



**Auditor of State
Betty Montgomery**

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of River Valley Local School District, Marion County, Ohio, (the District), as of and for the year ended June 30, 2004, 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 River Valley Local School District, Marion County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, 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 April 25, 2005, 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.

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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 expenditure 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 also not a required part of the basic financial statements. We subjected the federal awards receipt and expenditure 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.

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

Betty Montgomery
Auditor of State

April 25, 2005

RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The discussion and analysis of River Valley Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Key highlights for fiscal year 2004 are as follows:

In total, net assets decreased \$2,537,491, or 8 percent; not that significant of a change from the prior fiscal year. The biggest difference reflected on the School District's statement of net assets in relation to the prior fiscal year is related to cash and cash equivalents. The \$6,309,826 decrease in cash and cash equivalents is the result of construction activities coming to a close on the new school facilities. Cash resources were spent for final construction requirements and to pay remaining construction commitments and related retainage.

General revenues were \$13,884,193, or 89 percent of total revenues, and reflect the School District's continued dependence on property taxes and unrestricted state entitlements.

As a strategy to avoid massive levies or massive reductions in the future based on the projections in the five-year forecast, the School District implemented cost saving reductions beginning in fiscal year 2004 of approximately \$196,000. This included reductions in materials and supplies, reduction of supplemental contracts and extended days, and the elimination of staff positions.

In both March and August 2004, the voters of the School District rejected a levy to generate \$1,284,000 in additional revenues for general operations. This emergency levy was equivalent to 4.94 mills. As a result of these levy failures, the Board of Education implemented approximately \$330,000 in additional budget reductions for fiscal year 2005. Among these were reductions in staff, implementation of an extracurricular fee, and reductions in materials and supplies and capital outlay. No decision has been made regarding future levy issues.

The School District is self insured for employee medical and drug insurance; OME-RESA Health Benefits serves as the administrator of the insurance plan with Self Funded Plans being the third party administrator. The School District's Employee Benefits Committee is reviewing the current plan in an attempt to look at plan design modifications to contain costs. In fiscal year 2005, the Board of Education transferred \$200,000 from the General Fund to the Employee Benefit Fund in order to reduce the deficit. As of February 2005, the Employee Benefit Fund has a positive balance of approximately \$15,000.

After several months of negotiations with the River Valley Education Association, which represents the classified staff of the School District, the Board of Education and union agreed to a tentative agreement for the contract period from July 1, 2005, to June 30, 2007. The contract awarded pay increases of 2.5 percent for fiscal years 2005 and 2006 and 2.75 percent for fiscal year 2007 as well as limiting the Board's exposure to future health insurance increases.

RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)

The School District's five-year forecast has a positive carryover balance going into fiscal year 2008. The State's biennium budget covering fiscal years 2006 and 2007 is still going through the legislative process and the School District has forecasted little or no growth with regard to State foundation monies. The Governor's proposal to eliminate the inventory tax may have serious implications to the School District in the long-term; however, he has introduced a revenue replacement for the short term.

The School District's resident enrollment has decreased from fiscal year 2004 to fiscal year 2005. However, open enrollment has increased with fiscal year 2005 being the first year since the inception of open enrollment that the School District has seen positive dollars from these students. If this trend continues it could help the School District in making future funding decisions. The School District has seen growth in housing developments and commercial development. DeJung and Associates completed an enrollment projection for the School District in fiscal year 2005 and it will be used to map strategies for the future.

Using the Basic Financial Statements

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

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

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

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2004. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)

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

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

Reporting the School District's Most Significant Funds

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

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

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

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

RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2004 compared to fiscal year 2003:

Table 1
Net Assets

	Governmental Activities	
	2004	2003
<u>Assets:</u>		
Current and Other Assets	\$14,044,686	\$20,248,660
Capital Assets, Net	42,219,456	41,250,264
Total Assets	56,264,142	61,498,924
<u>Liabilities:</u>		
Current and Other Liabilities	7,573,715	9,674,043
Long-Term Liabilities	19,512,980	20,109,943
Total Liabilities	27,086,695	29,783,986
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	23,521,717	21,917,225
Restricted	3,787,753	7,969,122
Unrestricted	1,867,977	1,828,591
Total Net Assets	\$29,177,447	\$31,714,938

Total assets decreased \$5,234,782, or about 9 percent. Most of this decrease is reflected in current and other assets, and for fiscal year 2004, this decrease was almost entirely involving cash and cash equivalents. A substantial portion of the cash decrease is related to the payment of liabilities outstanding at the end of the prior fiscal year for contracts and retainage (therefore, there is a corresponding decrease in current and other liabilities for these amounts). In addition, there is a corresponding increase in capital assets for new construction completed during fiscal year 2004.

Total liabilities also decreased about 9 percent in fiscal year 2004, again the greatest portion of this was related to contracts and retainage as construction was completed on the district-wide building project.

Two primary factors contributed to the increase in invested in capital assets, new construction in fiscal year 2004 and principal payments made on debt related to capital asset construction/acquisition. The decrease in restricted net assets is the result of construction.

RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)

Table 2 reflects the change in net assets for fiscal year 2004 and 2003.

Table 2
Change in Net Assets

	Governmental Activities	
	2004	2003
<u>Revenues:</u>		
Program Revenues		
Charges for Services	\$579,511	\$559,238
Operating Grants, Contributions, and Interest	1,063,927	948,747
Capital Grants and Contributions	48,310	125,812
Total Program Revenues	<u>1,691,748</u>	<u>1,633,797</u>
General Revenues		
Property Taxes Levied for General Purposes	6,470,019	6,025,033
Property Taxes Levied for Classroom Facilities Maintenance	112,807	101,823
Property Taxes Levied for Debt Service	1,402,968	1,324,236
Property Taxes Levied for Permanent Improvements	49,498	147,882
Grants and Entitlements	5,721,065	5,984,261
Interest	72,904	809,999
Gifts and Donations	1,000	3,024
Miscellaneous	53,932	134,217
Total General Revenues	<u>13,884,193</u>	<u>14,530,475</u>
Total Revenues	<u>15,575,941</u>	<u>16,164,272</u>
<u>Expenses:</u>		
Instruction:		
Regular	7,664,302	6,213,095
Special	885,993	741,824
Vocational	269,429	194,416
Support Services:		
Pupils	434,458	572,528
Instructional Staff	869,791	559,165
Board of Education	9,517	7,965
Administration	1,276,299	1,177,075
Fiscal	477,050	450,077
Operation and Maintenance of Plant	3,140,333	960,711
Pupil Transportation	926,582	879,447
Central	50,913	39,781
Non-Instructional Services	623,043	555,942
Extracurricular Activities	597,067	427,970
Interest and Fiscal Charges	88,655	88,941
Total Expenses	<u>18,113,432</u>	<u>13,669,937</u>
Increase (Decrease) in Net Assets	<u>(\$2,537,491)</u>	<u>\$2,494,335</u>

RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)

Program revenues only represent approximately 11 percent of total revenues and are primarily represented by tuition and fees, charges for extracurricular activities, food service sales, and restricted intergovernmental revenues.

As stated previously, general revenues represent 89 percent of the School District's total revenues, and of this amount, over half is the result of property taxes. Grants and entitlements, primarily State foundation resources make up the balance of the School District's general revenues. Other revenue sources, such as interest and donations, are completely insignificant and somewhat unpredictable revenue sources.

A comparison of both program revenues and general revenues to the prior fiscal year reveals few changes. While overall not significant in dollar amount, interest revenues decreased almost 91 percent. In the prior fiscal year, the School District had invested unspent bond proceeds. Those resources were spent in fiscal year 2004 for construction. The decrease in property taxes levied for permanent improvements is the result of a decision by the taxpayers and a 1 mill levy coming off the tax duplicate.

The major program expense for governmental activities, as expected, is for instruction, which accounts for almost 49 percent of all governmental expenses. The instruction category, however, does not include all activities associated with educating students as the pupils, instructional staff, and pupil transportation costs have a significant role in delivering education. A comparison to the prior fiscal year demonstrates significant changes in two primary areas, instruction and operation and maintenance costs. Both of these increases are tied to the costs associated with the new buildings. The School District purchased many assets including furniture, fixtures, and equipment for the new facilities. Many of these items were below the School District's threshold amount for capitalizing assets and were expensed in fiscal year 2004. In addition, the School District incurred some asbestos removal and demolition costs associated with its former school buildings.

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

RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2004	2003	2004	2003
Instruction:				
Regular	\$7,664,302	\$6,213,095	\$7,536,736	\$6,003,468
Special	885,993	741,824	204,085	164,857
Vocational	269,429	194,416	234,473	144,951
Support Services:				
Pupils	434,458	572,528	420,908	556,789
Instructional Staff	869,791	559,165	869,791	559,165
Board of Education	9,517	7,965	9,517	7,965
Administration	1,276,299	1,177,075	1,276,299	1,177,075
Fiscal	477,050	450,077	477,050	450,077
Operation and Maintenance of Plant	3,140,333	960,711	3,140,333	960,711
Pupil Transportation	926,582	879,447	906,917	790,723
Central	50,913	39,781	38,913	32,781
Non-Instructional Services	623,043	555,942	111,481	89,394
Extracurricular Activities	597,067	427,970	306,526	208,243
Interest and Fiscal Charges	888,655	889,941	888,655	889,941
Total Expenses	<u>\$18,113,432</u>	<u>\$13,669,937</u>	<u>\$16,421,684</u>	<u>\$12,036,140</u>

The dependence upon tax revenues and unrestricted state entitlements for governmental activities was a little greater in fiscal year 2004 as general revenues provided more towards program costs. Only a very few of the School District's programs receive a significant amount of program revenues to offset their costs. One of these programs is special instruction which provides for almost 77 percent of program costs through program revenues, much of this in the form of operating grants restricted for special instruction purposes. Over 82 percent of non-instructional services were provided for through program revenues. This is primarily due to cafeteria sales, and state and federal subsidies and donated commodities for food service. Over 48 percent of extracurricular activities expenses are covered by program revenues. This is the result of music and athletic fees, ticket sales, and gate receipts.

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. A review of the School District's major funds demonstrates an increase in fund balance for both the General Fund and Bond Retirement debt service fund. While the percentage of this increase was not significant for either fund, it is notable that revenues exceeded expenditures for both. On the other hand, the Ohio School Facilities Commission capital projects fund had a substantial decrease in fund balance as construction activities on the district-wide building project were wrapping up in fiscal year 2004.

RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)

General Fund Budgeting Highlights

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

During fiscal year 2004, the School District amended its General Fund budget as needed. There was very little change in revenue amounts reflected in the original and final budget as well as with actual revenues received for the fiscal year.

The same can be said for expenditures. The variance from original to final budget amounts and from the final budget to actual expenditures was insignificant.

While the overall increase in fund balance was only 4 percent, due to cost reductions implemented in fiscal year 2004, the School District was able to avoid cash carryover spending.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$42,219,456 invested in capital assets (net of accumulated depreciation) for governmental activities, an increase of \$969,192, or 2 percent. This increase may have been a small one; however, opening new buildings and closing old buildings caused much addition and disposal activity within the fiscal year.

Additions included such items as land and land improvements; the new buildings, computer, music, office, playground, food service, and athletic equipment purchases; and a used school bus. Disposals included building and building improvements; computer, office, and playground equipment; and musical instruments. The main reason for the number of disposals is due to closing five buildings as a part of the district-wide construction project. Many of these items were sold at public auction. For further information regarding the School District's capital assets, refer to Note 9 to the basic financial statements.

Debt

The School District's outstanding debt at June 30, 2004, included School Improvement and School Bus general obligation bonds, in the amount of \$18,616,667. There were also outstanding capital leases for equipment, in the amount of \$39,267, and loans for the purchase of land, in the amount of \$41,805. The School District's long-term obligations also include compensated absences. For further information regarding the School District's long-term obligations, refer to Notes 16 and 17 to the basic financial statements.

RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)

Current Issues

The School District's five-year forecast continues to be the instrument used to make future decisions with regard to program and funding strategies. As a result of levy failures requesting additional funds, the Board of Educations has implemented cost reductions to delay future deficits. Currently the forecast indicates a positive fund balance going into fiscal year 2008 but a careful strategy must be developed with a focus on not only new funds to be generated but the renewal of two levies which expire in tax year 2008.

A tentative agreement has been reached with the River Valley Education Association, which represents River Valley's classified staff and negotiations with our certificated staff, represented by the River Valley Teachers Association, is set to begin in the spring of 2005 as their contract expires on June 30, 2005. The ability to sign off on a three-year contract is being researched in order to be in compliance with HB412.

The turn around of open enrollment students coming into the School District at a greater rate than those leaving continues to be a bright spot. However, the loss of revenue to charter schools is a significant unknown. This will also be a major focus for future funding and programming decisions.

With the completion of the bus garage in the summer of 2004, all construction has been completed and we will be better able to determine more accurately the operational needs of the buildings. In fiscal year 2005, the School District sold the land where the former Waldo Elementary was located to the Waldo Township Trustees for a price of \$60,000. Future plans are to sell the acreage at public auction where the former Caledonia Elementary stood. The old high school/middle school campus is currently being cleaned up by the Army Corp of Engineers and the future use of this land is still not decided.

Contacting the School District's Financial Management

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

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**Statement of Net Assets
June 30, 2004**

	Governmental Activities
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$5,662,165
Cash and Cash Equivalents	
with Fiscal Agent	26
Cash and Cash Equivalents	
with Escrow Agent	23,689
Accounts Receivable	5,722
Intergovernmental Receivable	341,012
Prepaid Items	24,448
Inventory Held for Resale	10,277
Materials and Supplies Inventory	33,333
Property Taxes Receivable	7,944,014
Nondepreciable Capital Assets	1,100,635
Depreciable Capital Assets, Net	41,118,821
Total Assets	56,264,142
 <u>Liabilities:</u>	
Accounts Payable	255,288
Contracts Payable	93,369
Retainage Payable	36,653
Accrued Wages and Benefits Payable	1,077,781
Intergovernmental Payable	342,742
Deferred Revenue	5,444,054
Accrued Interest Payable	149,596
Claims Payable	169,160
Special Termination Benefits Payable	5,072
Long-Term Liabilities:	
Due Within One Year	741,172
Due in More Than One Year	18,771,808
Total Liabilities	27,086,695
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	23,521,717
Restricted For:	
Debt Service	1,036,125
Capital Projects	2,048,226
Other Purposes	703,402
Unrestricted	1,867,977
Total Net Assets	\$29,177,447

See Accompanying Notes to the Basic Financial Statements

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**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2004**

	Program Revenues			
	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions	
Expenses				
<u>Governmental Activities:</u>				
Instruction:				
Regular	\$7,664,302	\$50,791	\$76,775	\$0
Special	885,993	42,709	639,199	0
Vocational	269,429	0	34,956	0
Support Services:				
Pupils	434,458	0	13,550	0
Instructional Staff	869,791	0	0	0
Board of Education	9,517	0	0	0
Administration	1,276,299	0	0	0
Fiscal	477,050	0	0	0
Operation and Maintenance of Plant	3,140,333	0	0	0
Pupil Transportation	926,582	0	0	19,665
Central	50,913	0	12,000	0
Non-Instructional Services	623,043	390,282	121,280	0
Extracurricular Activities	597,067	95,729	166,167	28,645
Interest and Fiscal Charges	888,655	0	0	0
Total Governmental Activities	<u>\$18,113,432</u>	<u>\$579,511</u>	<u>\$1,063,927</u>	<u>\$48,310</u>

General Revenues:

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

Change in Net Assets

Net Assets at Beginning of Year - Restated (Note 3)
Net Assets at End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue
and Change in Net Assets

Governmental
Activities

(\$7,536,736)
(204,085)
(234,473)

(420,908)
(869,791)
(9,517)
(1,276,299)
(477,050)
(3,140,333)
(906,917)
(38,913)
(111,481)
(306,526)
(888,655)

(16,421,684)

6,470,019
112,807
1,402,968
49,498
5,721,065
72,904
1,000
53,932

13,884,193

(2,537,491)

31,714,938

\$29,177,447

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2004**

	General	Bond Retirement	Ohio School Facilities Commission	Other Governmental	Total Governmental Funds
<u>Assets:</u>					
Equity in Pooled Cash and Cash Equivalents	\$2,290,033	\$689,195	\$1,590,753	\$1,092,184	\$5,662,165
Cash and Cash Equivalents					
with Fiscal Agent	0	0	0	26	26
Accounts Receivable	5,418	0	0	304	5,722
Intergovernmental Receivable	29,653	722	95,090	215,547	341,012
Interfund Receivable	223,134	0	0	0	223,134
Prepaid Items	24,448	0	0	0	24,448
Inventory Held for Resale	0	0	0	10,277	10,277
Materials and Supplies Inventory	32,071	0	0	1,262	33,333
Restricted Assets:					
Cash and Cash Equivalents with Escrow Agent	0	0	23,689	0	23,689
Property Taxes Receivable	6,392,596	1,427,534	0	123,884	7,944,014
Total Assets	<u>\$8,997,353</u>	<u>\$2,117,451</u>	<u>\$1,709,532</u>	<u>\$1,443,484</u>	<u>\$14,267,820</u>
<u>Liabilities and Fund Balances:</u>					
<u>Liabilities</u>					
Accounts Payable	\$181,194	\$0	\$5,375	\$68,719	\$255,288
Contracts Payable	0	0	90,069	3,300	93,369
Retainage Payable	0	0	12,964	0	12,964
Accrued Wages and Benefits Payable	1,028,047	0	0	49,734	1,077,781
Intergovernmental Payable	223,564	0	0	19,932	243,496
Interfund Payable	0	0	0	88,250	88,250
Payable from Restricted Assets:					
Retainage Payable	0	0	23,689	0	23,689
Deferred Revenue	4,737,659	1,004,043	95,090	186,076	6,022,868
Total Liabilities	<u>6,170,464</u>	<u>1,004,043</u>	<u>227,187</u>	<u>416,011</u>	<u>7,817,705</u>
<u>Fund Balances:</u>					
Reserved for Interfund Receivable	51,000	0	0	0	51,000
Reserved for Property Taxes	1,685,426	423,671	0	32,671	2,141,768
Reserved for Encumbrances	106,281	0	170,965	531,574	808,820
Unreserved, Designated for Budget Stabilization	85,600	0	0	0	85,600
Unreserved, Undesignated Reported in:					
General Fund	898,582	0	0	0	898,582
Special Revenue Funds	0	0	0	313,184	313,184
Debt Service Fund	0	689,737	0	0	689,737
Capital Projects Funds	0	0	1,311,380	150,044	1,461,424
Total Fund Balances	<u>2,826,889</u>	<u>1,113,408</u>	<u>1,482,345</u>	<u>1,027,473</u>	<u>6,450,115</u>
Total Liabilities and Fund Balances	<u>\$8,997,353</u>	<u>\$2,117,451</u>	<u>\$1,709,532</u>	<u>\$1,443,484</u>	<u>\$14,267,820</u>

See Accompanying Notes to the Basic Financial Statements

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2004**

Total Governmental Fund Balances \$6,450,115

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 42,219,456

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:

Accounts Receivable	4,547	
Intergovernmental Receivable	220,175	
Property Taxes Receivable	354,092	
		578,814

Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources and, therefore, not reported in the funds. (99,246)

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Accrued Interest Payable	(149,596)	
Special Terminations Benefits Payable	(5,072)	
School Improvement Bonds Payable	(18,500,000)	
School Bus Bonds Payable	(116,667)	
Compensated Absences Payable	(815,241)	
Capital Leases Payable	(39,267)	
Loans Payable	(41,805)	
		(19,667,648)

An internal service fund is used by management to charge the cost of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets. (304,044)

Net Assets of Governmental Activities \$29,177,447

See Accompanying Notes to the Basic Financial Statements

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004**

	General	Bond Retirement	Ohio School Facilities Commission	Other Governmental	Total Governmental Funds
<u>Revenues:</u>					
Property Taxes	\$6,424,973	\$1,391,968	\$0	\$166,997	\$7,983,938
Intergovernmental	5,068,623	150,261	639,990	663,367	6,522,241
Interest	35,887	0	37,000	714	73,601
Tuition and Fees	90,396	0	0	28,629	119,025
Extracurricular Activities	5,461	0	0	243,015	248,476
Charges for Services	0	0	0	389,997	389,997
Gifts and Donations	1,000	0	0	28,645	29,645
Miscellaneous	33,779	0	0	46,305	80,084
Total Revenues	<u>11,660,119</u>	<u>1,542,229</u>	<u>676,990</u>	<u>1,567,669</u>	<u>15,447,007</u>
<u>Expenditures:</u>					
Current:					
Instruction:					
Regular	5,925,285	0	0	110,274	6,035,559
Special	545,984	0	0	193,898	739,882
Vocational	192,535	0	0	5,728	198,263
Support Services:					
Pupils	364,262	0	0	63,728	427,990
Instructional Staff	494,084	0	0	196,960	691,044
Board of Education	9,517	0	0	0	9,517
Administration	1,257,968	0	0	1,332	1,259,300
Fiscal	417,932	26,149	0	27,533	471,614
Operation and Maintenance of Plant	1,194,613	0	0	151,985	1,346,598
Pupil Transportation	784,957	0	0	30,299	815,256
Central	41,355	0	0	9,197	50,552
Non-Instructional Services	159	0	0	483,815	483,974
Extracurricular Activities	194,945	0	0	242,688	437,633
Capital Outlay	0	0	4,201,643	1,012,674	5,214,317
Debt Service:					
Principal Retirement	92,933	565,000	0	21,525	679,458
Interest and Fiscal Charges	12,804	874,724	843	0	888,371
Total Expenditures	<u>11,529,333</u>	<u>1,465,873</u>	<u>4,202,486</u>	<u>2,551,636</u>	<u>19,749,328</u>
Excess of Revenues Over (Under) Expenditures	<u>130,786</u>	<u>76,356</u>	<u>(3,525,496)</u>	<u>(983,967)</u>	<u>(4,302,321)</u>
<u>Other Financing Sources (Uses):</u>					
Sale of Capital Assets	0	0	0	149,460	149,460
Inception of Capital Lease	44,158	0	0	0	44,158
Transfers In	0	0	0	2,000	2,000
Transfers Out	(2,000)	0	0	0	(2,000)
Total Other Financing Sources (Uses)	<u>42,158</u>	<u>0</u>	<u>0</u>	<u>151,460</u>	<u>193,618</u>
Changes in Fund Balances	172,944	76,356	(3,525,496)	(832,507)	(4,108,703)
Fund Balances at Beginning of Year	<u>2,653,945</u>	<u>1,037,052</u>	<u>5,007,841</u>	<u>1,859,980</u>	<u>10,558,818</u>
Fund Balances at End of Year	<u>\$2,826,889</u>	<u>\$1,113,408</u>	<u>\$1,482,345</u>	<u>\$1,027,473</u>	<u>\$6,450,115</u>

See Accompanying Notes to the Basic Financial Statements

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to Statement of Activities
For the Fiscal Year Ended June 30, 2004**

Changes in Fund Balances - Total Governmental Funds (\$4,108,703)

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

Governmental funds report capital outlays as expenditures.

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

Capital Outlay - Construction in Progress	624,186	
Capital Outlay - Depreciable Capital Assets	1,492,052	
Depreciation	<u>(919,303)</u>	1,196,935

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

Proceeds from Sale of Capital Assets	(149,460)	
Loss on Disposal of Capital Assets	<u>(78,283)</u>	(227,743)

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

Property Taxes	51,354	
Intergovernmental	114,585	
Tuition and Fees	(16,900)	
Extracurricular Activities	25	
Charges for Services	(25)	
Miscellaneous	<u>(20,122)</u>	128,917

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

679,458

The inception of capital lease is reported as an other financing source in governmental funds, but increases long-term liabilities on the statement of net assets.

(44,158)

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

(284)

Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payables representing contractually required pension contributions, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Intergovernmental Payable	7,549	
Special Terminations Benefits Payable	(5,072)	
Compensated Absences Payable	<u>(38,337)</u>	(35,860)

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

Interest Revenue	17	
Allocated to Activities	<u>(126,070)</u>	

Change in Net Assets of Governmental Activities (\$2,537,491)

See Accompanying Notes to the Basic Financial Statements

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2004**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		(Under)
<u>Revenues:</u>				
Property Taxes	\$6,358,336	\$6,502,964	\$6,459,111	(\$43,853)
Intergovernmental	4,885,208	5,023,268	5,068,623	45,355
Interest	50,000	50,000	36,250	(13,750)
Tuition and Fees	70,500	70,500	90,099	19,599
Extracurricular Activities	0	5,461	5,461	0
Gifts and Donations	0	0	1,000	1,000
Miscellaneous	43,300	41,766	34,894	(6,872)
Total Revenues	<u>11,407,344</u>	<u>11,693,959</u>	<u>11,695,438</u>	<u>1,479</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	6,407,146	6,187,712	6,003,633	184,079
Special	571,355	611,355	544,681	66,674
Vocational	195,593	195,926	198,370	(2,444)
Support Services:				
Pupils	389,757	410,120	373,053	37,067
Instructional Staff	589,219	552,819	504,427	48,392
Board of Education	10,040	10,040	9,517	523
Administration	1,200,695	1,186,506	1,240,718	(54,212)
Fiscal	428,405	428,405	411,937	16,468
Operation and Maintenance of Plant	1,136,101	1,236,101	1,190,342	45,759
Pupil Transportation	758,589	763,589	788,034	(24,445)
Central	60,794	60,794	41,189	19,605
Non-Instructional Services	0	0	159	(159)
Extracurricular Activities	199,198	199,063	195,566	3,497
Capital Outlay	15,000	15,000	0	15,000
Debt Service:				
Principal Retirement	78,000	78,000	77,895	105
Interest and Fiscal Charges	7,500	7,500	7,207	293
Total Expenditures	<u>12,047,392</u>	<u>11,942,930</u>	<u>11,586,728</u>	<u>356,202</u>
Excess of Revenues Over (Under) Expenditures	<u>(640,048)</u>	<u>(248,971)</u>	<u>108,710</u>	<u>357,681</u>
<u>Other Financing Sources (Uses):</u>				
Refund of Prior Year Expenditures	0	0	1,413	1,413
Transfers Out	0	(25,000)	0	25,000
Advances Out	0	0	(25,000)	(25,000)
Total Other Financing Sources (Uses)	<u>0</u>	<u>(25,000)</u>	<u>(23,587)</u>	<u>1,413</u>
Changes in Fund Balance	(640,048)	(273,971)	85,123	359,094
Fund Balance at Beginning of Year	1,836,548	1,836,548	1,836,548	0
Prior Year Encumbrances Appropriated	257,460	257,460	257,460	0
Fund Balance at End of Year	<u>\$1,453,960</u>	<u>\$1,820,037</u>	<u>\$2,179,131</u>	<u>\$359,094</u>

See Accompanying Notes to the Basic Financial Statements

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**Statement of Fund Net Assets
Proprietary Fund
June 30, 2004**

	<u>Governmental Activity</u> <u>Internal Service</u>
<u>Current Assets:</u>	<u>\$0</u>
<u>Current Liabilities:</u>	
Interfund Payable	134,884
Claims Payable	169,160
Total Current Liabilities	<u>304,044</u>
<u>Net Assets:</u>	
Unrestricted (Deficit)	<u><u>(\$304,044)</u></u>

See Accompanying Notes to the Basic Financial Statements

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2004**

	<u>Governmental Activity Internal Service</u>
<u>Operating Revenues:</u>	
Charges for Services	<u>\$1,450,820</u>
 <u>Operating Expenses:</u>	
Purchased Services	304,427
Claims	1,272,463
Total Operating Expenses	<u>1,576,890</u>
 Operating Loss	 (126,070)
 <u>Non-Operating Revenue:</u>	
Interest	 <u>17</u>
 Net Loss	 (126,053)
 Net Assets (Deficit) at Beginning of Year	 <u>(177,991)</u>
Net Assets (Deficit) at End of Year	<u><u>(\$304,044)</u></u>

See Accompanying Notes to the Basic Financial Statements

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2004**

	Governmental Activity
	Internal Service
<u>Increase (Decrease) in Cash and Cash Equivalents</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Transactions with Other Funds	\$1,450,820
Cash Payments for Goods and Services	(304,427)
Cash Payments for Claims	(1,217,367)
Net Cash Used for Operating Activities	(70,974)
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Cash Received from Other Funds	70,957
<u>Cash Flows from Investing Activities:</u>	
Interest	17
Net Increase in Cash and Cash Equivalents	0
Cash and Cash Equivalents at Beginning of Year	0
Cash and Cash Equivalents at End of Year	\$0
Reconciliation of Operating Loss	
<u>to Net Cash Used for Operating Activities:</u>	
Operating Loss	(126,070)
Adjustments to Reconcile Operating Loss	
<u>to Net Cash Used for Operating Activities:</u>	
Increase in Claims Payable	55,096
Net Cash Used for Operating Activities	(\$70,974)

See Accompanying Notes to the Basic Financial Statements

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2004**

Assets:

Equity in Pooled Cash and Cash Equivalents	<u><u>\$98,487</u></u>
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Liabilities:

Due to Students	\$97,063
Undistributed Assets	1,424
Total Liabilities	<u><u>\$98,487</u></u>

See Accompanying Notes to the Basic Financial Statements

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2004**

<u>Additions:</u>	
Miscellaneous	\$1,000
 <u>Deductions:</u>	
Non-Instructional Services	1,000
	<hr/>
Change in Net Assets	0
Net Assets at Beginning of Year	0
Net Assets at End of Year	<hr/> <hr/> \$0

See Accompanying Notes to the Basic Financial Statements

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**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1960 through the consolidation of existing land areas and school districts. The School District serves an area of approximately one hundred thirty-one square miles. It is located in Marion and Morrow Counties, and includes all of the Village of Caledonia, Claridon, Martel, and Waldo. The School District is the 302nd largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by sixty-two classified employees, one hundred nine certified teaching personnel, and seven administrative employees who provide services to 1,840 students and other community members. The School District currently operates four instructional buildings, an administration building, and a bus garage.

Reporting Entity

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. There are no component units of the River Valley Local School District.

The School District is associated with six jointly governed organizations and an insurance pool. These organizations are the Tri-Rivers Educational Computer Association; the Tri-Rivers Joint Vocational School; the North Central Regional Professional Development Center; the North Central Ohio Special Education Regional Resource Center; the Northwestern Ohio Educational Research Council, Inc.; the Metropolitan Educational Council; and the Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Plan. These organizations are presented in Notes 20 and 21 to the basic financial statements.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

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

Fund Financial Statements

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

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting

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

Governmental Funds

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

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

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

Ohio School Facilities Commission Fund - The Ohio School Facilities Commission capital projects fund accounts for the construction of two elementary schools and a middle school/high school.

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

Proprietary Fund

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

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

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Funds

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

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

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

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

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; the proprietary fund and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange Transactions

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

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

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

Deferred Revenues

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

Property taxes for which there was an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expenses/Expenditures

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

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

E. Budgetary Process

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

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

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

F. Cash and Investments

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

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

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents that are held separately for the School District by an escrow agent are recorded as “Cash and Cash Equivalents with Escrow Agent”.

During fiscal year 2004, investments included federal agency securities, mutual funds, and STAR Ohio. Federal agency securities are reported at fair value, which is based on quoted market price. Mutual funds are reported at current share price. STAR Ohio is an investment pool, managed by the State Treasurer’s Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price, which is the price the investment could be sold for on June 30, 2004.

The School District allocates interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2004 was \$35,887, which includes \$15,238 assigned from other School District funds.

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

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

I. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation.

Restricted assets in the Ohio School Facilities Commission capital projects fund represent escrow accounts established for the payment of retainage on construction projects upon completion.

J. Capital Assets

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

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

K. Interfund Assets/Liabilities

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

L. Compensated Absences

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

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

M. Accrued Liabilities and Long-Term Obligations

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

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, contractually required pension contributions and compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term loans are recognized as liabilities 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 balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to expenditure for specified purposes.

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

O. Fund Balance Reserves and Designations

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

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

P. Operating Revenues and Expenses

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

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. Interfund Transactions

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

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

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 management and are either unusual in nature or infrequent in occurrence.

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.

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLE, CORRECTION OF AN ERROR, AND RESTATEMENT OF NET ASSETS

A. Change in Accounting Principle

For fiscal year 2004, the School District has implemented GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units". GASB Statement No. 39 establishes additional guidance on the application of existing standards for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship to the primary government. The implementation of this statement did not result in any change to the School District's financial statements.

B. Correction of an Error and Restatement of Net Assets

In the prior fiscal year, the School District failed to record loans for the purchase of land. As a result, net assets decreased \$82,892 from \$31,797,830 to \$31,714,938.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At June 30, 2004, the Food Service and Reducing Class Size special revenue funds had deficit fund balances, in the amount of \$46,501 and \$4,000, respectively, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

The Self Insurance internal service fund had deficit net assets, in the amount of \$304,044, as the result of operating expenses exceeding operating revenues. In fiscal year 2005, the School District has transferred resources from the General Fund to alleviate the deficit net assets. In addition, the School District is currently discussing premiums to determine if further changes need to be made.

B. Compliance

For the fiscal year ended June 30, 2004, the SchoolNet Development and Ohio Reads special revenue funds as well as the Self Insurance internal service fund and Ryan Gist private purpose trust fund had appropriations in excess of estimated resources plus available balances, in the amount of \$4,140, \$16,999, \$120,593, and \$800, respectively.

At June 30, 2004, the Self Insurance internal service fund had deficit cash, in the amount of \$134,884.

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

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

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

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (Continued)

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

Changes in Fund Balance	
GAAP Basis	\$172,944
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2003, Received in Cash FY 2004	1,726,377
Accrued FY 2004, Not Yet Received in Cash	(1,690,008)
Expenditure Accruals:	
Accrued FY 2003, Paid in Cash FY 2004	(\$1,278,454)
Accrued FY 2004, Not Yet Paid in Cash	1,432,805
Cash Adjustments:	
Unrecorded Activity FY 2003	448
Unrecorded Activity FY 2004	(85)
Prepaid Items	1,956
Materials and Supplies Inventory	(12,159)
Transfers Out	2,000
Advances Out	(25,000)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(245,701)
Budget Basis	\$85,123

NOTE 6 - DEPOSITS AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current 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 of withdrawal (NOW) accounts, or in money market deposit accounts.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

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

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

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

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 Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At fiscal year end, the School District had \$1,965 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

At fiscal year end, the School District had \$26 in cash and cash equivalents held by the North Central Ohio Educational Service Center, which is presented as "Cash and Cash Equivalents with Fiscal Agent". The Educational Service Center holds this flow through grant money for the School District together with that of other school districts, and therefore, the School District cannot classify this money by risk under GASB Statement No. 3.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At fiscal year end, the carrying amount of the School District's deposits was \$378,361 and the bank balance was \$583,812. Of the bank balance, \$101,375 was covered by federal depository insurance and \$482,437 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District's investments are categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investments in mutual funds and STAR Ohio are unclassified since they are not evidenced by securities that exist in physical or book entry form.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

(Continued)

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

	Category 2	Fair Value
Federal Home Loan Bank Bonds	\$496,979	\$469,979
Federal Home Loan Bank Notes	399,720	399,720
Federal Home Loan Mortgage Corporation Notes	1,190,270	1,190,270
	\$2,086,969	2,086,969
Mutual Funds		44,563
STAR Ohio		3,272,483
Total		\$5,404,015

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". A reconciliation between the classification of cash and cash equivalents and investments on the financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$5,784,367	\$0
Cash on Hand	(1,965)	
Cash and Cash Equivalents with Educational Service Center	(26)	0
Investments:		
Federal Home Loan Bank Bonds	(496,979)	496,979
Federal Home Loan Bank Notes	(399,720)	399,720
Federal Home Loan Mortgage Corporation Notes	(1,190,270)	1,190,270
Mutual Funds	(44,563)	44,563
STAR Ohio	(3,272,483)	3,272,483
GASB Statement No. 3	\$378,361	\$5,404,015

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004, consisted of accounts (student fees and billings for user charged services), intergovernmental, interfund, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables, except for a portion of the interfund receivable, in the amount of \$51,000, are expected to be collected within one year.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 7 – RECEIVABLES (Continued)

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities	
General Fund	
Homestead and Rollback	\$3,216
Elgin Local School District	4,331
Marion City School District	7,189
Pleasant Local School District	5,774
Ridgedale Local School District	9,143
Total General Fund	<u>29,653</u>
Bond Retirement Fund	
Homestead and Rollback	<u>722</u>
Ohio School Facilities Commission	
Ohio School Facilities Commission	21,508
State of Ohio	73,582
Total Ohio School Facilities Commission	<u>95,090</u>
Other Governmental Funds	
Food Service	25,982
Classroom Facilities Maintenance	57
Title VI-B	62,352
Title I	60,712
Drug Free	9,433
Title VI-R	56,976
Permanent Improvement	35
Total Other Governmental Funds	<u>215,547</u>
Total Intergovernmental Receivables	<u>\$341,012</u>

NOTE 8 - PROPERTY TAXES

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

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 8 - PROPERTY TAXES (Continued)

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien on December 31, 2002, were levied after April 1, 2003, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2004 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30. For fiscal year 2004, the settlement was delayed beyond fiscal year end.

The School District receives property taxes from Marion and Morrow Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents the late personal property tax settlement, and real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2004, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 and the late personal property tax settlement was levied to finance current fiscal year operations and is reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004, was \$1,685,426 in the General Fund, \$32,671 in the Classroom Facilities special revenue fund, and \$423,671 Bond Retirement debt service fund. The amount available as an advance at June 30, 2003, was \$1,708,551 in the General Fund, \$33,072 in the Classroom Facilities special revenue fund, \$431,243 in the Bond Retirement debt service fund, and \$40,873 in the Permanent Improvement capital projects fund.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 8 - PROPERTY TAXES (Continued)

The amounts for the late personal property tax settlements made by Morrow County for fiscal year 2004 were \$3,512 in the General Fund, \$46 in the Classroom Facilities special revenue fund, and \$542 in the Bond Retirement debt service fund.

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

The assessed values upon which fiscal year 2004 taxes were collected are:

	<u>2003 Second- Half Collections</u>		<u>2004 First- Half Collections</u>	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$145,234,090	57.97%	\$147,514,050	56.87%
Industrial/Commercial	49,526,800	19.77	49,193,150	18.96
Public Utility	13,356,200	5.33	13,309,530	5.13
Tangible Personal	<u>42,423,950</u>	<u>16.93</u>	<u>49,388,233</u>	<u>19.04</u>
Total Assessed Value	<u>\$250,541,040</u>	<u>100.00%</u>	<u>\$259,404,963</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$45.88		\$44.88	

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	<u>Balance at 6/30/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/04</u>
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$962,303	\$119,445	\$0	\$1,081,748
Construction in Progress	38,677,640	504,741	(39,163,494)	18,887
Total Nondepreciable Capital Assets	<u>39,639,943</u>	<u>624,186</u>	<u>(39,163,494)</u>	<u>1,100,635</u>
Depreciable Capital Assets				
Land Improvements	153,241	843,875	(152,183)	844,933
Buildings and Building Improvements	1,025,878	38,806,999	(462,810)	39,370,067
Furniture, Fixtures, and Equipment	2,083,885	998,190	(666,734)	2,415,341
Vehicles	1,302,349	6,482	0	1,308,831
Total Depreciable Capital Assets	<u>4,565,353</u>	<u>40,655,546</u>	<u>(1,281,727)</u>	<u>43,939,172</u>

(continued)

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 9 - CAPITAL ASSETS (Continued)

	Balance at 6/30/03	Additions	Reductions	Balance at 6/30/04
Less Accumulated Depreciation				
Land Improvements	(\$151,857)	(\$18,281)	\$150,799	(\$19,339)
Buildings and Building Improvements	(568,786)	(628,407)	296,533	(900,660)
Furniture, Fixtures, and Equipment	(1,475,403)	(173,275)	606,652	(1,042,026)
Vehicles	(758,986)	(99,340)	0	(858,326)
Total Accumulated Depreciation	(2,955,032)	(919,303)	1,053,984	(2,820,351)
Depreciable Capital Assets, Net	1,610,321	39,736,243	(227,743)	41,118,821
Governmental Activities Capital Assets, Net	<u>\$41,250,264</u>	<u>\$40,360,429</u>	<u>(\$39,391,237)</u>	<u>\$42,219,456</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$434,576
Special	29,446
Vocational	12,289
Support Services:	
Pupils	1,726
Instructional Staff	32,181
Administration	52,767
Fiscal	2,304
Operation and Maintenance of Plant	24,311
Pupil Transportation	100,354
Non-Instructional Services	69,628
Extracurricular Activities	159,721
Total Depreciation Expense	<u>\$919,303</u>

NOTE 10 - INTERFUND ASSETS/LIABILITIES

At June 30, 2004, the General Fund had an interfund receivable, in the amount of \$223,134; \$88,250 to other governmental funds to subsidize activities of those funds and \$134,884 to the Self Insurance internal service fund to alleviate a deficit cash balance. Of the \$223,134 due to the General Fund, \$51,000 is not expected to be repaid within one year.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 11 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted for the following insurance coverage.

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

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

Coverage provided by Midwestern Indemnity Company is as follows:

Building and Contents	49,499,544
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Coverage provided by Indiana Insurance is as follows:

Vehicle Liability	\$1,000,000
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Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year. Building and contents insurance increased significantly due to the new school buildings.

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

The School District offers medical insurance to all employees through a self-insured program. All funds of the School District participated in the program and made payments to the Self Insurance internal service fund based on actuarial estimates of the amounts needed to pay prior and current year claims. The School District purchased stop loss insurance for claims in excess of \$75,000 per individual and \$1,000,000 total aggregate annually. Settled claims have not exceeded this coverage for the past two years. Claims payable is based on the requirements of Governmental Accounting Standards Board Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Claims payable at June 30, 2004, was estimated by the third party administrator at \$169,160.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 11 - RISK MANAGEMENT (Continued)

The changes in the claims liability for the past two fiscal years are as follow:

	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
2004	\$114,064	\$1,272,463	\$1,217,367	\$169,160
2003	241,131	1,023,654	1,150,721	114,064

NOTE 12 - CONTRACTUAL COMMITMENTS

The School District has outstanding contracts for professional services. The following amounts remained on these contracts as of June 30, 2004:

Vendor	Contract Amount	Amount Paid as of 6/30/04	Outstanding Balance
Apple Computer	\$42,676	\$0	\$42,676
Cogburn Electric	41,395	0	41,395
Voisard Plumbing	53,377	0	53,377
Linc Mechanical	98,892	0	98,892
Ohio American Water	225,000	180,000	45,000
Quandel	1,962,588	1,791,453	171,135
Stevens Construction	214,890	0	214,890

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 13 - DEFINED BENEFIT PENSION PLANS (Continued)

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

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2004, 2003, and 2002 was \$722,504, \$704,391, and \$503,510, respectively; 83 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for fiscal years 2003 and 2002. Contributions for the DCP and CP for the fiscal year ended June 30, 2004, were \$4,755 made by the School District and \$21,026 made by plan members.

B. School Employees Retirement System

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

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 13 - DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 2003, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2004 was 14 percent of annual covered payroll; 9.09 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 was \$149,550, \$132,422, and \$83,567, respectively; 51 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for fiscal years 2003 and 2002.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2004, three of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$55,943.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.1 billion at June 30, 2004. For the fiscal 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 ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. 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.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 14 - POSTEMPLOYMENT BENEFITS (Continued)

For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 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 2004, the minimum pay was established at \$24,500. For the School District, the amount to fund health care benefits, including the surcharge, was \$106,100 for fiscal year 2004.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004, 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.

NOTE 15 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Health Care Benefits

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

C. Special Termination Benefits

The School District offered a special termination benefit to certified employees who retired as of July 1, 2004. Certified employees were offered a one time cash payment retirement incentive, in addition to their regular severance benefits and STRS pension benefits. The employee had to retire as of July 1, 2004, and not during the regular school year to be eligible. In addition, the employee had to have five continuous years of service with the School District and retire as soon as they were eligible to receive STRS retirement benefits. The benefit was equal to 10 percent of the employee's accumulated sick leave as of June 30, 2004, not in excess of two hundred twenty-five days. The benefit must be paid to the employee within thirty days of the effective date of retirement and at their current daily rate. At June 30, 2004, the liability for special termination benefits was \$5,072.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 16 - LONG-TERM OBLIGATIONS

Changes in the School District's long-term obligations during fiscal year 2004 were as follows:

	Balance at 6/30/03	Additions	Reductions	Balance at 6/30/04	Amounts Due Within One Year
Governmental Activities					
General Obligation Bonds					
FY2002 School Improvement Bonds 2.2-5.25%	\$19,065,000	\$0	\$565,000	\$18,500,000	\$570,000
FY2003 School Bus Bonds 2.54%	175,000	0	58,333	116,667	58,333
Total General Obligation Bonds	19,240,000	0	623,333	18,616,667	628,333
Compensated Absences Payable	776,904	46,155	7,818	815,241	72,925
Capital Leases Payable	10,147	44,158	15,038	39,267	19,472
Loans Payable	82,892	0	41,087	41,805	20,442
Total Governmental Activities Long -Term Obligations	<u>\$20,109,943</u>	<u>\$90,313</u>	<u>\$687,276</u>	<u>\$19,512,980</u>	<u>\$741,172</u>

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

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

Loans Payable - On June 1, 2001, the School District entered into a loan agreement for \$136,000 for the purchase of land. This loan has an interest rate of 4.50 percent and will mature in fiscal year 2006. On July 31, 2001, the School District entered into a loan agreement for \$107,623 for the purchase of land. This is an interest free loan and matured in fiscal year 2004. The loans are being repaid from resources of the General Fund and Building capital projects fund.

Compensated absences will be paid from the General Fund and Food Service special revenue fund. Capital leases are paid from the General Fund.

The School District's overall debt margin was \$5,843,188 with an unvoted debt margin of \$259,405 at June 30, 2004.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 16 - LONG-TERM OBLIGATIONS (Continued)

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2004, were as follows:

Fiscal Year Ending June 30,	School Improvement Bonds		School Bus Bonds		Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$570,000	\$860,106	\$58,333	\$2,963	\$20,443	\$1,881
2006	595,000	843,344	58,334	1,482	21,362	962
2007	615,000	824,425	0	0	0	0
2008	635,000	798,556	0	0	0	0
2009	670,000	770,956	0	0	0	0
2010-2014	3,820,000	3,435,034	0	0	0	0
2015-2019	5,055,000	2,383,743	0	0	0	0
2020-2024	<u>6,540,000</u>	<u>884,364</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$18,500,000</u>	<u>\$10,800,528</u>	<u>\$116,667</u>	<u>\$4,445</u>	<u>\$41,805</u>	<u>\$2,843</u>

NOTE 17 - CAPITAL LEASES - LESSEE DISCLOSURE

The School District has entered into capitalized leases for equipment. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. New capital leases are reflected in the account "Administration" in the fund which will be making the lease payments. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balances for the governmental funds. Principal payments in 2004 were \$15,038.

	Governmental Activities
Property under Capital Lease	\$88,612
Less Accumulated Depreciation	(54,580)
Total June 30, 2004	<u>\$34,032</u>

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 17 - CAPITAL LEASES - LESSEE DISCLOSURE (Continued)

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2004.

Fiscal Year Ending June 30,	Governmental Activities	
	Principal	Interest
2005	\$19,472	\$4,165
2006	16,842	1,642
2007	2,953	50
Total	<u>\$39,267</u>	<u>\$5,857</u>

NOTE 18 - SET ASIDES

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

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2003.

	Textbooks	Capital Improvements
Balance June 30, 2003	(\$86,121)	(\$25,236,094)
Current Year Set Aside Requirement	236,003	236,003
Current Year Offsets	0	(103,920)
Qualifying Expenditures	(169,748)	(6,070,260)
Balance Carried Forward to Fiscal Year 2005	<u>(\$19,866)</u>	<u>(\$31,174,271)</u>
Set Aside Reserve Balance June 30, 2004	<u>\$0</u>	<u>\$0</u>

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

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 19 - INTERFUND TRANSFERS

During fiscal year 2004, the General Fund made a transfer to other governmental funds, in the amount of \$2,000, to subsidize various programs in other funds.

NOTE 20 - JOINTLY GOVERNED ORGANIZATIONS

A. Tri-Rivers Educational Computer Association

The School District is a participant in the Tri-Rivers Educational Computer Association (TRECA), which is a computer consortium. TRECA is an association of public school districts within the boundaries of Delaware, Knox, Marion, Morrow, Muskingum, and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of TRECA consists of one representative from each county elected by majority vote of all charter member school districts within each county, one representative from the city school districts, and the superintendent from Tri-Rivers Joint Vocational School. During fiscal year 2004, the School District paid \$57,347 to TRECA for various services. Financial information can be obtained from Mike Carder, who serves as Director, 2222 Marion Mt. Gilead Road, Marion, Ohio 43302.

B. Tri-Rivers Joint Vocational School

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

C. North Central Regional Professional Development Center

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

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 20 - JOINTLY GOVERNED ORGANIZATIONS (Continued)

D. North Central Ohio Special Education Regional Resource Center

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

E. Northwestern Ohio Educational Research Council, Inc.

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

F. Metropolitan Educational Council

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

NOTE 21 - INSURANCE POOL

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

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 22 - STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient..."

The School District is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

NOTE 23 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

B. Litigation

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

NOTE 24 - SUBSEQUENT EVENT

In February 2005, the School District transferred \$200,000 from the General Fund to the Self Insurance internal service fund to alleviate the deficit net assets.

RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program		10.550	\$0	\$36,310	\$0	\$36,310
National School Lunch Program		048447-LLP4-2003 048447-LLP4-2004	37,318 64,982	0 0	37,318 64,982	0 0
Total U.S. Department of Agriculture - Nutrition Cluster	N/A		102,300	36,310	102,300	36,310
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Grants to States		048447-6BSF-2003-P 048447-6BSF-2004	18,239 141,372	0 0	29,934 140,165	0 0
Total Special Education Grants to States			159,611	0	170,099	0
Grants to Local Educational Agencies (ESEA Title I)		048447-C1S1-2002 048447-C1S1-2003 048447-C1S1-2004 048447-C1SD-2003 048447-C1SD-2004	0 28,074 100,593 6,876 60,145	0 0 0 0 0	6,885 54,412 69,462 0 26,761	0 0 0 0 0
Total Grants to Local Educational Agencies			195,688	0	157,520	0
Innovative Educational Program Strategies		048447-C2S1-2003 048447-C2S1-2004	0 13,166	0 0	6,062 266	0 0
Total Innovative Educational Program Strategies			13,166	0	6,328	0
Safe Drug-Free Schools and Communities State Grant		048447-DRS1-2002 048447-DRS1-2003 048447-DRS1-2004	0 0 2,966	0 0 0	0 3,553 2,705	0 0 0
Total Safe Drug-Free Schools and Communities State Grant			2,966	0	6,258	0
Goals 2000 State and Local Education Systemic Improvement Grant		048447-G2S9-02	0	0	75	0
Improving Teacher Quality State Grants		048447-TRS1-2003 048447-TRS1-2004	0 34,348	0 0	5,951 33,774	0 0
Total Improving Teacher Quality State Grants			34,348	0	39,725	0
School Retention Program		048447-TJS1-2003	630	0	1,262	0
Education Technologies State Grants		048447-TJS1-2004	3,302	0	995	0
Total U.S. Department of Education			409,711	0	382,262	0
UNITED STATES DEPARTMENT OF THE ARMY						
Defense Environmental Restoration Program	N/A	CA-01-RVLSD	0	0	1,060,925	0
Total Federal Awards			\$512,011	\$36,310	\$1,545,487	\$36,310

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

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

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

NOTE C- MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-federal funds (matching funds) to support the federally funded programs. The District has complied with the matching requirements. The expenditure of non-federal matching funds is not included on the Schedule.



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of River Valley Local School District, Marion County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 25, 2005. 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 April 25, 2005, we reported an other matter involving internal control over financial reporting we did not deem a reportable condition.

MATERIAL NONCOMPLIANCE

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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-001 and 2004-002. In a separate letter to the District's management dated April 25, 2005, we reported other matters related to noncompliance we deemed immaterial.

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River Valley Local School District
Marion 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 finance committee, management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

April 25, 2005



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of River Valley Local School District, Marion County, Ohio (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings and questioned cost identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to the major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the River Valley Local School District, Marion County, Ohio complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2004. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that OMB Circular A-133 requires us to report, which is described in the accompanying schedule of findings and questioned cost as item 2004-003.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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We noted a certain matter involving the internal control over compliance and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. A reportable condition is described in the accompanying schedule of findings as item 2004-003.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We do not believe the reportable condition described above is a material weakness.

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



Betty Montgomery
Auditor of State

April 25, 2005

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	CA-01-RVSLD: Defense Environmental Restoration Program
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2004-001

Ohio Rev. Code Section 5705.39 states in part that the total appropriations from each fund shall not exceed the total of the estimated resources available for expenditures therefrom, as certified by the budget commission or in case of appeal, by the board of tax appeals.

At June 30, 2004, appropriations in the self insurance fund exceeded estimated resources by \$120,593.

We recommend the District monitor appropriations versus estimated resources for all funds to prevent deficit spending.

**RIVER VALLEY LOCAL SCHOOL DISTRICT
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2004-002

Ohio Rev. Code Section 5705.10 states that money that is paid into a fund must be used only for the purpose for which such fund has been established. As a result, a negative fund cash balance indicates that money from one fund was used to cover the expenses of another fund.

At June 30, 2004, the self insurance fund had a negative fund cash balance of \$134,884.

We recommend that the District reevaluate the amount being contributed to this fund and consider increasing those amounts to ensure that the contributions will cover the expenditures made from the fund. This will assist in ensuring that the District does not have an operating loss in this fund as well as reducing the need for interfund payables at year end.

3. FINDINGS FOR FEDERAL AWARDS

Noncompliance – Allowable Costs (Questioned Cost)/Reportable Condition

Finding Number	2004-003
CFDA Title and Number	Defense Environmental Restoration Program CA-01-RVLSD
Federal Agency	United States Department of the Army

The Cooperative Agreement between the Department of the Army, the State of Ohio, and the River Valley Local School District stipulates that payments received from the Department of the Army are not to be used to fund relocation or replacement of elementary school projects.

The District posted \$243,262.50 of expenditures for elementary school architect fees to the Ohio School Facilities Commission Fund, special cost center 010-9999, which accounts for the federal grant revenue, and may only be used for expenditures associated with the construction of the high school and middle school. Therefore, a questioned cost is issued in the amount of \$243,262.50. This posting was determined to be a bookkeeping error. The Treasurer made a correcting journal entry on April 22, 2005, to post these expenditures to the Ohio School Facilities Commission Fund, special cost center 010-8021, which accounts for local bond revenue and can be used for elementary school projects.

We recommend that the District implement a monitoring system to ensure that allowable costs are being posted to the correct fund and cost center and are being properly reported.



**Auditor of State
Betty Montgomery**

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RIVER VALLEY LOCAL SCHOOL DISTRICT

MARION COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 26, 2005**