.

Property taxes for which there was an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period are reported as deferred revenue.

Expenses/Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Note 2 - Summary of Significant Accounting Policies (continued)

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of budgetary control selected by the Board is at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Budgetary allocations at the function and object level within all funds are made by the School District Treasurer.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

The appropriations resolution is subject to amendment throughout the fiscal year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriations resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

F. Cash and Investments

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Cash and cash equivalents held for the School District by the North Central Ohio Educational Service Center and the Ohio Mid Eastern Regional Education Service Agency are reflected as "Cash and Cash Equivalents with Fiscal Agent".

During fiscal year 2006, investments were limited to federal agency securities, mutual funds, and STAR Ohio. The District held no federal agency securities at June 30, 2006. Mutual funds are reported at current share price. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2006.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Note 2 - Summary of Significant Accounting Policies (continued)

The School District allocates interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2006 was \$208,403, which includes \$83,432 assigned from other School District funds.

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

Inventory is presented at cost on a first-in, first-out basis and is expended/expensed when used. Inventory consists of administrative supplies and donated and purchased food.

I. Capital Assets

All of the School District's capital assets are general capital assets generally resulting from expenditures in governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The School District maintains a capitalization threshold of one thousand dollars. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Useful Lives</u>
Land Improvements	0 - 40 years
Buildings and Building Improvements	20 - 75 years
Furniture, Fixtures, and Equipment	3 - 45 years
Vehicles	10 years

J. Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from interfund loans are classified as "Interfund Receivables/Payables". Interfund balances within governmental activities are eliminated on the statement of net assets.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Note 2 - Summary of Significant Accounting Policies (continued)

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees after ten years of service.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the proprietary fund are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds are recognized as liabilities on the fund financial statements when due.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to expenditure for specified purposes. As of June 30, 2006, the School District did not have any net assets restricted by enabling legislation.

The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Note 2 - Summary of Significant Accounting Policies (continued)

N. Fund Balance Reserves and Designations

The School District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion which is available for appropriation in future periods. Fund balance reserves have been established for interfund receivable, property taxes, and encumbrances. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

A designation of fund balance represents a self-imposed limitation on the use of available expendable resources by the Board of Education. The designation for budget stabilization represents monies set aside by resolution of the Board of Education to offset revenue/expenditure fluctuations.

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the School District, these revenues are charges for services in the internal service fund. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating.

P. Interfund Transactions

Transfers within governmental activities are eliminated on the government-wide financial statements.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in the proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence.

R. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Note 3 - Change in Accounting Principles

For fiscal year 2006, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries". GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. The implementation of this statement did not result in any change to the School District's financial statements.

Note 4 - Accountability and Compliance

A. Accountability

At June 30, 2006, the Food Service, Educational Management Information Systems, and Title II-A special revenue funds had deficit fund balances, in the amount of \$31,901, \$78, and \$7,802, respectively, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

The Self Insurance internal service fund had deficit net assets, in the amount of \$150,923, as the result of operating expenses exceeding operating revenues. The School District is currently discussing premiums to determine if further changes need to be made.

B. Compliance

The following funds had expenditures (including encumbrances) in excess of appropriations for the fiscal year ended June 30, 2006:

	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
Special Revenue Funds			
Educational Management Information Systems	\$6,116	\$7,443	\$1,327
SchoolNet Professional Development	6,867	6,892	25
Internal Service Fund			
Health Insurance	1,930,000	2,022,852	92,852

For the fiscal year ended June 30, 2006, the Ohio Reads special revenue fund as well as the Self Insurance internal service fund had appropriations in excess of estimated resources plus available balances, in the amount of \$2,465 and \$115,446, respectively.

At June 30, 2006, the Miscellaneous State Grants, Innovative Programs, Drug Free, and Improving Teacher Quality special revenue funds had deficit cash balances, in the amount of \$15,966, \$2,631, \$384, and \$9,689, respectively.

The Treasurer will review budgetary activity to avoid future violations of budgetary compliance.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Note 5 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statements of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual for the General Fund and the Classroom Facilities Maintenance special revenue fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The adjustments necessary to reconcile the GAAP and budgetary basis statements are as follows:

Changes in Fund Balance

	General Fund	Classroom Facilities Maintenance
GAAP Basis	\$346,336	\$1,295,835
<u>Increase (Decrease) Due to:</u>		
Revenue Accruals:		
Accrued FY 2005, Received in Cash FY 2006	1,712,467	32,875
Accrued FY 2006, Not Yet Received in Cash	(1,844,905)	(36,897)
Expenditure Accruals:		
Accrued FY 2005, Paid in Cash FY 2006	(1,440,917)	(3,335)
Accrued FY 2006, Not Yet Paid in Cash	1,494,798	1,943
Unrecorded Cash Activity 2005	98	0
Unrecorded Cash Activity 2006	(153)	0
Prepaid Items	3,597	0

(continued)

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Note 5 - Budgetary Basis of Accounting (continued)

Changes in Fund Balance
(continued)

	General Fund	Classroom Facilities Maintenance
Materials and Supplies Inventory	(\$7,411)	\$0
Advances In	25,000	0
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(163,739)	(28,450)
Budget Basis	\$125,171	\$1,261,971

Note 6 - Deposits and Investments

Monies held by the School District are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the School District treasury. Active monies must be maintained either as cash in the School District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the School District may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Note 6 - Deposits and Investments (continued)

3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and
9. Under limited circumstances, corporate debt interests rated in either of the two highest rated classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$3,151,987 of the School District's bank balance of \$3,353,517 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Note 6 - Deposits and Investments (continued)

Investments

As of June 30, 2006, the School District had the following investments:

	Fair Value	Maturity
Mutual Funds	\$3,563	1 day average
STAR Ohio	2,354,733	34.8 days
	\$2,358,296	

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The investment policy restricts the Treasurer from investing in any securities other than those identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless they are matched to a specific obligation or debt of the school district.

The mutual fund carries a rating of Aaa by Moody's. STAR Ohio carries a rating of AAA by Standard and Poor's. The School District has no policy for credit risk beyond the requirements of state statute. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. Mutual funds must consist of securities listed in items 1 and 2 on page 38 and in repurchase agreements secured by such securities.

Note 7 - Receivables

Receivables at June 30, 2006, consisted of accounts (student fees and billings for user charged services), intergovernmental, interfund, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables, except for a portion of the interfund receivable, in the amount of \$26,000, are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
General Fund	
Homestead and Rollback	\$2,937
Ohio Department of Taxation	1,603
E-Rate	26,700
Total General Fund	31,240
Classroom Facilities Maintenance	
Homestead and Rollback	54
Bond Retirement Fund	
Homestead and Rollback	669

(continued)

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Note 7 - Receivables (continued)

	<u>Amount</u>
Governmental Activities (continued)	
Other Governmental Funds	
Food Service	\$19,403
Miscellaneous State Grants	18,000
Title VI-B	51,459
Title I	10,356
Title V	2,631
Drug Free	1,010
Title II-A	8,553
Title II-D	1,294
Total Other Governmental Funds	<u>112,706</u>
Total Intergovernmental Receivables	<u><u>\$144,669</u></u>

Note 8 - Property Taxes

Property taxes are levied and assessed on a calendar year basis, while the School District's fiscal year runs from July through June. First-half tax distributions are received by the School District in the second half of the fiscal year. Second-half tax distributions are received in the first half of the following fiscal year.

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2006 represent the collection of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed values as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2006 represent the collection of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien on December 31, 2004, were levied after April 1, 2005, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Note 8 - Property Taxes (continued)

Tangible personal property tax revenues received in calendar year 2006 (other than public utility property) represent the collection of calendar year 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. In prior years, tangible personal property was assessed at 25 percent of true value for capital assets and 23 percent for inventory. The tangible personal property tax is being phased out. The assessment percentage for all property, including inventory, for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008, and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30; however, for fiscal year 2006 this settlement was delayed beyond fiscal year end.

The School District receives property taxes from Marion and Morrow Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents the late personal property settlement, real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2006, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the late personal property settlement and the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006, was \$1,811,617 in the General Fund, \$36,886 in the Classroom Facilities Maintenance special revenue fund, and \$431,621 in the Bond Retirement debt service fund. The amount available as an advance at June 30, 2005, was \$1,708,122 in the General Fund, \$32,865 in the Classroom Facilities Maintenance special revenue fund, and \$408,151 in the Bond Retirement debt service fund.

The late tax settlement made by the counties for fiscal year 2006 was \$873 in the General Fund, \$11 in the Classroom Facilities Maintenance special revenue fund, and \$127 in the Bond Retirement debt service fund. For fiscal year 2005, these amounts were \$769 in the General Fund, \$10 in the Classroom Facilities Maintenance special revenue fund, and \$112 in the Bond Retirement debt service fund.

Collectible delinquent property taxes have been recorded as a receivable and revenue on a full accrual basis. On a modified accrual basis, the revenue has been deferred.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Note 8 - Property Taxes (continued)

The assessed values upon which fiscal year 2006 taxes were collected are:

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$151,241,750	56.77%	\$154,801,030	56.25%
Industrial/Commercial	53,296,780	20.00	55,810,320	20.28
Public Utility	12,596,480	4.73	12,504,540	4.54
Tangible Personal	49,297,470	18.50	52,086,158	18.93
Total Assessed Value	<u>\$266,432,480</u>	<u>100.00%</u>	<u>\$275,202,048</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$44.37		\$44.37	

Note 9 - Capital Assets

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

	Balance at 6/30/05	Additions	Reductions	Balance at 6/30/06
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$1,074,607	\$0	(\$7,857)	\$1,066,750
Construction in Progress	0	13,540	0	13,540
Total Nondepreciable Capital Assets	<u>1,074,607</u>	<u>13,540</u>	<u>(7,857)</u>	<u>1,080,290</u>
Depreciable Capital Assets				
Land Improvements	868,011	0	0	868,011
Buildings and Building Improvements	39,720,816	0	0	39,720,816
Furniture, Fixtures, and Equipment	2,513,590	46,164	(15,897)	2,543,857
Vehicles	1,368,799	0	0	1,368,799
Total Depreciable Capital Assets	<u>44,471,216</u>	<u>46,164</u>	<u>(15,897)</u>	<u>44,501,483</u>

(continued)

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Note 9 - Capital Assets (continued)

	Balance at 6/30/05	Additions	Reductions	Balance at 6/30/06
Governmental Activities (continued)				
Less Accumulated Depreciation				
Land Improvements	(\$41,018)	(\$22,085)	\$0	(\$63,103)
Buildings and Building Improvements	(1,537,108)	(637,307)	0	(2,174,415)
Furniture, Fixtures, and Equipment	(1,165,988)	(144,799)	9,576	(1,301,211)
Vehicles	(950,316)	(96,153)	0	(1,046,469)
Total Accumulated Depreciation	<u>(3,694,430)</u>	<u>(900,344)</u>	<u>9,576</u>	<u>(4,585,198)</u>
Depreciable Capital Assets, Net	<u>40,776,786</u>	<u>(854,180)</u>	<u>(6,321)</u>	<u>39,916,285</u>
Governmental Activities Capital Assets, Net	<u>\$41,851,393</u>	<u>(840,640)</u>	<u>(\$14,178)</u>	<u>\$40,996,575</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$403,000
Special	30,835
Vocational	12,070
Support Services:	
Pupils	1,374
Instructional Staff	31,917
Administration	45,677
Fiscal	2,243
Operation and Maintenance of Plant	29,867
Pupil Transportation	106,111
Central	17
Non-Instructional Services	70,358
Extracurricular Activities	166,875
Total Depreciation Expense	<u>\$900,344</u>

Note 10 - Interfund Assets/Liabilities

At June 30, 2006, the General Fund had an interfund receivable, in the amount of \$66,920, from other governmental funds for loans made to those funds. Of this amount, \$26,000 is not expected to be repaid within one year.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Note 11 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the School District contracted for the following insurance coverage.

Coverage provided by Selective Insurance Company of South Carolina is as follows:

General Liability	
Per Occurrence	\$2,000,000
Aggregate	4,000,000
Umbrella Liability	1,000,000

Coverage provided by the Netherlands Insurance Company is as follows:

Building and Contents	46,680,044
Vehicle Liability	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

The School District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Plan. The third party administrator, Sheakley Uniservice, Inc., review each participants' claims experience and determines the rating tier for that participant. A common premium rate is applied to all participants in a given rating tier. Each participant pays its workers' compensation premium to the State based on the rate for their rating tier rather than its individual rate. Sheakley Uniservice, Inc. provides administrative, cost control, and actuarial services to the Plan.

The School District offers medical insurance to all employees through a self-insured program. All funds of the School District participated in the program and made payments to the Self Insurance internal service fund based on actuarial estimates of the amounts needed to pay prior and current year claims. The internal service fund covers claims up to \$150,000 per individual and \$1,000,000 total aggregate annually. Settled claims have not exceeded this coverage for the past three years. Stop loss insurance covers claims in excess of these limits. Claims payable is based on the requirements of Governmental Accounting Standards Board Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Claims payable at June 30, 2006, was estimated by the third party administrator at \$195,025.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Note 11 - Risk Management (continued)

The change in the claims liability for the past two fiscal years is as follow:

	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
2006	\$292,126	\$1,494,540	\$1,591,641	\$195,025
2005	169,160	1,427,792	1,304,826	292,126

Note 12 - Defined Benefit Pension Plans

A. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, member contributions are invested by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

A DBP or CP member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DCP who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Note 12 - Defined Benefit Pension Plans (continued)

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2006, 2005, and 2004 was \$799,029, \$775,060, and \$722,504, respectively; 82 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for fiscal years 2005 and 2004. Contributions for the DCP and CP for the fiscal year ended June 30, 2006, were \$1,147 made by the School District and \$23,819 made by plan members.

B. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2006 was 14 percent of annual covered payroll; 10.58 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 was \$184,575, \$169,299, and \$149,550, respectively; 50 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for fiscal years 2005 and 2004.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2006, two of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 13 - Postemployment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Note 13 - Postemployment Benefits (continued)

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2006, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$61,552.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.3 billion at June 30, 2005 (the latest information available). For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000, and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$35,800. For the School District, the amount to fund health care benefits, including the surcharge, was \$85,939 for fiscal year 2006.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2005 (the latest information available), were \$178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will not be sufficient, in the long-term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 58,123 participants currently receiving health care benefits.

Note 14 - Other Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits is derived from negotiated agreements and State laws. Classified employees earn ten to twenty-five days of vacation per fiscal year, depending upon length of service. Up to ten days of unused vacation may be carried forward to the succeeding fiscal year. Teachers do not earn vacation time.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Note 14 - Other Employee Benefits (continued)

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred thirty-five days for classified employees and two hundred twenty-five days for certified employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of forty-seven days for classified employees and forty-five days for certified employees.

B. Health Care Benefits

The School District offers medical insurance to all employees through a self-insurance program. The School District offers dental, vision, and life insurance through Delta Dental Plan of Ohio, Vision Service Plan, and Ohio Educational Employee Trust, respectively.

C. Separation Benefits

The School District offered a separation benefit to certified employees who retired as of July 1, 2006. Certified employees were offered a one time cash payment incentive, in addition to their regular severance benefits and STRS pension benefits. The employee had to retire as of July 1, 2006, and not during the regular school year to be eligible. In addition, the employee had to have five continuous years of service with the School District and retire as soon as they were eligible to receive STRS retirement benefits. The benefit was equal to 10 percent of the employee's accumulated sick leave as of June 30, 2006, not in excess of two hundred twenty-five days. The benefit must be paid to the employee within thirty days of the effective date of retirement and at their current daily rate. At June 30, 2006, there was no liability for separation benefits.

Note 15 - Long-Term Obligations

Changes in the School District's long-term obligations during fiscal year 2006 were as follows:

	<u>Balance at 6/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/06</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
General Obligation Bonds					
FY2002 School Improvement Bonds 2.2-5.25%	\$17,930,000	\$0	\$595,000	\$17,335,000	\$615,000
FY2003 School Bus Bonds 2.54%	<u>58,334</u>	<u>0</u>	<u>58,334</u>	<u>0</u>	<u>0</u>
Total General Obligation Bonds	17,988,334	0	653,334	17,335,000	615,000
Compensated Absences Payable	773,755	33,093	36,410	770,438	23,772
Capital Leases Payable	18,512	0	18,512	0	0
Loan Payable	<u>21,362</u>	<u>0</u>	<u>21,362</u>	<u>0</u>	<u>0</u>
Total Governmental Activities Long -Term Obligations	<u>\$18,801,963</u>	<u>\$33,093</u>	<u>\$729,618</u>	<u>\$18,105,438</u>	<u>\$638,772</u>

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Note 15 - Long-Term Obligations (continued)

FY2002 School Improvement Bonds - On October 21, 2001, the School District issued \$19,600,000 in voted general obligation bonds for the construction of two elementary schools, a middle school, and a high school. The bonds were issued for a twenty-two year period, with final maturity in fiscal year 2024. The bonds are being retired through the Bond Retirement debt service fund.

FY2003 School Bus Bonds - On December 18, 2002, the School District issued \$175,000 in unvoted general obligation bonds to acquire school buses. The bonds were issued for a three year period, with final maturity in fiscal year 2006. The bonds were fully retired during the fiscal year.

Loan Payable - On June 1, 2001, the School District entered into a loan agreement for \$136,000 for the purchase of land. The loan had an interest rate of 4.5 percent and matured in fiscal year 2006.

Compensated absences will be paid from the General Fund and Food Service special revenue fund. The capital leases were fully retired during the fiscal year. Capital leases were paid from the General Fund.

The School District's overall debt margin was \$1,815,701 with an unvoted debt margin of \$212,786 at June 30, 2006.

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2006, were as follows:

Fiscal Year Ending June 30,	School Improvement Bonds	
	Principal	Interest
2007	\$615,000	\$824,425
2008	635,000	798,556
2009	670,000	770,956
2010	700,000	746,106
2011	730,000	719,294
2012-2016	4,275,000	3,079,840
2017-2021	5,570,000	1,829,175
2022-2024	4,140,000	328,726
Total	\$17,335,000	\$9,097,078

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Note 16 - Capital Leases - Lessee Disclosure

The School District has entered into capitalized leases for equipment. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balances for the governmental funds. Principal payments in 2006 were \$18,512.

	Governmental Activities
Property under Capital Lease	\$44,158
Less Accumulated Depreciation	44,158
Total June 30, 2006	\$0

Note 17 - Set Asides

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years.

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2006.

	Textbooks	Capital Improvements
Balance June 30, 2005	(\$88,238)	(\$31,078,810)
Current Year Set Aside Requirement	270,873	270,873
Current Year Offsets	0	(17)
Qualifying Expenditures	(196,408)	(0)
Balance Carried Forward to Fiscal Year 2007	(\$13,773)	(\$30,807,954)
Set Aside Reserve Balance June 30, 2006	\$0	\$0

The School District had carryover amounts, offsets, and qualifying expenditures during the fiscal year that reduced the textbooks and capital improvements set aside amounts below zero. These amounts may be used to reduce the set aside requirements in future fiscal years.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Note 18 - Interfund Transfers

During fiscal year 2006, the General Fund made a transfer to the Self Insurance internal service fund, in the amount of \$80,000, to subsidize operations. Other governmental funds made transfers to the Classroom Facilities Maintenance special revenue fund, the Bond Retirement debt service fund, and other governmental funds, in the amount of \$1,265,573, \$210,328, and \$920, respectively, to allocate school facilities monies and to close a fund.

Note 19 - Jointly Governed Organizations

A. Tri-Rivers Educational Computer Association

The School District is a participant in the Tri-Rivers Educational Computer Association (TRECA), which is a computer consortium. TRECA is an association of public school districts within the boundaries of Delaware, Knox, Marion, Morrow, Muskingum, and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of TRECA consists of one representative from each county elected by majority vote of all charter member school districts within each county, one representative from the city school districts, and the superintendent from Tri-Rivers Joint Vocational School. During fiscal year 2006, the School District paid \$64,114 to TRECA for various services. Financial information can be obtained from the Tri-Rivers Educational Computer Association, 2222 Marion Mt. Gilead Road, Marion, Ohio 43302.

B. Tri-Rivers Joint Vocational School

The Tri-Rivers Joint Vocational School (JVS) is a distinct political subdivision of the State of Ohio which provides vocational education. The JVS operates under the direction of a Board consisting of one representative from each of the ten participating school districts' Board of Education. The Board possesses its own budgeting and taxing authority. The degree of control exercised by the School District is limited to its representation on the Board. Financial information can be obtained from the Tri-Rivers Joint Vocational School, 2222 Marion Mt. Gilead Road, Marion, Ohio 43302.

C. North Central Regional Professional Development Center

The North Central Regional Professional Development Center (Center) is a jointly governed organization among the school districts in Crawford, Huron, Knox, Marion, Morrow, Richland, Seneca, and Wyandot Counties. The organization was formed to create and sustain self-renewing learning communities to transform education in Ohio so that all learners can achieve their full potential. The Center is governed by a twenty-one member Board made up of representatives from the participating school districts, the business community, and two institutions of higher learning. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Mid-Ohio Educational Service Center, 1495 West Longview Avenue, Suite 202, Mansfield, Ohio 44906.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Note 19 - Jointly Governed Organizations (continued)

D. North Central Ohio Special Education Regional Resource Center

The North Central Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is governed by a forty-seven member board including the superintendent from the forty-two participating educational entities, one representative from a non-public school, one representative from Knox County Educational Service Center, one representative from Ashland University, and two parents of children with disabilities. The degree of control exercised by any participating educational entity is limited to its representation on the Board. Financial information can be obtained from the Knox County Educational Service Center, 106 East High Street, Mount Vernon, Ohio 43050.

E. Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

F. Metropolitan Educational Council

The Metropolitan Educational Council (MEC) is a purchasing cooperative made up of one hundred forty-two school districts, libraries, and related agencies in twenty-seven counties. The purpose of the MEC is to obtain prices for quality merchandise and services commonly used by the participants. The governing board of the MEC consists of one representative from each participant. All participants must pay all fees, charges, or other assessments as established by the MEC. Financial information can be obtained from the Metropolitan Educational Council, 2100 Citygate Drive, Columbus, Ohio 43219.

Note 20 - Insurance Pool

The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Plan (Plan) was established through the Ohio Association of School Business Officials as an insurance purchasing pool. The Plan's business and affairs are conducted by a five member OASBO Board of Directors. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Note 21 - River Valley Digital Academy

A. Basis of Presentation

River Valley Digital Academy is accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the statement of net assets. River Valley Digital Academy uses the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized at the time they are incurred.

B. Deposits

At year end, the carrying amount of River Valley Digital Academy's deposits was \$59,514 and the bank balance was \$61,538. The entire bank balance was covered by federal depository insurance.

C. Capital Assets

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

	Balance at 6/30/05	Additions	Reductions	Balance at 6/30/06
Depreciable Capital Assets				
Equipment	\$55,934	\$73,394	\$0	\$129,328
Less Accumulated Depreciation	(8,574)	(13,175)	0	(21,749)
Capital Assets, Net	<u>\$47,360</u>	<u>\$60,219</u>	<u>\$0</u>	<u>\$107,579</u>

Note 22 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

B. Litigation

1. The School District is a party to several legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending projects. The School District Board of Education is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the School District.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Note 22 - Contingencies (continued)

2. A lawsuit has been filed by the Columbia Gas Transmission Corporation arguing that the Corporation's public utility property tax assessment rate should be 25 percent of true value rather than the 88 percent used by the Tax Commissioner. The Board of Tax Appeals has agreed with the Corporation and the case has been appealed by the Tax Commissioner to the Ohio Supreme Court. The School District receives a significant amount of property tax from the Corporation. Should the Corporation prevail in the Supreme Court, the Corporation may be entitled to a refund from the School District based on the lower assessment rate beginning from tax year 2001. The amount of the refund is estimated to be approximately \$13,265 per year. A portion of the refund may be recovered from additional State entitlement payments.

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RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through the Ohio Department of Education</i>						
Food Donation	N/A	10.550	\$ -	\$ 39,590	\$ -	\$ 39,590
National School Lunch Program	048447-LLP4-05/06	10.555	131,178	-	131,178	-
Total U.S. Department of Agriculture			<u>131,178</u>	<u>39,590</u>	<u>131,178</u>	<u>39,590</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through the Ohio Department of Education</i>						
Special Education Grants to States	048447-6BSF-05/06	84.027	324,213	-	338,377	-
Title I Grants to Local Educational Agencies	048447-C1S1-05/06 048447-C1SD-05/06	84.010	98,732 <u>39,424</u>	- -	96,763 <u>47,058</u>	- -
Total Title I Grants to Local Educational Agencies			<u>138,156</u>	<u>-</u>	<u>143,821</u>	<u>-</u>
State Grants for Innovative Programs	048447-C2S1-05/06	84.298	2,474	-	5,522	-
Improving Teacher Quality State Grants	048447-TRS1-05/06	84.367	61,933	-	75,000	-
Safe and Drug-Free Schools and Communities State Grants	048447-DRS1-2006	84.186	3,080	-	4,090	-
Education Technology State Grants	048447-TJS1-2006	84.318	144	-	75	-
Advanced Placement Program	048447-AVTF-2004	84.330	208	-	208	-
Total U.S. Department of Education			<u>530,208</u>	<u>-</u>	<u>567,093</u>	<u>-</u>
TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES			<u>\$ 661,386</u>	<u>\$ 39,590</u>	<u>\$ 698,271</u>	<u>\$ 39,590</u>

The accompanying notes to this schedule are an integral part of this schedule.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER AND FOOD DONATION PROGRAM

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

River Valley Local School District
Marion County
197 Brocklesby Road
Caledonia, Ohio 43314

To the Board of Education:

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of River Valley Local School District, Marion County, Ohio (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated December 29, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated December 29, 2006, we reported other matters related to noncompliance we deemed immaterial.

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www.auditor.state.oh.us

We intend this report solely for the information and use of the finance committee, management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

December 29, 2006



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

River Valley Local School District
Marion County
197 Brocklesby Road
Caledonia, Ohio 43314

To the Board of Education:

Compliance

We have audited the compliance of River Valley Local School District, Marion County, Ohio (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures 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 the District's compliance with those requirements.

In our opinion, River Valley Local School District, Marion County, Ohio, complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The District's management 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 the District's internal control over compliance with requirements that could directly and materially affect 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.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the finance committee, management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

December 29, 2006

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA #10.555 – National School Lunch Program CFDA #84.027 – Special Education Grants to States
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-003	Defense Environmental Restoration Program CA-01-RVLSD – Questioned costs for elementary school architect fees posted to the Ohio School Facilities Commission Fund.	Yes	



Mary Taylor, CPA
Auditor of State

RIVER VALLEY LOCAL SCHOOL DISTRICT

MARION COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 1, 2007**