



**INDIAN VALLEY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

**INDIAN VALLEY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Indian Valley Local School District
Tuscarawas County
100 N. Walnut Street
P.O. Box 171
Gnadenhutten, Ohio 44629

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Indian Valley Local School District, Tuscarawas County, Ohio, (the District) as of and for the year ended June 30, 2005, 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, each major fund, and the aggregate remaining fund information of Indian Valley Local School District, Tuscarawas County, Ohio, as of June 30, 2005, and the respective changes in financial position and where applicable cash flows, thereof and the budgetary comparison for the General Fund 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 January 13, 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 federal awards receipts and expenditures schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards receipts and expenditures schedule 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.



Betty Montgomery
Auditor of State

January 13, 2006

INDIAN VALLEY LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)*

The discussion and analysis of the Indian Valley Local School District financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the basic financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- General Revenues accounted for \$11,548,947 in revenue or 74.9 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$3,860,767 or 25.1 percent of total revenues of \$15,409,714.
- Total program expenses were \$15,874,589.
- In total, net assets decreased \$464,875. This represents a 15 percent decrease from 2004.
- Outstanding debt increased from \$6,442,000 to \$15,085,531 through the issuance of new general obligation bonds.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Indian Valley Local School District as a whole entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets and 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 the next 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 one column. In the case of the Indian Valley Local School District, the general fund is by far the most significant fund.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

A question typically asked about the School District's finances is "How did we do financially during fiscal year 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all non-fiduciary assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

INDIAN VALLEY LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)*

These two 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 that, for the School District as a whole, the *financial position* of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio which restrict revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, the School District is reported as a governmental activity.

- Governmental Activities - The School District's programs and services are reported here, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food services.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 14. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund, the debt service fund and classroom facilities capital projects fund.

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called 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 you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Fiduciary Funds – The School District's fiduciary funds are for a Private Purpose Trust and Student Managed Activities. The School District's fiduciary activities are reported in the Statement of Fiduciary Net Assets. We exclude those activities from the School District's other financial statements because the assets can't be used by the School District to finance operations.

INDIAN VALLEY LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)*

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net assets for 2005 compared to 2004:

**(Table 1)
Net Assets**

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Assets		
Current and Other Assets	\$ 17,417,831	\$ 8,225,393
Capital Assets	<u>7,933,057</u>	<u>7,832,747</u>
Total Assets	<u>25,350,888</u>	<u>16,058,140</u>
Liabilities		
Due in One Year	338,259	269,381
Due in More Than One Year	15,690,731	6,952,833
Other Liabilities	<u>6,798,134</u>	<u>5,847,287</u>
Total Liabilities	<u>22,827,124</u>	<u>13,069,501</u>
Net Assets		
Invested in Capital		
Assets Net of Related Debt	1,856,794	1,390,747
Restricted for:		
Capital Projects	146,043	0
Debt Service	119,066	524,108
Other Purposes	23,009	26,291
Unrestricted	<u>378,852</u>	<u>1,047,493</u>
Total Net Assets	<u>\$ 2,523,764</u>	<u>\$ 2,988,639</u>

Total net assets decreased by \$464,875. An increase of approximately \$8,600,000 in pooled cash and cash equivalents was the majority of the increase in governmental assets. Total liabilities increased by \$9,757,623 with long-term debt comprising the majority of that amount.

INDIAN VALLEY LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)*

Table 2 shows the changes in net assets for fiscal year 2005. This table presents two fiscal years in side-by-side comparisons. This enables the reader to draw further conclusion about the School District's financial status and possibly project future problems.

**(Table 2)
Governmental Activities**

	Governmental Activities	
	2005	2004
<i>Revenues</i>		
Program Revenues:		
Charges for Services	\$1,830,421	\$1,654,507
Operating Grants	2,030,346	1,464,628
<i>General Revenue:</i>		
Property Taxes	4,002,396	3,906,143
Grants and Entitlements	7,438,337	7,953,956
Other	108,214	69,468
	15,409,714	15,048,702
 <i>Program Expenses</i>		
Instruction	9,356,398	9,004,444
Support Services	4,972,139	5,092,353
Operation of Non-Instructional	666,166	599,166
Extracurricular Activities	485,068	467,113
Interest and Fiscal Charges	394,818	399,746
	15,874,589	15,562,822
 <i>Total Expenses</i>		
	15,874,589	15,562,822
 Decrease in Net Assets	(\$464,875)	(\$514,120)

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. General revenues, including tax revenue, investment earnings, and unrestricted state entitlements, support the net cost of program services.

INDIAN VALLEY LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)*

**(Table 3)
Total and Net Cost of Program Services
Governmental Activities**

	2005		2004	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 9,356,398	\$ (6,577,714)	\$ 9,004,444	\$ (6,833,722)
Support Services:				
Pupil and Instructional Staff	1,150,216	(1,019,901)	1,113,661	(1,016,659)
Board of Education, Administration, Fiscal and Business	1,583,444	(1,390,530)	1,533,460	(1,485,010)
Operation and Maintenance of Plant	1,290,565	(1,286,985)	1,392,298	(1,390,781)
Pupil Transportation	922,347	(922,347)	1,014,288	(1,012,860)
Central	25,567	(7,676)	38,646	(19,151)
Operation of Non-Instructional Extracurricular Activities	666,166	(41,964)	599,166	(11,562)
Interest and Fiscal Charges	485,068	(371,887)	467,113	(274,196)
	394,818	(394,818)	399,746	(399,746)
Total	\$ 15,874,589	\$ (12,013,822)	\$ 15,562,822	\$ (12,443,687)

Instruction and student support services comprise 66.2 percent of governmental program expenses. Other support services such as board of education, administration, fiscal, business and central were 10 percent of governmental program expenses. Interest and fiscal charges were 2.5 percent. Interest expense was attributable to the outstanding bonds. Pupil transportation and the operation and maintenance of facilities accounts for 13.9 percent of governmental program expenses. Operation of non-instructional services, consisting primarily of food service operations, comprises 4.2 percent of governmental program expenses. Extracurricular activities comprise 3 percent of total expenses

The dependence upon tax revenues for governmental activities is apparent. The community, as a whole, is a significant support for Indian Valley Local School District (34.6 percent of total general revenues). Nonspecific state support, however, was the primary support of the School District at 64.4 percent of total general revenues.

The School District's Funds

Information about the School District's major funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$30,628,567 and expenditures of \$22,739,492. The net change in fund balance for the year was an increase of \$7,889,075. The General Fund balance decreased by \$692,305. The Bond Retirement fund increased \$188,424. The Classroom Facilities Fund increased by \$8,483,495. The School District understands that it needs to continue to monitor expenditures to ensure that the School District's current obligations will continue to be met without the requirement of additional tax levies.

INDIAN VALLEY LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)*

General Fund Budgeting Highlights

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

During the course of fiscal year 2005, the School District did modify its General Fund budget. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. However, the General Fund original budget was increased by 1 percent during the year as additional revenues became available.

For the general fund, budget basis revenue was \$12,914,394, over the original budget estimates of \$12,845,500. Of this \$68,894 increase, most was attributable to increased revenue from tuition and fees.

Final appropriations of \$14,305,211 were \$740,200 higher than the \$13,565,011 in the original budget. Capital outlay was the largest increase of \$485,000. Salaries, liability/property/fleet insurance and county auditor fees (for tax collections) proved to be higher than anticipated.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the School District had \$7,933,057 invested in land, buildings, improvements and equipment. Table 4 shows fiscal year 2005 balances compared with 2004.

**(Table 4)
Capital Assets at June 30
(Net of Depreciation)**

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Land	\$ 91,144	\$ 91,144
Construction in progress	229,000	2,978
Buildings and Building Improvements	6,087,375	6,381,403
Improvements Other Than Buildings	480,873	538,660
Furniture and Equipment	632,479	444,609
Vehicles	412,186	373,953
Totals	<u>\$ 7,933,057</u>	<u>\$ 7,832,747</u>

The \$100,310 increase in capital assets was attributable to depreciation expense exceeding capital asset additions. See Note 8 for additional information.

INDIAN VALLEY LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)*

Capital Assets (Continued)

A change in Ohio law required school districts to set aside 3 percent of certain revenues for capital improvements and an additional 3 percent for textbooks. For fiscal year 2005, this amounted to \$267,498 for each set aside. The School District has qualifying disbursements or offsets exceeding these requirements for capital improvements. For the textbooks, the School District disbursed \$332,112, with the remainder scheduled to be carried forward into the 2005 fiscal year. See Note 19 for additional information.

Debt

At June 30, 2005, the School District had \$15,000,531 in bonds outstanding with \$275,000 due within one year. During fiscal year 2005, the School District issued \$8,482,994 in general obligation bonds for the purpose of constructing (2) new elementary schools, a new middle school, and a 30,000 square foot addition and renovation to the high school building. The School District retired \$6,202,582 of general obligation bonds. The School District had an installment loan agreement for fiscal year 2005 of which \$12,000 was paid and \$12,000 will be due within one year. Table 5 summarizes bonds outstanding.

**(Table 5)
Outstanding Debt, at June 30**

	Governmental Activities 2005	Governmental Activities 2004
General Obligation Bonds	\$ 15,000,531	\$ 6,345,000
Installment Loan	85,000	97,000
Totals	<u>\$ 15,085,531</u>	<u>\$ 6,442,000</u>

In 1995, the School District passed a bond issue providing \$7,430,000 for school building construction issues. During fiscal year 2005, refunding bonds were issued to retire this debt. In 2004, the School District entered into an installment loan for \$120,000 to purchase land and a bus garage. See Note 12 for additional information.

Economic Factors

The Indian Valley School Local District continues to receive strong support from the residents of the School District. The last operating levies passed by the residents of the District were a renewal in May, 2001, which generates revenue of \$600,000 per year, for a period of five years and a renewal in November, 2003, which generates revenue of \$504,000 per year, for a period of five years. Also, in May 2005, the District residents passed a \$8,483,000 Bond Issue as their local share in an Ohio School Facilities Commission (OSFC) Classroom Facilities Assistance Program. The total project cost of \$40,294,000, will provide the District with two (2) new elementary schools, a new middle school, and a 30,000 square foot addition and renovations to the high school.

INDIAN VALLEY LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)*

Economic Factors (Continued)

Real estate and personal property tax collections have shown small increases. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Property tax revenue makes up only 26 percent of revenues for governmental activities for the Indian Valley Local School District in fiscal year 2005. Unlike many other school districts, the Indian Valley Local School District is not primarily dependent upon revenues generated from property taxes.

From a State funding perspective, the State of Ohio was found by the Ohio Supreme Court in March, 1997 to be operating an unconstitutional education system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. It is still undetermined whether the State has met the standards of the Ohio Supreme Court.

The Indian Valley Local School District has not anticipated any meaningful growth in State revenue. The concern is that, to meet the requirements of the Court, the State may require redistribution of state funding based upon each district's property wealth. This could have a significant impact on the School District. Another School District concern will be the State Legislative approval of the biennial budget, effective July 1, 2005. How the legislature plans to fund education programs during a weakened economy remains a concern.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

All of the School District's financial abilities will be needed to meet the challenges of the future.

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 show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Brad Maholm, Treasurer of Indian Valley Local School District, 100 N. Walnut Street, Gnadenhutten, Ohio 44629, e-mail iv_brad@omersa.net.

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INDIAN VALLEY LOCAL SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 11,986,485
Receivables:	
Taxes	4,921,814
Accounts	3,500
Intergovernmental	216,419
Prepaid Items	44,550
Inventory Held For Resale	9,277
Materials and Supplies Inventory	1,559
Deferred Charges	234,227
Nondepreciable Capital Assets	320,144
Depreciable Capital Assets, Net	<u>7,612,913</u>
<i>Total Assets</i>	<u>25,350,888</u>
Liabilities	
Accounts Payable	131,781
Accrued Wages and Benefits	1,595,193
Vacation Payable	43,682
Matured Compensated Absences Payable	107,302
Intergovernmental Payable	428,758
Deferred Revenue	4,286,744
Early Retirement Incentive Payable	91,000
Accrued Interest Payable	999
Claims Payable	112,675
Long Term Liabilities:	
Due Within One Year	338,259
Due In More Than One Year	<u>15,690,731</u>
<i>Total Liabilities</i>	<u>22,827,124</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	1,856,794
Restricted for:	
Capital Projects	146,043
Debt Service	119,066
Other Purposes	23,009
Unrestricted	<u>378,852</u>
<i>Total Net Assets</i>	<u>\$ 2,523,764</u>

See accompanying notes.

INDIAN VALLEY LOCAL SCHOOL DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2005

	Program Revenues		Net (Expense)	
	Expenses	Charges for Services and Sales	Revenue and Changes in Net Assets	
		Operating Grants and Contributions	Governmental Activities	
Governmental Activities				
Instruction:				
Regular	\$ 6,368,214	\$ 1,305,132	\$ 162,588	\$ (4,900,494)
Special	1,622,413	0	1,304,153	(318,260)
Vocational	360,396	0	6,811	(353,585)
Other	1,005,375	0	0	(1,005,375)
Support Services:				
Pupils	562,886	0	9,681	(553,205)
Instructional Staff	587,330	0	120,634	(466,696)
Board of Education	37,556	0	0	(37,556)
Administration	1,094,498	82,078	31,786	(980,634)
Fiscal	339,647	0	79,050	(260,597)
Business	111,743	0	0	(111,743)
Operation and Maintenance of Plant	1,290,565	3,580	0	(1,286,985)
Pupil Transportation	922,347	0	0	(922,347)
Central	25,567	0	17,891	(7,676)
Operation of Non-Instructional Services:				
Food Service Operations	666,166	328,386	295,816	(41,964)
Extracurricular Activities	485,068	111,245	1,936	(371,887)
Interest and Fiscal Charges	394,818	0	0	(394,818)
<i>Total Governmental Activities</i>	<u>\$ 15,874,589</u>	<u>\$ 1,830,421</u>	<u>\$ 2,030,346</u>	<u>\$ (12,013,822)</u>
General Revenues				
Property Taxes Levied for:				
				3,422,037
General Purposes				575,702
Debt Service				4,657
Capital Outlay				7,438,337
Grants and Entitlements Not Restricted to Specific Programs				75,144
Investment Earnings				33,070
Miscellaneous				
<i>Total General Revenues</i>				<u>11,548,947</u>
Change in Net Assets				(464,875)
<i>Net Assets Beginning of Year</i>				<u>2,988,639</u>
<i>Net Assets End of Year</i>				<u>\$ 2,523,764</u>

See accompanying notes.

INDIAN VALLEY LOCAL SCHOOL DISTRICT

*Balance Sheet
Governmental Funds
June 30, 2005*

	General	Bond Retirement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$ 1,902,758	\$ 609,450	\$ 8,483,000	\$ 87,509	\$ 11,082,717
Receivables:					
Taxes	4,062,793	826,605	32,416	0	4,921,814
Accounts	3,500	0	0	0	3,500
Interfund	1,400	0	0	0	1,400
Intergovernmental	5,831	0	0	210,588	216,419
Prepaid Items	44,550	0	0	0	44,550
Inventory Held For Resale	0	0	0	9,277	9,277
Materials and Supplies Inventory	0	0	0	1,559	1,559
<i>Total Assets</i>	<u>\$ 6,020,832</u>	<u>\$ 1,436,055</u>	<u>\$ 8,515,416</u>	<u>\$ 308,933</u>	<u>\$ 16,281,236</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	119,000	0	1,482	11,299	131,781
Accrued Wages and Benefits	1,362,648	0	0	232,545	1,595,193
Interfund Payable	0	0	0	1,400	1,400
Intergovernmental Payable	369,365	0	0	59,393	428,758
Deferred Revenue	3,815,068	776,204	30,439	0	4,621,711
Matured Compensated Absences Payable	107,302	0	0	0	107,302
Early Retirement Incentive Payable	91,000	0	0	0	91,000
<i>Total Liabilities</i>	5,864,383	776,204	31,921	304,637	6,977,145
Fund Balances					
Reserved for Encumbrances	427,339	0	0	3,609	430,948
Reserved for Inventory	0	0	0	10,836	10,836
Reserved for Prepaid Items	44,550	0	0	0	44,550
Reserved for Property Taxes	247,725	50,401	1,977	0	300,103
Undesignated, Unreserved Reported in:					
General Fund	(563,165)	0	0	0	(563,165)
Special Revenue Funds	0	0	0	(10,149)	(10,149)
Debt Service Fund	0	609,450	0	0	609,450
Capital Projects Funds	0	0	8,481,518	0	8,481,518
<i>Total Fund Balances</i>	156,449	659,851	8,483,495	4,296	9,304,091
<i>Total Liabilities and Fund Balances</i>	<u>\$ 6,020,832</u>	<u>\$ 1,436,055</u>	<u>\$ 8,515,416</u>	<u>\$ 308,933</u>	<u>\$ 16,281,236</u>

See accompanying notes.

INDIAN VALLEY LOCAL SCHOOL DISTRICT
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities*
 June 30, 2005

Total Governmental Fund Balances \$ 9,304,091

*Amounts reported for governmental activities in the
 statement of net assets are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		7,933,057
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Delinquent Property Taxes		334,967
In the statement of activities, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued.		234,227
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(999)
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net assets.		791,093
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Accrued Vacation Payable	(43,682)	
General Obligation Bonds	(13,480,000)	
Capital Appreciation Bonds	(1,147,983)	
Bond Premium	(595,725)	
Refunding Loss	223,177	
Installment Loan	(85,000)	
Capital Leases Payable	(160,816)	
Compensated Absences	(782,643)	
<u>Total</u>		<u>(16,072,672)</u>

Net Assets of Governmental Activities \$ 2,523,764

See accompanying notes.

INDIAN VALLEY LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General	Bond Retirement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 3,479,800	\$ 572,444	\$ 1,977	\$ 0	\$ 4,054,221
Intergovernmental	7,869,096	79,050	0	1,472,230	9,420,376
Investment Income	75,144	0	0	0	75,144
Tuition and Fees	1,305,132	0	0	0	1,305,132
Extracurricular Activities	0	0	0	193,323	193,323
Rentals	3,580	0	0	0	3,580
Charges for Services	0	0	0	328,386	328,386
Gifts and Donations	600	0	0	10,280	10,880
Miscellaneous	18,622	0	0	260	18,882
<i>Total Revenues</i>	<u>12,751,974</u>	<u>651,494</u>	<u>1,977</u>	<u>2,004,479</u>	<u>15,409,924</u>
Expenditures:					
Current:					
Instruction:					
Regular	5,920,023	0	0	181,569	6,101,592
Special	760,490	0	0	851,025	1,611,515
Vocational	351,756	0	0	6,064	357,820
Other	1,005,375	0	0	0	1,005,375
Support Services:					
Pupils	541,202	0	0	7,161	548,363
Instructional Staff	466,644	0	0	129,463	596,107
Board of Education	37,556	0	0	0	37,556
Administration	1,047,610	0	0	44,581	1,092,191
Fiscal	331,678	12,244	0	0	343,922
Business	115,428	0	0	0	115,428
Operation and Maintenance of Plant	1,322,489	0	0	1,639	1,324,128
Pupil Transportation	1,013,489	0	0	1,381	1,014,870
Central	9,149	0	0	16,418	25,567
Operation of Non-Instructional Services:					
Food Service Operations	0	0	0	668,611	668,611
Extracurricular Activities	241,331	0	0	212,106	453,437
Capital Outlay	412,774	0	1,482	0	414,256
Debt Service:					
Principal Retirement	27,531	200,000	0	0	227,531
Interest and Fiscal Charges	4,689	389,130	0	0	393,819
Issuance Costs	0	91,365	142,862	0	234,227
<i>Total Expenditures</i>	<u>13,609,214</u>	<u>692,739</u>	<u>144,344</u>	<u>2,120,018</u>	<u>16,566,315</u>
<i>Excess of Revenues Under Expenditures</i>	(857,240)	(41,245)	(142,367)	(115,539)	(1,156,391)
Other Financing Sources (Uses):					
Proceeds of Bonds	0	5,924,989	8,482,994	0	14,407,983
Inception of Capital Lease	176,347	0	0	0	176,347
Proceeds from Sale of Capital Assets	13,588	0	0	0	13,588
Payment to Refunded Bond Escrow Agent	0	(6,148,177)	0	0	(6,148,177)
Premium on Debt Issuance	0	452,857	142,868	0	595,725
Transfers In	0	0	0	25,000	25,000
Transfers Out	(25,000)	0	0	0	(25,000)
<i>Total Financing Sources and (Uses)</i>	<u>164,935</u>	<u>229,669</u>	<u>8,625,862</u>	<u>25,000</u>	<u>9,045,466</u>
<i>Net Change in Fund Balance</i>	(692,305)	188,424	8,483,495	(90,539)	7,889,075
<i>Fund Balance Beginning of Year</i>	848,754	471,427	0	55,577	1,375,758
<i>Decrease in Reserve for Inventory</i>	0	0	0	(3,184)	(3,184)
<i>Fund Balance End of Year</i>	<u>\$ 156,449</u>	<u>\$ 659,851</u>	<u>\$ 8,483,495</u>	<u>\$ (38,146)</u>	<u>\$ 9,261,649</u>

See accompanying notes.

INDIAN VALLEY LOCAL SCHOOL DISTRICT
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2005*

Net Change in Fund Balances - Total Governmental Funds \$ 7,889,075

*Amounts reported for governmental activities in the
statement of activities are different because:*

Governmental funds report capital outlays as expenditures. However, in 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 capital outlay exceeded depreciation in the current period.

Capital Asset Additions	\$ 849,300	
Current Year Depreciation	<u>(744,317)</u>	104,983

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (4,673)

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

Grants, Gifts and Donations	38,027	
Delinquent Property Taxes	<u>(51,825)</u>	(13,798)

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

General Obligation Bonds	6,125,000	
Installment Loan	12,000	
Capital Leases	<u>15,531</u>	6,152,531

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. In 2004 the District issued some new debt. The governmental funds report the effects of premiums and issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Accrued Interest	(999)	
Refunding Loss	223,177	
Bond Premium	<u>(595,725)</u>	(373,547)

In statement of activities, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued. 234,227

Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues.

Proceeds of Bonds	(14,407,983)	
Proceeds of Leases	<u>(176,347)</u>	(14,584,330)

Some expenses reported in the statement of net activities do not use the current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	(2,429)	
Pension Obligation	108,266	
Vacation Payable	(43,682)	
Change in Inventory	<u>(3,184)</u>	58,971

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities.

Governmental fund expenditures and related internal service are eliminated. The net revenue (expense) of the internal service fund is reported with governmental activities. 71,686

Change in Net Assets of Governmental Activities \$ (464,875)

See accompanying notes.

INDIAN VALLEY LOCAL SCHOOL DISTRICT
*Statement of Revenues, Expenditures, and Changes in Fund Balance -
 Budget (Non-GAAP Basis) and Actual
 General Fund
 For the Fiscal Year Ended June 30, 2005*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$ 3,615,000	\$ 3,615,000	\$ 3,648,064	\$ 33,064
Intergovernmental	8,040,000	8,040,000	7,863,265	(176,735)
Investment Income	35,000	35,000	75,144	40,144
Tuition and Fees	1,145,500	1,145,500	1,305,397	159,897
Rentals	4,000	4,000	3,580	(420)
Gifts and Donations	5,000	5,000	600	(4,400)
Miscellaneous	1,000	1,000	18,344	17,344
<i>Total Revenues</i>	12,845,500	12,845,500	12,914,394	68,894
Expenditures				
Current:				
Instruction:				
Regular	5,715,455	5,758,455	5,657,377	101,078
Special	913,730	913,730	763,607	150,123
Vocational	394,714	398,714	354,471	44,243
Other	978,000	1,060,500	1,060,131	369
Support Services:				
Pupils	617,841	626,841	563,116	63,725
Instructional Staff	485,745	489,745	451,172	38,573
Board of Education	35,175	47,175	45,270	1,905
Administration	1,178,044	1,178,044	1,057,387	120,657
Fiscal	333,646	338,646	325,245	13,401
Business	107,900	107,900	104,503	3,397
Operation and Maintenance of Plant	1,396,813	1,400,813	1,323,351	77,462
Pupil Transportation	1,106,563	1,190,563	1,117,413	73,150
Central	31,235	31,235	9,384	21,851
Extracurricular Activities	260,150	263,450	240,251	23,199
Capital Outlay	10,000	486,400	464,059	22,341
Debt Service:				
Principal Retirement	0	13,000	12,000	1,000
<i>Total Expenditures</i>	13,565,011	14,305,211	13,548,737	756,474
<i>Excess of Revenues Over (Under) Expenditures</i>	(719,511)	(1,459,711)	(634,343)	825,368
Other Financing Sources (Uses)				
Proceeds from Sale of Assets	0	0	10,088	10,088
Refund of Prior Year Expenditures	0	0	298	298
Advances In	90,000	90,000	53,410	(36,590)
Advances Out	(90,000)	(90,000)	(23,010)	66,990
Transfers Out	(25,000)	(25,000)	(25,000)	0
<i>Total Other Financing Sources (Uses)</i>	(25,000)	(25,000)	15,786	40,786
<i>Net Change in Fund Balance</i>	(744,511)	(1,484,711)	(618,557)	866,154
<i>Fund Balance Beginning of Year</i>	1,879,953	1,879,953	1,879,953	0
Prior Year Encumbrances Appropriated	116,901	116,901	116,901	0
<i>Fund Balance End of Year</i>	\$ 1,252,343	\$ 512,143	\$ 1,378,297	\$ 866,154

See accompanying notes.

INDIAN VALLEY LOCAL SCHOOL DISTRICT

Statement of Fund Net Assets

Proprietary Fund

June 30, 2005

	Governmental Activities - Internal Service Fund
	<u> </u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 903,768</u>
Liabilities	
Claims Payable	<u> 112,675</u>
Net Assets	
Unrestricted	<u><u> \$ 791,093</u></u>

See accompanying notes.

INDIAN VALLEY LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2005

	Governmental Activities - Internal Service Fund
Operating Revenues	
Charges for Services	\$ 1,596,357
Other Operating Revenues	69,021
<i>Total Operating Revenues</i>	1,665,378
Operating Expenses	
Purchased services	233,054
Claims Expense	1,360,638
<i>Total Operating Expenses</i>	1,593,692
<i>Change in Net Assets</i>	71,686
<i>Net Assets Beginning of Year</i>	719,407
<i>Net Assets End of Year</i>	\$ 791,093

See accompanying notes.

INDIAN VALLEY LOCAL SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Fund

For the Fiscal Year Ended June 30, 2005

	Governmental Activities - Internal Service Fund
<i>Increase in Cash and Cash Equivalents</i>	
Cash Flows From Operating Activities	
Cash Received for Interfund Services	\$ 1,596,357
Other Cash Receipts	69,021
Cash Payments for Goods and Services	(198,639)
Cash Payments for Claims	(1,398,788)
	<hr/>
<i>Net Cash Provided by Operating Activities</i>	67,951
	<hr/>
<i>Net Increase in Cash and Cash Equivalents</i>	67,951
	<hr/>
<i>Cash and Cash Equivalents Beginning of Year</i>	835,817
	<hr/>
<i>Cash and Cash Equivalents End of Year</i>	\$ 903,768
	<hr/> <hr/>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
<i>Operating Income</i>	\$ 71,686
Adjustments:	
Decrease in Accounts Receivable	34,415
Decrease in Claims Payable	(38,150)
	<hr/>
<i>Total Adjustments</i>	(3,735)
	<hr/>
<i>Net Cash Provided by Operating Activities</i>	\$ 67,951
	<hr/> <hr/>

INDIAN VALLEY LOCAL SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2005

	Private Purpose Trust	
	<u>Scholarship</u>	<u>Agency</u>
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 10,237	\$ 44,367
Liabilities		
Due to Students	0	\$ 44,367
Net Assets		
Held in Trust for Scholarships	<u>\$ 10,237</u>	

See accompanying notes.

INDIAN VALLEY LOCAL SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets

Private Purpose Trust Fund

For the Fiscal Year Ended June 30, 2005

	<u>Private Purpose Trust</u>
	<u>Scholarship</u>
Additions	
Interest	<u>\$ 172</u>
<i>Change in Net Assets</i>	172
<i>Net Assets Beginning of Year</i>	<u>10,065</u>
<i>Net Assets End of Year</i>	<u><u>\$ 10,237</u></u>

See accompanying notes.

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INDIAN VALLEY LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1: NATURE OF BASIC OPERATIONS AND DESCRIPTION OF THE ENTITY

The Indian Valley Local School District (School District) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District is a school district as defined by Section 3311.03 of the Ohio Revised Code. The School District operates under an elected Board of Education, consisting of five members, and is responsible for providing public education to residents of the School District. Average daily membership on October 1, 2004, was 1,728. The School District employs 141 certificated and 86 non-certificated employees.

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

The School District is involved with Ohio Mid-Eastern Regional Educational Services Association (OME-RESA), Tuscarawas County Tax Incentive Review Council, and Buckeye Career Center, which are defined as jointly governed organizations, and the Gnadenhutten Public Library, which is defined as a related organization. Additional information concerning the jointly governed and related organizations is presented in Notes 16 and 17.

Management believes the basic financial statements included in the report represent all of the funds of the School District over which the School District has the ability to exercise direct operating control. There are no component units.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local 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 type activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the School District's accounting policies are described below.

A. Basis of Presentation

The School District's basic financial statements consist of government-wide 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.

INDIAN VALLEY LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 also eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of the governmental activities of the School District at 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, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limitations. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements During the 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 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 face of the proprietary fund statements. Fiduciary funds are reported by type.

B. Fund Accounting

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

Governmental Funds Governmental funds are those through which most governmental functions typically 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 following are the School District's major governmental funds:

General Fund The general fund accounts 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.

Bond Retirement Fund The bond retirement debt service fund is used to account for the accumulation of property tax revenues for, and the payment of, general obligation bonds used for the construction of two (2) new elementary schools, a new middle school, and a 30,000 square foot addition and renovations to the high school.

INDIAN VALLEY LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classroom Facilities Fund The Classroom Facilities capital project fund accounts for monies received and expended in connection with contracts entered into by the School District and the Ohio Department of Education for the building and equipping of classroom facilities.

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

Proprietary Funds Proprietary funds focus on the determination of changes in net assets, financial position and cash flows and are classified as either enterprise or internal service. The School District's only proprietary fund is 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 only internal service fund accounts for a self-insurance program for employee medical and prescription drug 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 therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's fiduciary funds are agency and private purpose trust scholarship funds. The School District's agency funds account for student activities.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the 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.

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 generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on 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 statements for governmental funds.

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary fund activities. The private purpose trust fund is reported using the economic resources measurement focus.

INDIAN VALLEY LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the 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 Non-Exchange 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 a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that 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 the 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. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). 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 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 a 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 to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees, and rentals.

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been 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 have also been reported as deferred revenue.

INDIAN VALLEY LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expenditure with a like amount reported as intergovernmental revenue.

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. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents".

During fiscal year 2005, investments were limited to STAROhio, (the State Treasurer's Investment Pool), and certificates of deposit.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2005. Certificates of deposit are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$75,144, which includes \$56,163 assigned from other School District funds.

Investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are reported as investments.

INDIAN VALLEY LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method, which means that the costs of inventory items are recorded as expenditures in the governmental funds when consumed.

On fund financial statements, reported inventories are equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net assets.

Inventory consists of donated and purchased food held for resale.

H. Deferred Charges

On the governmental fund statements, bond issuance costs are recorded as an expenditure when incurred. Bond issuance costs are reported as deferred and amortized over the term of the bonds using the straight-line method on the government-wide statements since the results are not significantly different from straight line method.

I. Capital Assets

General capital assets are those assets that result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District's capitalization threshold is \$2,500 for its general capital assets. The School District does not possess any infrastructure. 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.

INDIAN VALLEY LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All reported 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>Estimated Lives</u>
Buildings and Improvements	20 - 50 Years
Improvements Other Than Buildings	20 Years
Furniture and Equipment	5 - 20 Years
Vehicles	8 Years

J. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column of the statement of net assets.

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 that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

In governmental funds, the liability for unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

L. Bond Premiums

Bond premiums are recorded as an other financing source on the governmental fund statements. On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bond using the effective interest method. Bond premiums are presented as an increase of the face amount of the bonds payable.

INDIAN VALLEY LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements and all payables, accrued liabilities and long term obligations from proprietary funds 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, claims and judgments, compensated absences and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds and capital leases are recognized as a liability on the fund financial statements when due.

N. 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 balances of any borrowings 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 instructional activities, grants and extracurricular activities.

The School District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

O. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation, in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, property taxes and prepaid items.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the goods or service that is the primary activity of the fund.

INDIAN VALLEY LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. Interfund Activity

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

R. 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 the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2005.

S. 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.

T. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, 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 amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of budgetary control has been established by the Board of Education at the fund level for all funds. The treasurer has been given the authority to allocate Board appropriations to the function and object levels within each fund.

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

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts in the budgetary statements reflect the final appropriations passed by the Board during the year.

INDIAN VALLEY LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For fiscal year 2005, the School District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures." GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks, credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits. The implementation on GASB Statement No. 40 did not have and effect on the financial statements of the School District

NOTE 3: FUND DEFICITS

Fund balances/net assets at June 30, 2005 included the following individual fund deficits:

	<u>Deficit</u>
<i>Non-Major Funds:</i>	
Title VI	\$ 5,170
Title I	3,278
Food Service	33,999
Summer Intervention	155
Workforce Initiative	489

The deficits in those funds resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required, not when accruals occur.

NOTE 4: BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balance 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 Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual, is presented for the general fund on the budgetary basis to provide meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues and other sources are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses and other uses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Advances in and advances out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

INDIAN VALLEY LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 4: BUDGETARY BASIS OF ACCOUNTING (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement for the general fund.

Net Change in Fund Balance

	General
GAAP Basis	\$ (692,305)
Net Adjustment for Revenue Accruals	(17,129)
Advances In	53,410
Advances Out	(23,010)
Net Adjustment for Expenditure Accruals	584,936
Adjustment for Encumbrances	(524,459)
Budget Basis	\$ (618,557)

NOTE 5: DEPOSITS AND INVESTMENTS

State statues classify monies held by the School District into three categories.

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

Inactive deposits are public deposits 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 or depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim monies are those 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 may be deposited or invested in the following securities:

- 1) United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
- 2) Bonds, notes, debentures, or any other obligations or securities 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;

INDIAN VALLEY LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

- 3) Written repurchase agreements in the securities listed above, provided that 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 that the term of the agreement must not exceed 30 days;
- 4) Bonds and any other obligations of the State of Ohio;
- 5) No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
- 6) The State Treasury Asset Reserve of Ohio (STAROhio).
- 7) Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
- 8) Under limited circumstances, corporate debt interests rated in either of the two highest rating 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. Payment for investments may be made only upon delivery of the securities representing the investments to the School District or, if the securities are not represented by certificate, upon receipt of confirmation of transfer from the custodian.

According to state law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During 2005, the School District and public depositories complied with the provisions of these statutes.

Deposits with Financial Institutions

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

INDIAN VALLEY LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

At fiscal year-end, the carrying amount of the District's deposits was \$8,525,980, which includes \$1,155 cash on hand. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2005, \$8,492,228 of the District's bank balance of \$8,602,465 was exposed to custodial risk as discussed above, while \$110,237 was covered by Federal Deposit Insurance Corporation.

Investments

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Investment Maturities</u>	
	<u>Fair Value</u>	<u>6 Months or Less</u>
STAROhio	3,515,109	3,515,109
Total	\$ 3,515,109	\$ 3,515,109

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less for investments.

Credit Risk. Standard & Poor's has assigned STAROhio an AAAM rating.

Concentration of Credit Risk. The District places no limit on the amount that may be invested in any one issuer. 100 percent of the School District's investments are in STAROhio.

INDIAN VALLEY LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 6: RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts (customer services and student fees), accrued interest and intergovernmental grants. 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 are expected to be received within one year.

A summary of the principal items of intergovernmental receivables follow:

	Amounts
Major Fund:	
General	\$ 5,831
Non-Major Funds:	
Title I	93,000
Title VI B	66,500
Student Intervention	2,319
Title IIA	16,200
Food Service	28,513
Title IID	0
Ohio Arts Counsel	706
Athletics	1,500
Ohio Reads	1,850
Title IV	0
Total All Funds	\$ 216,419

NOTE 7: PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. 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 revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

INDIAN VALLEY LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 7: PROPERTY TAXES (Continued)

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, 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.

The School District receives property taxes from Tuscarawas County. The County Auditor 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, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed personal property tax and the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported 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, 2005, was \$247,585 in the general fund, \$2,401 in the classroom maintenance fund and \$50,117 in the debt service fund.

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

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second		2005 First	
	Half Collections		Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential and Other Real Estate	\$ 93,594,960	69.00%	\$ 107,492,040	72.00%
Commercial Industrial	13,406,090	10.00%	14,041,880	9.00%
Tangible Personal Property	10,299,920	8.00%	9,892,240	7.00%
Personal Public Utility	17,605,530	13.00%	17,283,030	12.00%
	<u>\$ 134,906,500</u>	<u>100.00%</u>	<u>\$ 148,709,190</u>	<u>100.00%</u>
 Tax rate per \$1000 assessed valuation	 <u>\$ 42.15</u>		 <u>\$ 41.50</u>	

INDIAN VALLEY LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 8: CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance 6/30/2004	Additions	Reductions	Balance 6/30/2005
Governmental Activities				
Capital Assets, not being depreciated:				
Land	\$ 91,144	\$ 0	\$ 0	\$ 91,144
Construction in Progress	2,978	229,000	(2,978)	229,000
<i>Total Capital Assets, not being depreciated</i>	<u>94,122</u>	<u>229,000</u>	<u>(2,978)</u>	<u>320,144</u>
Capital Assets, being depreciated:				
Buildings and Building Improvements	10,791,036	24,763	0	10,815,799
Improvements Other Than Buildings	1,136,852	0	0	1,136,852
Furniture and Equipment	1,279,327	473,986	(141,402)	1,611,911
Vehicles	1,469,275	124,529	(33,440)	1,560,364
<i>Total Capital Assets, being depreciated</i>	<u>14,676,490</u>	<u>623,278</u>	<u>(174,842)</u>	<u>15,124,926</u>
Less Accumulated Depreciation:				
Buildings and Building Improvements	(4,409,633)	(318,791)	0	(4,728,424)
Improvements Other Than Buildings	(598,192)	(57,787)	0	(655,979)
Furniture and Equipment	(834,718)	(281,443)	136,729	(979,432)
Vehicles	(1,095,322)	(86,296)	33,440	(1,148,178)
<i>Total Accumulated Depreciation</i>	<u>(6,937,865)</u>	<u>(744,317) *</u>	<u>170,169</u>	<u>(7,512,013)</u>
<i>Total Capital Assets being depreciated, net</i>	<u>7,738,625</u>	<u>(121,039)</u>	<u>(4,673)</u>	<u>7,612,913</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 7,832,747</u>	<u>\$ 107,961</u>	<u>\$ (7,651)</u>	<u>\$ 7,933,057</u>

INDIAN VALLEY LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 8: CAPITAL ASSETS (Continued)

* Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular	\$	580,174
Special		803
Vocational		1,738
Support Services:		
Instructional Staff		2,434
Administration		2,897
Fiscal		0
Business		1,694
Operation and Maintenance of Plant		10,308
Pupil Transportaion		82,747
Operation of Non-Instructional Services		20,206
Extracurricular Activities		41,316
		<u>41,316</u>
Total Depreciation	\$	<u>744,317</u>

NOTE 9: RISK MANAGEMENT

A. General Insurance

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. The School District has a comprehensive property and casualty policy with a deductible of \$2,500 per incident on property and equipment. The School District's comprehensive property and casualty policy aggregate limit is approximately \$30,780,000. The School District's vehicle insurance policy limit is \$1,000,000 with a \$500 collision deductible. All board members, administrators, and employees are covered under a school district liability policy. Additionally, the School District carries an excess (umbrella) liability policy. The limits of this coverage are \$3,000,000 per occurrence and \$3,000,000 in aggregate. Claims did not exceed coverage in the past three years. There has not been a significant reduction in insurance coverage from the prior year.

B. Fidelity Bond

The Board President and Superintendent have a \$25,000 position bond. The Treasurer is covered under a surety bond in the amount of \$100,000. All other school employees who are responsible for handling funds are covered by a \$10,000 fidelity bond.

C. Workers' Compensation

The School District pays the State Workers' Compensation System, a premium based on a rate per \$100 of salaries. The School District is a member of the Ohio Association of School Business Officials, an insurance purchasing pool. This rate is calculated based on accident history and administrative costs.

INDIAN VALLEY LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 9: RISK MANAGEMENT (Continued)

D. Employee Health Insurance

The School District established a limited risk management program for its medical insurance program in 2005. Premiums are paid into the self-insurance fund and are available to pay claims and administrative costs. A stop-loss insurance contract with a private insurance carrier covers specific liability claims in excess of \$50,000. The claims liability of \$112,675 reported in the internal service fund at June 30, 2005 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in the fund's claims liability amount in 2005 and 2004 were:

	<u>Balance at Beginning of Year</u>	<u>Claims</u>	<u>Payments</u>	<u>Balance at End of Year</u>
2004	<u>109,059</u>	<u>\$ 925,337</u>	<u>\$ 1,185,221</u>	<u>\$ 150,825</u>
2005	<u>\$ 150,825</u>	<u>\$ 1,360,638</u>	<u>\$ 1,398,788</u>	<u>\$ 112,675</u>

NOTE 10: DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System of Ohio

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available, stand alone, financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090, or by visiting the STRS Website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC plan allows members to place all 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 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, 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 DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2002, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2002. Benefits are established by Chapter 3307 of the Ohio Revised Code.

INDIAN VALLEY LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 10: DEFINED BENEFIT PENSION PLANS (Continued)

A. State Teachers Retirement System of Ohio (Continued)

A DB or Combined Plan member with five or more years 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 DC Plan 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 fiscal year ended June 30, 2005, plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2005, 2004 and 2003 were \$902,148, \$842,664 and \$787,500, respectively; 83 percent has been contributed for fiscal year 2005, and 100 percent for fiscal years 2004 and 2003. \$151,304, representing the unpaid contribution for fiscal year 2005 is recorded as a liability within the respective funds.

B. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone 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, Columbus, Ohio 43215, or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board.

The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$251,232, \$239,664 and \$234,864, respectively; 49 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. \$129,204, representing the unpaid contribution for fiscal year 2005, is recorded as a liability within the respective funds and the governmental activities.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2005, all members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

INDIAN VALLEY LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 11: 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 non-certificated 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.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most 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 is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equaled 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$64,439 for fiscal year 2005.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004 (the latest information available), the balance in the fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 years or more fiscal years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2005, all retirees and beneficiaries must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 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 \$27,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$108,440.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for the maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

INDIAN VALLEY LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 12: LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during the year consist of the following:

	Outstanding 6/30/2004	Additions	Reductions	Outstanding 6/30/2005	Due in One Year
Governmental Activities:					
General Obligation Bonds:					
1995 School Improvement Bonds:					
\$7,430,000 4.75%-7.00%	\$ 6,345,000	\$ 0	\$ (6,125,000)	\$ 220,000	\$ 220,000
2005 Classroom Facilities and School Improvement Bonds:					
Serial and Term Bonds					
\$8,395,000 3.0%-4.25%	0	8,395,000	0	8,395,000	0
Capital Appreciation Bonds					
\$87,994 9.555%-9.088%	0	87,994	0	87,994	0
Unamortized Premium	0	281,172	0	281,172	0
2005 School Improvement Refunding Bonds:					
Serial Bonds					
\$4,865,000 3.0%-4.25%	0	4,865,000	0	4,865,000	55,000
Capital Appreciation Bonds					
\$1,059,989 9.555%-9.088%	0	1,059,989	0	1,059,989	0
Unamortized Premium	0	314,553	0	314,553	0
Refunding Loss	0	(223,177)	0	(223,177)	0
2002 Installment Loan:					
\$120,000 0%	97,000	0	(12,000)	85,000	12,000
Compensated Absences	780,214	52,480	(50,051)	782,643	18,885
Capital Leases Payable	0	176,347	(15,531)	160,816	32,374
	<u>\$ 7,222,214</u>	<u>\$ 15,009,358</u>	<u>\$ (6,202,582)</u>	<u>\$ 16,028,990</u>	<u>\$ 338,259</u>

On April 6, 1995, the School District issued \$7,430,000 in voted general obligation bonds for school improvements. The bonds were issued for a twenty-five year period with a final maturity at December 1, 2019.

2005 School Improvement Bonds

On June 30, 2005, the School District issued \$8,482,994 in voted general obligation bonds, which included serial, term and capital appreciation (deep discount) bonds in the amount of \$2,610,000, \$5,785,000 and \$87,994, respectively. The general obligation bonds were issued for the purpose of constructing two (2) new elementary schools, a new middle school, and a 30,000 square foot addition and renovations to the high school. The bonds were issued for a twenty-nine year period with final maturity at December 1, 2033.

INDIAN VALLEY LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 12: LONG-TERM OBLIGATIONS (Continued)

The bonds were issued with a premium of \$281,172, which is reported as an increase to bonds payable. The amounts are being amortized to interest expense over the life of the bonds using the straight-line method. The amortization of the premium for fiscal year 2005 was \$-0-. The issuance costs of \$142,862 are reported as deferred charges and are being amortized over the life of the bonds using the straight-line method. The amortization of the issuance costs for fiscal year 2005 was \$-0-.

The \$8,482,994 bond issue consists of serial term and capital appreciation bonds. The serial bonds were issued with a varying interest rate of 3.0-4.25 percent. The term bonds that mature in fiscal year 2022, with an interest rate of 4.125 percent are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2020 at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<u>Fiscal Year</u>	<u>Principal Amount to be Redeemed</u>
2021	\$ 310,000

The term bonds due December 1, 2033, with an interest rate of 4.25 percent, are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2022, and on each December 1 thereafter at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<u>Fiscal Year</u>	<u>Principal Amount to be Redeemed</u>
2023	\$ 340,000
2024	355,000
2025	365,000
2026	385,000
2027	400,000
2028	415,000
2029	435,000
2030	450,000
2031	470,000
2032	490,000
2033	510,000

The term bonds maturing after December 1, 2015 are subject to optional redemption, in whole or in part, on any date in order of maturity as determined by the School District and by lot within a maturity, at the option of the board of Education on or after June 1, 2015.

The capital appreciation bonds will mature December 1, 2016 through 2019. These bonds were purchased at a discount at the time of issuance and at maturity all compounded interest is paid and the bond holder collects the face value. However, since interest is technically earned and compounded semiannually, the value of the bond increases. Therefore, as the value increases, the accretion is booked as principal. The maturity amount of the bonds is \$1,240,000. The fiscal year 2005 accretion amount is \$0.

INDIAN VALLEY LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 12: LONG-TERM OBLIGATIONS (Continued)

2005 School Improvement Refunding General Obligation Bonds

On June 30, 2005, the School District issued \$5,924,989 of general obligation bonds, which included serial and capital appreciation (deep discount) bonds in the amount of \$4,865,000 and \$1,059,989, respectively. The bonds refunded \$5,925,000 of outstanding 1995 School Improvement General Obligation Bonds. The bonds were issued for a fifteen-year period with final maturity at December 1, 2019. At the date of refunding, \$6,148,177 (including premium and after underwriting fees, and other issuance costs) was received to pay off old debt.

These refunding bonds were issued with a premium of \$314,553, which is reported as an increase to bonds payable. The amounts are being amortized to interest expense over the life of the bonds using the straight-line method. The amortization of the premium for fiscal year 2005 was \$-0-. The issuance costs of \$91,365 are reported as deferred charges and are being amortized over the life of the bonds using the straight-line method. The amortization of the issuance costs for fiscal year 2005 was \$-0-. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition price of \$223,177. This difference, reported in the accompanying financial statements as a decrease to bonds payable, is being amortized to interest expense over the life of the bonds using the straight-line method. The amortization of this difference for fiscal year 2005 was \$-0-.

The capital appreciation bonds mature December 1, 2016 through December 1, 2019. These bonds were purchased at a substantial discount at the time of issuance. At maturity, all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as principal liability. The maturity amount of the bonds is \$2,465,000. For fiscal year 2005, the accretion amount was \$-0-.

Outstanding general obligation bonds consist of school building construction issues. Such bonds are direct obligations of the School District for which the full faith, credit and resources are pledged and are payable from taxes levied on all taxable property of the School District.

The installment loan to John Fivecoats is for the purchase of land and a bus garage. The loan is secured by this real estate, and has a final maturity date of September 1, 2012. The loan will be paid from the general fund.

The capital leases will be paid from the general fund. Compensated absences will be paid from the fund from which the employees' salaries are paid.

The School District's overall debt margin was \$(634,706) with an unvoted margin of \$148,709 at June 30, 2005. A school district may incur net indebtedness in excess of the 9 percent limitation (but not the 1/10, 9/10 and 1 percent limitations) when necessary to raise the school district's portion of the basic project cost required for State capital assistance pursuant to Chapter 3318 of the Revised Code. The Classroom Facilities Bonds are such net indebtedness.

INDIAN VALLEY LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 12: LONG-TERM OBLIGATIONS (Continued)

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2005 are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds		Capital Appreciation Bonds		Installment Loan	Totals	
	Principal	Interest	Principal	Interest	Principal	Principal	Interest
2006	\$ 275,000	\$ 453,553	\$ 0	\$ 0	\$ 12,000	\$ 287,000	\$ 453,553
2007	620,000	476,717	0	0	12,000	632,000	476,717
2008	650,000	457,667	0	0	12,000	662,000	457,667
2009	675,000	437,793	0	0	12,000	687,000	437,793
2010	700,000	417,168	0	0	12,000	712,000	417,168
2011-2015	3,905,000	1,723,601	0	0	25,000	3,930,000	1,723,601
2016-2020	870,000	1,241,004	1,147,983	2,557,017	0	2,017,983	3,798,021
2021-2025	1,695,000	1,054,366	0	0	0	1,695,000	1,054,366
2026-2030	2,085,000	654,606	0	0	0	2,085,000	654,606
2031-2034	2,005,000	174,994	0	0	0	2,005,000	174,994
Total	\$ 13,480,000	\$ 7,091,469	\$ 1,147,983	\$ 2,557,017	\$ 85,000	\$ 14,712,983	\$ 9,648,486

NOTE 13: CAPITALIZED LEASES

The School District entered into capitalized leases for copiers. The total capitalized cost of the copiers is \$176,347. All of the leases meet 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 payments. Capital assets acquired by the leases have been capitalized in the Governmental Activities in the amount equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the Governmental Activities.

The following summarizes future minimum lease payments made from the general fund under the above capital leases, and the present values of net minimum lease payments at June 30, 2005:

2006	\$ 40,440
2007	40,440
2008	40,440
2009	40,440
2010	<u>20,220</u>
Total Minimum Lease Payments	181,980
Less: Amounts Representing Interest	<u>21,164</u>
Present Value of Net Minimum Lease Payments	<u>\$ 160,816</u>

INDIAN VALLEY LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 14: DEFERRED REVENUE

Deferred revenue at June 30, 2005 consisted of the following:

	Statement of Net Assets	Balance Sheet
Property Taxes Receivable	\$ 4,286,744	\$ 4,621,711
Deferred Revenue	\$ 4,286,744	\$ 4,621,711

NOTE 15: INTERFUND TRANSACTIONS

A. Interfund Balances

As of June 30, 2005, receivables and payables that resulted from cash advances from the General Fund to other funds were as follows:

	Interfund Receivable	Interfund Payable
Fund:		
General	\$ 1,400	\$ 0
Other Governmental:		
Ohio Reads	0	700
Workforce Incentive	0	500
Title IV	0	200
Totals	\$ 1,400	\$ 1,400

The primary purpose of the interfund loan is to cover costs in specific funds where revenues were not received by June 30. These interfund loans will be repaid once the anticipated revenues are received. All interfund loans are expected to be repaid within one year.

B. Interfund Transfers

During the fiscal year 2005, the general fund transferred \$25,000 to the food service fund to cover operating expenses.

INDIAN VALLEY LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 16: RELATED ORGANIZATION

The Gnadenhutten Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the School District for operational subsidies. Although the School District does serve as a taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax levy, the rate and purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Gnadenhutten Public Library, Clerk/Treasurer, Gnadenhutten, Ohio.

NOTE 17: JOINTLY GOVERNED ORGANIZATIONS

A. Ohio Mid-Eastern Regional Education Association (OME-RESA)

OME-RESA is a jointly governed organization comprised of 52 school districts, created as a regional council of governments pursuant to state statute. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these districts support OME-RESA based on a per pupil charge dependent upon the software package utilized. The OME-RESA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. OME-RESA is governed by a board of directors chosen from the general membership of the OME-RESA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least an assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Jefferson County Education Services Center, which serves as fiscal agent, located in Steubenville, Ohio. During the year ended June 30, 2005, the School District paid approximately \$54,633 to OME-RESA for basic service charges.

B. Buckeye Career Center

The Career Center, a joint vocational school established by the Ohio Revised Code, is a jointly governed organization providing vocational services to its eleven-member school districts. The Career Center is governed by a board of education comprised of eleven members appointed by the participating schools. The board controls the financial activity of the Career Center and reports to the Ohio Department of Education and the Auditor of State of Ohio. The continued existence of the Career Center is not dependent on the School District's continued participation and no measurable equity interest exists.

C. Tuscarawas County Tax Incentive Review Council

The Tuscarawas County Tax Incentive Review Council (TCTIRC) is a jointly governed organization, created as a regional council of governments pursuant to State Statutes. TCTIRC has 22 members, consisting of three members appointed by the County Commissioners, four members appointed by municipal corporations, six members appointed by township trustees, one member from the County Auditor's office and 8 members appointed by Boards of Education located within the County. TCTIRC reviews and evaluates the performance of each Enterprise Zone Agreement. This body is advisory in nature and cannot directly impact an existing Enterprise Zone Agreement; however, the Council can make written recommendations to the legislative authority which approved the agreement. There is no cost associated with being a member of this Council. The continued existence of the TRTIRC is not dependent on the School District's continued participation and no equity interest exists.

INDIAN VALLEY LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 18: CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement 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, 2005.

B. Litigation

The School District is party to two legal proceedings. Our liability insurance carrier, at the time of the accident was Nationwide Mutual Insurance Co., and is representing the School District in the first lawsuit. In addition, Indiana Insurance Company, the current liability insurance carrier, is representing the School District in the second lawsuit. The School District management is of the opinion that the ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the School District.

NOTE 19: 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 acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year end or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks and capital acquisition. Disclosure of this information is required by State statute.

	Textbooks	Capital Acquisition	Totals
Set-aside Balance as of June 30, 2004	\$ (836,958)	\$ 0	\$ (836,958)
Current Year Set-Aside Requirement	267,498	267,498	534,996
Current Year Qualifying Disbursements	<u>(332,112)</u>	<u>(560,496)</u>	<u>(892,608)</u>
Totals	<u>\$ (901,572)</u>	<u>\$ (292,998)</u>	<u>\$ (1,194,570)</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>\$ (901,572)</u>	<u>\$ 0</u>	

The School District had qualifying disbursements during the fiscal year that reduced the textbook set-aside amount below zero. This extra amount may be used to reduce the set-aside requirement in future years. Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement for future years.

INDIAN VALLEY LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 20 – SUBSEQUENT EVENT

Effective May 2005, the District residents passed a \$8,483,000 Bond Issue as their local share in an Ohio School Facilities Commission (OSFC) Classroom Facilities Assistance Program. The total project cost of \$40,294,000, will provide the District with two (2) new elementary schools, a new middle school, and a 30,000 square foot addition and renovations to the high school.

INDIAN VALLEY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Grantor Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF EDUCATION						
<i>(Passed Through Ohio Department of Education)</i>						
Title I Grants to Local Educational Agencies	C1-S1-2004	84.010	\$81,905		\$89,069	
	C1-S1-2005		472,272		468,452	
<i>Total Title I Grants to Local Educational Agencies</i>			554,177		557,521	
Special Education - Grants to States	6B-SF-2004	84.027	47,175		50,679	
	6B-SF-2005		323,478		318,334	
<i>Total Special Education - Grants to States</i>			370,653		369,013	
Safe and Drug Free Schools and Communities State Grants	DR-S1-2004	84.186	(282)			
	DR-S1-2005		14,917		14,352	
<i>Total Safe and Drug Free Schools and Communities State Grants</i>			14,635		14,352	
Innovative Education Program Strategies	C2-S1-2005	84.298	8,098		8,098	
Technology Literacy Challenge Fund Grants	TJ-S1-2004	84.318	(1,103)		17	
	TJ-S1-2005		12,732		10,938	
<i>Total Technology Literacy Challenge Fund Grants</i>			11,629		10,955	
Rural Education	RU-S1-2004	84.358	7,475		17,423	
	RU-S1-2005		111			
<i>Total Rural Education</i>			7,586		17,423	
Improving Teacher Quality State Grants	TR-S1-2004	84.367	14,470		20,407	
	TR-S1-2005		85,765		82,689	
<i>Total Improving Teacher Quality State Grants</i>			100,235		103,096	
Total U.S. Department of Education			1,066,902		1,080,458	
U.S. DEPARTMENT OF LABOR						
<i>(Passed Through Ohio Workforce Initiative Association)</i>						
Workforce Initiative		17.250	12,435		12,696	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>(Passed Through Ohio Department of Mental Retardation and Developmental Disabilities)</i>						
Community Alternative Funding System	N/A	93.778	1,352		1,352	
U.S. DEPARTMENT OF AGRICULTURE						
<i>(Passed Through Ohio Department of Education)</i>						
Child Nutrition Cluster:						
Food Distribution	N/A	10.550		\$35,722		\$35,722
National School Breakfast Program	N/A	10.553	29,549		29,549	
National School Lunch Program	N/A	10.555	223,930		223,930	
Total U.S. Department of Agriculture - Child Nutrition Cluster			253,479	35,722	253,479	35,722
Total			\$1,334,168	\$35,722	\$1,347,985	\$35,722

The notes to the Federal Awards Receipt and Expenditure Schedule are an integral part of this statement.

**INDIAN VALLEY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule is a summary of the activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. Monies are commingled with state grants. It is assumed federal monies are expended first. At June 30, 2005, the District had no significant food commodities in inventory.

NOTE C - MEDICAL ASSISTANCE PROGRAM

Cash receipts from the U.S. Department of Health and Human Services for the Medical Assistance Program-CAFS are commingled with local funds. 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**

Indian Valley Local School District
Tuscarawas County
100 N. Walnut Street
P.O. Box 171
Gnadenhutten, Ohio 44629

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Indian Valley Local School District, Tuscarawas County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 13, 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 in order to express our opinion 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 January 13, 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 January 13, 2006, we reported other matters related to noncompliance we deemed immaterial.

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Indian Valley Local School District
Tuscarawas County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, 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

January 13, 2006



**Auditor of State
Betty Montgomery**

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

Indian Valley Local School District
Tuscarawas County
100 N. Walnut Street
P.O. Box 171
Gnadenhutten, Ohio 44629

To the Board of Education:

Compliance

We have audited the compliance of the Indian Valley Local School District, Tuscarawas 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 are applicable to its major federal programs for the year ended June 30, 2005. The District's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. 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 obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that 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, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order 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 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 that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

January 13, 2006

**INDIAN VALLEY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2005**

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 non-compliance 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 #84.027 – Special Education
<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?	Yes

**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



**Auditor of State
Betty Montgomery**

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INDIAN VALLEY LOCAL SCHOOL DISTRICT

TUSCARAWAS 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 16, 2006**