

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

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

June 30, 2005

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Gary E. Horton CPA

PO Box 384

Clarion, IA 50525-0384

(515)532-6681 Phone

(515) 532-2405 Fax

BETCO@mchsi.com E-mail

Independent Auditor's Report

To the Board of Education of
River Valley Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of River Valley Community School District, Correctionville, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of River Valley Community School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 4, 2005, on our consideration of River Valley Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 11 and 35 through 37 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise River Valley Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004, (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

August 4, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

River Valley Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,975,869 in fiscal 2004 to \$4,000,735 in fiscal 2005, while General Fund expenditures increased from \$3,751,312 in fiscal 2004 to \$3,946,861 in fiscal 2005. The District's General Fund balance increased from \$714,645 in fiscal 2004 to \$767,109 in fiscal 2005.
- The increase in General Fund revenues was attributable to an increase in state grant revenues in fiscal 2005. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and support services expenditures.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of River Valley Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report River Valley Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which River Valley Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

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

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

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the

District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

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

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

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

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

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

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has two Enterprise Funds, the School Nutrition Fund and the Preschool Fund.
- 3) The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.
- 4) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust.
 - Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2005 compared to June 30, 2004.

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2004-2005
	Governmental Activities		Business-type Activities		Total School District		
	2005	2004	2005	2004	2005	2004	
	\$	\$	\$	\$	\$	\$	
Current and other assets	3,582,726	3,639,454	31,822	51,299	3,614,548	3,690,753	-2%
Capital assets	6,046,821	6,009,275	83,571	93,629	6,130,392	6,102,904	0%
Total assets	9,629,547	9,648,729	115,393	144,928	9,744,940	9,793,657	0%
Long-term liabilities	4,667,293	4,901,232	-	-	4,667,293	4,901,232	-5%
Other liabilities	2,314,349	2,386,620	720	2,253	2,315,069	2,388,873	-3%
Total liabilities	6,981,642	7,287,852	720	2,253	6,982,362	7,290,105	-4%
Net Assets:							
Invested in capital assets, net of related debt	1,406,821	1,114,275	83,571	93,629	1,490,392	1,207,904	23%
Restricted	330,115	437,246	-	-	330,115	437,246	-25%
Unrestricted	910,969	809,356	31,102	49,046	942,071	858,402	10%
TOTAL NET ASSETS	2,647,905	2,360,877	114,673	142,675	2,762,578	2,503,552	10%

The District's combined net assets increased by nearly 10%, or approximately \$259,026, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$107,131 over the prior year. The decrease was primarily a result of decreased revenues in the Management Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$84,000. This increase in unrestricted net assets was a result of the District revenues exceeding its financial obligations during the year.

Figure A-4 shows the change in net assets for the years ended June 30, 2005 and 2004.

Figure A-4

	Change in Net Assets						Percentage Change 2004-2005
	Governmental Activities		Business-type Activities		Total School District		
	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$	
Revenues							
Program Revenues:							
Charges for services	409,735	397,981	99,503	101,586	509,238	499,567	2%
Operating grants & contributions	614,510	618,308	127,226	116,911	741,736	735,219	1%
Capital grants & contributions	-	-	-	-	-	-	0%
General Revenues:							
Property taxes	1,797,024	2,020,344	-	-	1,797,024	2,020,344	-11%
Income Surtax	162,600	160,335	-	-	162,600	160,335	1%
Local option sales tax	269,693	187,972	-	-	269,693	187,972	43%
Unrestricted state grants	1,646,678	1,460,658	-	-	1,646,678	1,460,658	13%
Unrestricted investment earnings	25,484	16,318	-	342	25,484	16,660	53%
Other revenue	9,590	7,145	-	-	9,590	7,145	34%
Total Revenues	4,935,314	4,869,061	226,729	218,839	5,162,043	5,087,900	1%
Expenses:							
Instruction	2,558,920	2,497,906	-	-	2,558,920	2,497,906	2%
Support services	1,439,415	1,332,997	-	-	1,439,415	1,332,997	8%
Non-instructional programs	-	255	256,141	239,827	256,141	240,082	7%
Other expenditures	648,541	562,752	-	-	648,541	562,752	15%
Total expenses	4,646,876	4,393,910	256,141	239,827	4,903,017	4,633,737	6%
Change in net assets before transfers	288,438	475,151	(29,412)	(20,988)	259,026	454,163	-43%
Transfers	(1,410)	(3,600)	1,410	3,600	-	-	0%
CHANGE IN NET ASSETS	287,028	471,551	(28,002)	(17,388)	259,026	454,163	-43%
Net assets beginning of year	2,360,877	1,710,990	142,675	160,063	2,503,552	1,871,053	34%
Net assets end of year	2,647,905	2,182,541	114,673	142,675	2,762,578	2,325,216	19%

Property tax and unrestricted state grants account for 78% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 86% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$4,935,314 and expenses were \$4,646,876. Revenues increased by \$66,253. This was primarily and result of increase in state aid and unrestricted investment earnings due to increase in rate of return for investments held by the district.

Expenditures increased by \$252,966. This is primarily due to increases in negotiated salary and benefits settlements, purchase of a school bus out of general fund and repairs to six (6) portable classrooms which will be used to house administration and students due to the closing of the Cushing center.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5

Total and Net Cost of Governmental Activities

	Total Cost of Services 2005 \$	Total Cost of Services 2004 \$	Net Cost of Services 2005 \$	Net Cost of Services 2004 \$
Instruction	2,558,920	2,497,906	1,682,785	1,632,340
Support Services	1,439,415	1,332,997	1,438,939	1,332,573
Non-instructional Programs	-	255	-	255
Other Expenses	648,541	562,752	500,907	412,453
TOTAL	4,646,876	4,393,910	3,622,631	3,377,621

- The cost financed by users of the District's programs was \$409,735.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$614,510.
- The net cost of governmental activities was financed with \$2,264,391 in property and other taxes and \$1,646,678 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$226,729 and expenses were \$256,141. The District's business type activities include the School Nutrition Fund and Preschool Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements.

INDIVIDUAL FUND ANALYSIS

As previously noted, River Valley Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$1,127,682 well above last year's ending fund balances of \$1,112,230. However, the primary reason for the increase in combined fund balances in fiscal year 2005 is due to an increase in the district's unspent balance.

Governmental Fund Highlights

- The District's growth in the General Fund financial position is the result of many factors. Growth during the year in tax and grants resulted in an increase in revenues. However, the increase in revenues was offset

by the District's increase in General Fund expenditures yet allowing the District to increase its general balance by \$52,464 for the year.

- The General Fund balance increased from \$714,645 to \$767,109, due in part to the increased state aid and maintaining expenditures under revenues.
- The Management fund experienced a reduction in fund balance. This was due to an exceptionally large fund balance carryover from previous years and a decision by the Board of Education to not levy for property tax which results in tax relief for the taxpayers of the district.
- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from a balance of \$32,654 in fiscal 2004 to \$9,033 in fiscal 2005. This is due primarily to the purchase of a bus in the amount of \$57,905.
- The Capital Projects Fund balance increase was due an increase in local option sales taxes.
- **Proprietary Fund Highlights**

School Nutrition Fund net assets decreased from \$142,482 at June 30, 2004 to \$113,280 at June 30, 2005, representing an decrease of approximately 20%. For fiscal 2005, the District showed a decrease in sales of meals and an increase in supplies for good and services. The decline in revenue and increase in expenditures resulted in the nutrition fund balance decrease for June 30, 2005 of \$29,202.

BUDGETARY HIGHLIGHTS

Over the course of the year, River Valley Community School District did not amend its annual budget.

The District's receipts were \$36,803 more than budgeted receipts. The most significant variance resulted from the District receiving more in local revenues than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the support services and other expenses functional areas due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$6.1 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$223,680.

The original cost of the District's capital assets was \$7.8 million. Governmental funds account for \$7.7 million, with the remainder of \$0.1 million accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress and building categories.

Figure A-6

Capital Assets (net of depreciation)

	Governmental		Business type		Total		Percentage Change 2004-2005
	Activities		Activities		School District		
	2005	2004	2005	2004	2005	2004	
	\$	\$	\$	\$	\$	\$	
Land	19,689	19,689	-	-	19,689	19,689	0%
Construction in progress	-	282,588	-	-	-	282,588	-100%
Buildings	5,391,374	5,200,366	-	-	5,391,374	5,200,366	4%
Improvements	391,220	348,012	-	-	391,220	348,012	12%
Equipment & Furniture	244,538	158,620	83,571	93,629	328,109	252,249	30%
TOTAL	6,046,821	6,009,275	83,571	93,629	6,130,392	6,102,904	0%

Long-Term Debt

At June 30, 2005, the District had \$4,667,293 in general obligation and other long-term debt outstanding. This represents an decrease from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

Figure A-7

Outstanding Long-Term Obligations

	Total School District		Percentage
	2005	2004	Change 2004-2005
	\$	\$	
General Obligation Bonds	4,640,000	4,895,000	-5%
Early Retirement	27,293	6,232	338%
	4,667,293	4,901,232	-5%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District's September 2005 enrollment increased by .7 students. The enrollment increase will result in additional funding for the fiscal year 2007.

- The District's financing is highly dependent upon student enrollment. The District has experienced increased enrollment for two consecutive years. Enrollment projections for the district indicate enrollment to remain constant with a slight increase possible.
- The District will close a middle school facility located in Cushing, Iowa as of June 30, 2005. The closing of a building will result in fewer fixed expenditures along with staff reduction and indicates a substantial savings for the district.
- The District continues to remain on a budget guarantee. The district negotiated a new agreement with the teacher/support staff association (RVEA) during fiscal year 2005. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balances.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cynthia Dittmer, Business Manager, River Valley Community School District, 916 Hackberry, Correctionville, IA 51016.

BASIC FINANCIAL STATEMENTS

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents:			
ISCAP	32	-	32
Other	1,538,773	28,951	1,567,724
Receivables:			
Property tax:			
Delinquent	32,391	-	32,391
Succeeding year	1,735,506	-	1,735,506
Accounts	1,307	36	1,343
Accrued interest	44	-	44
Due from other governments	274,673	-	274,673
Inventories	-	2,835	2,835
Capital assets, net of accumulated depreciation	6,046,821	83,571	6,130,392
Total assets	9,629,547	115,393	9,744,940
Liabilities			
Warrants issued in excess of bank balance	165,791	-	165,791
Accounts payable	67,622	-	67,622
Salaries and benefits payable	327,044	22	327,066
Accrued interest payable	18,386	-	18,386
Deferred revenue:			
Succeeding year property tax	1,735,506	-	1,735,506
Other	-	698	698
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	265,000	-	265,000
Early retirement	27,293	-	27,293
Portion due after one year:			
General obligation bonds payable	4,375,000	-	4,375,000
Total liabilities	6,981,642	720	6,982,362
Net assets			
Invested in capital assets, net of related debt	1,406,821	83,571	1,490,392
Restricted for:			
Management levy	170,758	-	170,758
Physical plant and equipment levy	9,033	-	9,033
Other special revenue purposes	65,353	-	65,353
Local option sales tax capital projects	84,971	-	84,971
Unrestricted	910,969	31,102	942,071
Total net assets	2,647,905	114,673	2,762,578

See notes to financial statements.

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

Functions/Programs	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues</u>	
			<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
Governmental activities:				
Instruction:				
Regular instruction	1,868,292	179,106	355,228	-
Special instruction	490,293	83,846	109,656	-
Other instruction	200,335	146,307	1,992	-
	<u>2,558,920</u>	<u>409,259</u>	<u>466,876</u>	<u>-</u>
Support services:				
Student services	97,235	-	-	-
Instructional staff services	124,882	-	-	-
Administration services	605,385	-	-	-
Operation and maintenance of plant services	336,374	476	-	-
Transportation services	275,539	-	-	-
	<u>1,439,415</u>	<u>476</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	120,938	-	-	-
Long-term debt interest	231,888	-	-	-
AEA flowthrough	147,634	-	147,634	-
Depreciation (unallocated)*	148,081	-	-	-
	<u>648,541</u>	<u>-</u>	<u>147,634</u>	<u>-</u>
Total governmental activities	<u>4,646,876</u>	<u>409,735</u>	<u>614,510</u>	<u>-</u>
Business type activities:				
Non-instructional programs:				
Food service operations	239,330	89,407	120,489	-
Preschool	16,811	10,096	6,505	-
Total business-type activities	<u>256,141</u>	<u>99,503</u>	<u>126,994</u>	<u>-</u>
Total	<u>4,903,017</u>	<u>509,238</u>	<u>741,504</u>	<u>-</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Debt service				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				
Transfers				
Total general revenues and transfers				

Change in net assets

Net assets beginning of year, as restated

Net assets end of year

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

See notes to financial statements.

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

Net (Expense) Revenue and Changes in Net Assets:

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
(1,333,958)	-	(1,333,958)
(296,791)	-	(296,791)
(52,036)	-	(52,036)
<u>(1,682,785)</u>	<u>-</u>	<u>(1,682,785)</u>
(97,235)	-	(97,235)
(124,882)	-	(124,882)
(605,385)	-	(605,385)
(335,898)	-	(335,898)
(275,539)	-	(275,539)
<u>(1,438,939)</u>	<u>-</u>	<u>(1,438,939)</u>
(120,938)	-	(120,938)
(231,888)	-	(231,888)
-	-	-
(148,081)	-	(148,081)
<u>(500,907)</u>	<u>-</u>	<u>(500,907)</u>
<u>(3,622,631)</u>	<u>-</u>	<u>(3,622,631)</u>
-	(29,434)	(29,434)
-	(210)	(210)
-	(29,644)	(29,644)
<u>(3,622,631)</u>	<u>(29,644)</u>	<u>(3,652,275)</u>
1,293,988	-	1,293,988
465,070	-	465,070
37,966	-	37,966
162,600	-	162,600
269,693	-	269,693
1,646,678	-	1,646,678
25,484	232	25,716
9,590	-	9,590
3,911,069	232	3,911,301
(1,410)	1,410	-
<u>3,909,659</u>	<u>1,642</u>	<u>3,911,301</u>
287,028	(28,002)	259,026
<u>2,360,877</u>	<u>142,675</u>	<u>2,503,552</u>
<u>2,647,905</u>	<u>114,673</u>	<u>2,762,578</u>

See notes to financial statements.

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2005

	General Fund \$	Debt Service Fund \$	Nonmajor Governmental Funds \$	Total \$
Assets				
Cash and pooled investments:				
ISCAP	32	-	-	32
Other	1,169,160	-	369,613	1,538,773
Receivables:				
Property tax:				
Delinquent	23,363	8,347	681	32,391
Succeeding year	1,186,608	435,935	112,963	1,735,506
Accounts	-	-	1,307	1,307
Accrued interest - other	-	-	44	44
Interfund receivable	-	-	12,600	12,600
Due from other governments	220,735	-	53,938	274,673
Total assets	2,599,898	444,282	551,146	3,595,326
Liabilities and Fund Balances				
Liabilities:				
Warrants issued in excess of bank balance	79,834	5,182	80,775	165,791
Accounts payable	67,622	-	-	67,622
Salaries and benefits payable	327,044	-	-	327,044
Interfund payable	12,600	-	-	12,600
Deferred revenue:				
Succeeding year property tax	1,186,608	435,935	112,963	1,735,506
Other	159,081	-	-	159,081
Total liabilities	1,832,789	441,117	193,738	2,467,644
Fund balances:				
Reserved for:				
Debt service	-	3,165	-	3,165
Unreserved reported in:				
General fund	767,109	-	-	767,109
Special revenue funds	-	-	272,437	272,437
Capital projects funds	-	-	84,971	84,971
Total fund balances	767,109	3,165	357,408	1,127,682
Total liabilities and fund balances	2,599,898	444,282	551,146	3,595,326

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2005

General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

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

June 30, 2005

	\$
Total fund balances of governmental funds (Exhibit C)	1,127,682
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	6,046,821
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	159,081
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental	(18,386)
Long-term liabilities, including bonds payable and early retirement benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(4,667,293)</u>
Net assets of governmental activities (Exhibit A)	<u><u>2,647,905</u></u>

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	General Fund	Debt Service	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,457,507	465,070	307,659	2,230,236
Tuition	238,173	-	-	238,173
Other	56,974	325	149,337	206,636
State sources	1,988,562	469	12,638	2,001,669
Federal sources	259,519	-	-	259,519
Total revenues	<u>4,000,735</u>	<u>465,864</u>	<u>469,634</u>	<u>4,936,233</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	1,829,503	-	17,232	1,846,735
Special instruction	490,293	-	-	490,293
Other instruction	64,277	-	135,883	200,160
	<u>2,384,073</u>	<u>-</u>	<u>153,115</u>	<u>2,537,188</u>
Support services:				
Student services	97,235	-	-	97,235
Instructional staff services	122,843	-	-	122,843
Administration services	585,120	-	20,265	605,385
Operation and maintenance of plant services	334,409	-	1,084	335,493
Transportation services	275,547	-	89,501	365,048
	<u>1,415,154</u>	<u>-</u>	<u>110,850</u>	<u>1,526,004</u>
Other expenditures:				
Facilities acquisition	-	-	220,647	220,647
Long-term debt:				
Principal	-	255,000	-	255,000
Interest and fiscal charges	-	232,898	-	232,898
AEA flowthrough	147,634	-	-	147,634
	<u>147,634</u>	<u>487,898</u>	<u>220,647</u>	<u>856,179</u>
Total expenditures	<u>3,946,861</u>	<u>487,898</u>	<u>484,612</u>	<u>4,919,371</u>
Excess (deficiency) of revenues over (under) expenditures	<u>53,874</u>	<u>(22,034)</u>	<u>(14,978)</u>	<u>16,862</u>
Other financing sources (uses):				
Operating transfers in	-	22,000	-	22,000
Operating transfers out	(1,410)	-	(22,000)	(23,410)
Total other financing sources (uses)	<u>(1,410)</u>	<u>22,000</u>	<u>(22,000)</u>	<u>(1,410)</u>
Net change in fund balances	52,464	(34)	(36,978)	15,452
Fund balances beginning of year	<u>714,645</u>	<u>3,199</u>	<u>394,386</u>	<u>1,112,230</u>
Fund balances end of year	<u><u>767,109</u></u>	<u><u>3,165</u></u>	<u><u>357,408</u></u>	<u><u>1,127,682</u></u>

See notes to financial statements.

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds to the
Statement of Activities

Year ended June 30, 2005

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		15,452
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the year as follows:		
Expenditures for capital assets	246,287	
Depreciation expense	<u>(208,741)</u>	37,546
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.		
		(919)
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
		255,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities interest expense is recognized as the interest accrues, regardless of when it is due.		
		1,010
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Early retirement		<u>(21,061)</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>287,028</u></u>

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2005

	Nonmajor Enterprise Funds
	<u>\$</u>
Assets	
Cash and cash equivalents	28,951
Accounts receivable	36
Inventories	2,835
Capital assets, net of accumulated depreciation	<u>83,571</u>
Total assets	<u>115,393</u>
Liabilities	
Salaries and benefits payable	22
Deferred revenue	<u>698</u>
Total liabilities	<u>720</u>
Net assets	
Invested in capital assets, net of related debt	83,571
Unrestricted	<u>31,102</u>
Total net assets	<u><u>114,673</u></u>

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	Nonmajor Enterprise Funds
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for service	<u>99,503</u>
Operating expenses:	
Non-instructional programs:	
Salaries	95,913
Benefits	12,823
Purchased services	6,323
Supplies	126,143
Depreciation	<u>14,939</u>
	<u>256,141</u>
Operating gain (loss)	<u>(156,638)</u>
Non-operating revenue:	
State sources	3,513
Federal sources	116,976
Donations	6,505
Interest income	<u>232</u>
Total non-operating revenue	<u>127,226</u>
Gain (loss) before transfers	(29,412)
Transfers in	<u>1,410</u>
Change in net assets	(28,002)
Net assets beginning of year	<u>142,675</u>
Net assets end of year	<u><u>114,673</u></u>

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2005

	Nonmajor Enterprise Funds
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	88,058
Cash received from daycare and after school services	10,096
Cash payments to employees for services	(108,715)
Cash payments to suppliers for goods or services	<u>(116,167)</u>
Net cash used by operating activities	<u>(126,728)</u>
Cash flows from non-capital financing activities:	
Transfers from other funds	1,410
Donations	6,505
State grants received	3,513
Federal grants received	<u>103,127</u>
Net cash provided by non-capital financing activities	<u>114,555</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	<u>(4,881)</u>
Cash flows from investing activities:	
Interest on investments	<u>232</u>
Net increase (decrease) in cash and cash equivalents	(16,822)
Cash and cash equivalents at beginning of year	<u>45,773</u>
Cash and cash equivalents at end of year	<u><u>28,951</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(156,638)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	13,849
Depreciation	14,939
Decrease (increase) in inventories	2,449
Decrease (increase) in accounts receivable	206
(Decrease) increase in salaries and benefits payable	22
(Decrease) increase in deferred revenue	<u>(1,555)</u>
Net cash used in operating activities	<u><u>(126,728)</u></u>
Non-cash investing, capital and financing activities:	

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2005

Nonmajor
Enterprise
Funds

\$

During the year ended June 30, 2005, the District received \$13,849 of federal commodities.

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Fund

June 30, 2005

	Private Purpose Trust Scholarship <u> </u> \$
Assets	
Cash and pooled investments	154,760
Accrued interest receivable	<u>847</u>
Total assets	155,607
Liabilities	<u>-</u>
Net Assets	
Reserved for scholarships	<u>155,607</u>
Total net assets	<u><u>155,607</u></u>

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Fund

Year ended June 30, 2005

	Private Purpose Trust Scholarship <u>\$</u>
Additions:	
Local sources:	
Gifts and contributions	125
Interest	<u>2,679</u>
Total additions	2,804
Deductions:	
Support services:	
Scholarships awarded	<u>2,700</u>
Change in net assets	104
Net assets beginning of year	<u>155,503</u>
Net assets end of year	<u><u>155,607</u></u>

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2005

1. Summary of Significant Accounting Policies

River Valley Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Correctionville, Washta, Cushing and Quimby, Iowa and the predominately agricultural territory in a portion of Woodbury, Cherokee and Ida Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, River Valley Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) The potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The River Valley Community School District has no component units that meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the County Assessor's Conference Board.

B. Basis of Presentation

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

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

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

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

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

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

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's long-term debt.

The District's proprietary funds include two enterprise funds. The School Nutrition Fund is used to account for the food service operations, the Preschool Fund is used to account for tuition charged and the expenses of the District's preschool program.

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

The Private-Purpose Trust Fund is used to account for assets held by the District under trust agreements, which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgements, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

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

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, have a maturity date no longer than three months.

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

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

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

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants, and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

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

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

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

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

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

Salaries and Benefits Payable – Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of unspent grant proceeds, amounts received in advance for meal sales and succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Employees are not paid for unused vacation and sick leave benefits when employment with the District ends.

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements in the support services and other expenditures functions exceeded the amounts budgeted.

2. **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2005, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
	\$
Diversified Portfolio	1,276,381

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

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

3. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2005 is as follows:

Receivable Fund	Payable Fund	Amount
		\$
Capital Projects Fund	General Fund	12,600

The interfund receivable/payable balances are the result of funds deposited in the general fund by mistake.

4. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
		\$
Debt Service Fund	Capital Projects Fund	22,000
Enterprise: Preschool Fund	General Fund	1,410

These transfers moved revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

5. Capital Assets

Capital assets activity for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year, as Restated	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Construction in progress	282,588	99,709	382,297	-
Land	19,689	-	-	19,689
Total capital assets not being depr.	<u>302,277</u>	<u>99,709</u>	<u>382,297</u>	<u>19,689</u>

Capital assets being depreciated:				
Buildings	6,132,287	315,862	-	6,448,149
Improvements other than buildings	431,315	66,435	-	497,750
Furniture and equipment	651,218	146,578	-	797,796
Total capital assets being deprec.	<u>7,214,820</u>	<u>528,875</u>	<u>-</u>	<u>7,743,695</u>
Less accumulated depreciation for:				
Buildings	931,921	124,854	-	1,056,775
Improvements other than buildings	83,303	23,227	-	106,530
Furniture and equipment	492,598	60,660	-	553,258
Total accumulated depreciation	<u>1,507,822</u>	<u>208,741</u>	<u>-</u>	<u>1,716,563</u>
Total capital assets being depreciated, net	<u>5,706,998</u>	<u>320,134</u>	<u>-</u>	<u>6,027,132</u>
Governmental activities capital assets, net	<u>6,009,275</u>	<u>419,843</u>	<u>382,297</u>	<u>6,046,821</u>
	Balance			Balance End
	Beginning of			of Year
	Year	Increases	Decreases	
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	183,338	4,881	-	188,219
Less accumulated depreciation	<u>89,709</u>	<u>14,939</u>	<u>-</u>	<u>104,648</u>
Business type activities capital assets, net	<u>93,629</u>	<u>(10,058)</u>	<u>-</u>	<u>83,571</u>
Depreciation expense was charged to the following functions:				\$
Governmental activities:				
Instruction:				
Regular				496
Other				175
Support Services:				
Instructional staff services				2,039
Operation and maintenance of plant services				881
Transportation				<u>57,069</u>
				60,660
Unallocated depreciation				<u>148,081</u>
Total depreciation expense – governmental activities				<u>208,741</u>
Business type activities:				
Food service				14,939
Preschool				<u>-</u>
				<u>14,939</u>

6. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2005, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
General obligation bonds	4,895,000	-	255,000	4,640,000	265,000
Early retirement	6,232	25,512	4,451	27,293	27,293
Total	4,901,232	25,512	259,451	4,667,293	292,293

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed ten years of full time service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives are based on a sliding percentage of the employees current base salary. Early retirement expenditures for the year ended June 30, 2005 totaled \$4,451.

General Obligation Bonds Payable

Details of the District's June 30, 2005 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of May, 1998			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2006	4.25	265,000	220,635	485,635
2007	4.30	275,000	208,048	483,048
2008	4.40	290,000	194,985	484,985
2009	4.45	305,000	181,210	486,210
2010	4.55	320,000	166,723	486,723
2011-2015	4.6-4.7	1,845,000	590,650	2,435,650
2016-2018	4.8-4.95	1,340,000	130,143	1,470,143
		<u>4,640,000</u>	<u>1,692,394</u>	<u>6,332,394</u>

7. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$139,252, \$137,730, and \$136,192 respectively, equal to the required contributions for each year.

8. Risk Management

The District was a member in the Iowa School Employee Benefits Association (ISEBA), an Iowa Code Chapter 28E organization until June 30, 2004. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members that terminated from ISEBA on June 30, 2004 received an assessment in December 2004 which is due July 1, 2005. The total assessment for terminated members is approximately \$3.9 million. The District's share of this assessment was \$67,622 which is recorded as a liability as of June 30, 2005.

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

9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$147,634 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

10. Exhibit B – Statement of Activities, Restatement of Beginning Net Assets

The beginning net assets for the Statement of Activities was increased by \$178,336 because prior year accumulated depreciation was overstated by \$14,835 and \$163,501 of capital assets were not included in the prior year financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Receipts:						
Local sources	2,609,158	104,891	2,714,049	2,629,895	2,629,895	84,154
Intermediate sources	-	-	-	-	-	-
State sources	2,001,668	3,513	2,005,181	2,023,200	2,023,200	(18,019)
Federal sources	264,692	116,976	381,668	411,000	411,000	(29,332)
Total receipts	<u>4,875,518</u>	<u>225,380</u>	<u>5,100,898</u>	<u>5,064,095</u>	<u>5,064,095</u>	<u>36,803</u>
Disbursements:						
Instruction	2,568,973	-	2,568,973	2,856,000	2,856,000	287,027
Support services	1,637,381	-	1,637,381	1,554,000	1,554,000	(83,381)
Non-instructional programs	-	243,612	243,612	266,000	266,000	22,388
Other expenditures	856,179	-	856,179	823,287	823,287	(32,892)
Total disbursements	<u>5,062,533</u>	<u>243,612</u>	<u>5,306,145</u>	<u>5,499,287</u>	<u>5,499,287</u>	<u>193,142</u>
Excess (deficiency) of receipts over (under) disbursements	(187,015)	(18,232)	(205,247)	(435,192)	(435,192)	229,945
Other financing sources (uses) net	<u>(1,410)</u>	<u>1,410</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements	(188,425)	(16,822)	(205,247)	(435,192)	(435,192)	229,945
Balance beginning of year	<u>1,561,439</u>	<u>45,773</u>	<u>1,607,212</u>	<u>1,311,613</u>	<u>1,311,613</u>	<u>295,599</u>
Balance end of year	<u><u>1,373,014</u></u>	<u><u>28,951</u></u>	<u><u>1,401,965</u></u>	<u><u>876,421</u></u>	<u><u>876,421</u></u>	<u><u>525,544</u></u>

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
	\$	\$	\$
Revenues	4,875,518	60,715	4,936,233
Expenditures	5,062,533	(143,162)	4,919,371
Net	(187,015)	203,877	16,862
Other financing sources (uses) net	(1,410)	-	(1,410)
Beginning fund balances	1,561,439	(449,209)	1,112,230
Ending fund balances	1,373,014	(245,332)	1,127,682

	Proprietary Fund		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
\$	\$	\$	
Revenues	225,380	1,349	226,729
Expenditures	243,612	12,529	256,141
Net	(18,232)	(11,180)	(29,412)
Other financing sources (uses) net	1,410	-	1,410
Beginning fund balances	45,773	96,902	142,675
Ending fund balances	28,951	85,722	114,673

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Internal Service, Private Purpose Trust and Agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by the fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District did not amend the budget.

During the year ended June 30, 2005, disbursements in the support services and other expenditures functions exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2005

Assets	Special Revenue Funds			Capital Projects Fund	Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	Local Option Sales and Services Tax	
	\$	\$	\$	\$	\$
Cash and pooled investments	198,051	64,002	8,352	99,208	369,613
Receivables:					
Property tax:					
Delinquent	-	-	681	-	681
Succeeding year	75,000	-	37,963	-	112,963
Accounts	-	1,307	-	-	1,307
Accrued interest	-	44	-	-	44
Interfund receivable	-	-	-	12,600	12,600
Due from other governments	-	-	-	53,938	53,938
Total assets	273,051	65,353	46,996	165,746	551,146
Liabilities & Fund Balances					
Liabilities:					
Excess of warrants issued over bank balance	-	-	-	80,775	80,775
Deferred revenue:					
Succeeding year property tax	75,000	-	37,963	-	112,963
Total liabilities	75,000	-	37,963	80,775	193,738
Fund balances:					
Unreserved reported in:					
Special revenue funds	198,051	65,353	9,033	-	272,437
Capital projects funds	-	-	-	84,971	84,971
Total fund balances	198,051	65,353	9,033	84,971	357,408
Total liabilities and fund balances	273,051	65,353	46,996	165,746	551,146

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	Special Revenue Funds			Capital Projects Fund	Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	Local Option Sales and Services Tax	
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	-	-	37,966	269,693	307,659
Other	87	146,191	103	2,956	149,337
State sources	-	-	38	12,600	12,638
Total revenues	<u>87</u>	<u>146,191</u>	<u>38,107</u>	<u>285,249</u>	<u>469,634</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	17,232	-	-	-	17,232
Other instruction	-	135,883	-	-	135,883
Support services:					
Administration services	20,265	-	-	-	20,265
Operation and maintenance of plant services	1,084	-	-	-	1,084
Transportation services	31,596	-	57,905	-	89,501
Other expenditures:					
Facilities acquisition	-	-	3,823	216,824	220,647
Total expenditures	<u>70,177</u>	<u>135,883</u>	<u>61,728</u>	<u>216,824</u>	<u>484,612</u>
Excess (deficiency) of revenues over (under) expenditures	(70,090)	10,308	(23,621)	68,425	(14,978)
Other financing sources (uses):					
Operating transfers out	-	-	-	(22,000)	(22,000)
Net change in fund balances	(70,090)	10,308	(23,621)	46,425	(36,978)
Fund balances beginning of year	<u>268,141</u>	<u>55,045</u>	<u>32,654</u>	<u>38,546</u>	<u>394,386</u>
Fund balances end of year	<u><u>198,051</u></u>	<u><u>65,353</u></u>	<u><u>9,033</u></u>	<u><u>84,971</u></u>	<u><u>357,408</u></u>

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Combining Schedule of Net Assets
Nonmajor Enterprise Funds

June 30, 2005

	School Nutrition	Preschool	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	27,558	1,393	28,951
Accounts receivable	36	-	36
Inventories	2,835	-	2,835
Capital assets, net of accumulated depreciation	83,571	-	83,571
	<u>114,000</u>	<u>1,393</u>	<u>115,393</u>
Total assets			
	114,000	1,393	115,393
Liabilities			
Salaries and benefits payable	22	-	22
Deferred revenue	698	-	698
	<u>720</u>	<u>-</u>	<u>720</u>
Total liabilities			
	720	-	720
Net assets			
Invested in capital assets, net of related debt	83,571	-	83,571
Unrestricted	29,709	1,393	31,102
	<u>113,280</u>	<u>1,393</u>	<u>114,673</u>
Total net assets			
	113,280	1,393	114,673

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenses, and Changes in Net Assets
Nonmajor Enterprise Funds

Year ended June 30, 2005

	School Nutrition	Preschool	Total
	\$	\$	\$
Operating revenue:			
Local sources:			
Charges for service	<u>89,407</u>	<u>10,096</u>	<u>99,503</u>
Operating expenses:			
Non-instructional programs:			
Salaries	81,141	14,772	95,913
Benefits	10,808	2,015	12,823
Purchased services	6,323	-	6,323
Supplies	126,119	24	126,143
Depreciation	14,939	-	14,939
	<u>239,330</u>	<u>16,811</u>	<u>256,141</u>
Operating gain (loss)	<u>(149,923)</u>	<u>(6,715)</u>	<u>(156,638)</u>
Non-operating revenue:			
State sources	3,513	-	3,513
Federal sources	116,976	-	116,976
Donations	-	6,505	6,505
Interest income	232	-	232
Total non-operating revenue	<u>120,721</u>	<u>6,505</u>	<u>127,226</u>
Gain (loss) before transfers	(29,202)	(210)	(29,412)
Transfers in	<u>-</u>	<u>1,410</u>	<u>1,410</u>
Change in net assets	(29,202)	1,200	(28,002)
Net assets beginning of year	<u>142,482</u>	<u>193</u>	<u>142,675</u>
Net assets end of year	<u><u>113,280</u></u>	<u><u>1,393</u></u>	<u><u>114,673</u></u>

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Combining Schedule of Cash Flows
Nonmajor Enterprise Funds

Year ended June 30, 2005

	School Nutrition	Preschool	Total
	\$	\$	\$
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	88,058	-	88,058
Cash received from daycare and after school services	-	10,096	10,096
Cash payments to employees for services	(91,928)	(16,787)	(108,715)
Cash payments to suppliers for goods or services	(116,143)	(24)	(116,167)
Net cash used by operating activities	<u>(120,013)</u>	<u>(6,715)</u>	<u>(126,728)</u>
Cash flows from non-capital financing activities:			
Transfers from other funds	-	1,410	1,410
Donations	-	6,505	6,505
State grants received	3,513	-	3,513
Federal grants received	103,127	-	103,127
Net cash provided by non-capital financing activities	<u>106,640</u>	<u>7,915</u>	<u>114,555</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	<u>(4,881)</u>	-	<u>(4,881)</u>
Cash flows from investing activities:			
Interest on investments	<u>232</u>	-	<u>232</u>
Net increase (decrease) in cash and cash equivalents	(18,022)	1,200	(16,822)
Cash and cash equivalents at beginning of year	<u>45,580</u>	<u>193</u>	<u>45,773</u>
Cash and cash equivalents at end of year	<u><u>27,558</u></u>	<u><u>1,393</u></u>	<u><u>28,951</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:			
Operating gain (loss)	(149,923)	(6,715)	(156,638)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:			
Commodities used	13,849	-	13,849
Depreciation	14,939	-	14,939
Decrease (increase) in inventories	2,449	-	2,449
Decrease (increase) in accounts receivable	206	-	206
(Decrease) increase in salaries and benefits payable	22	-	22
(Decrease) increase in deferred revenue	(1,555)	-	(1,555)
Net cash used in operating activities	<u>(120,013)</u>	<u>(6,715)</u>	<u>(126,728)</u>

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Intra-fund Transfers</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$	\$
Interest receipts	3,010	966	854	(91)	3,031
MS athletics	799	65	2,452	2,202	614
MS cheerleaders	95	-	-	-	95
MS the loft	2,137	657	400	(2,202)	192
MS renaissance	812	-	45	-	767
MS student council	5,009	14,629	10,442	-	9,196
MS concessions	295	-	-	(296)	(1)
Yearbook	3,024	14,798	14,625	600	3,797
HS play	2,810	1,482	1,353	-	2,939
HS athletics	11,162	33,701	35,376	(100)	9,387
District football	-	1,200	1,000	100	300
HS cheerleaders	1,402	140	1,542	-	-
Speech and drama club	1,870	4,214	3,940	-	2,144
Chess club	100	-	-	-	100
Drill team	214	3,902	2,315	-	1,801
Wolverine's den	372	130	258	-	244
HS renaissance	517	1,173	860	-	830
FFA	12	-	-	-	12
FHA	409	287	313	-	383
Art club	291	222	239	-	274
Spanish club	3,080	11,196	10,585	-	3,691
Quiz bowl club	396	868	789	-	475
Industrial arts club	176	-	-	-	176
Physics club	67	1,499	1,261	-	305
Scholarship banquet fund	-	1,305	1,396	91	-
Class of 2008	-	150	-	-	150
Class of 2007	312	210	82	-	440
Class of 2006	338	8,192	7,443	-	1,087
Class of 2005	2,370	79	1,377	(600)	472
Class of 2004	168	-	1	-	167
Class of 2003	48	-	-	-	48
National Honor Society	804	173	224	-	753
Elementary student council	9,855	25,127	19,856	-	15,126
Activity Library Bookfair	-	4,706	2,369	-	2,337
HS student council	568	9,219	9,266	-	521
HS concessions	2,523	4,550	5,220	296	2,149
Ending accrual entries	-	1,351	-	-	1,351
Total	55,045	146,191	135,883	-	65,353

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2005	2004	2003	2002
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,230,236	2,387,053	2,262,917	2,274,675
Tuition	238,173	244,964	191,819	138,212
Other	206,636	174,671	250,406	234,972
State sources	2,001,669	1,802,142	1,950,602	2,031,161
Federal sources	259,519	276,718	137,701	175,438
Total revenues	<u>4,936,233</u>	<u>4,885,548</u>	<u>4,793,445</u>	<u>4,854,458</u>
Expenditures:				
Instruction:				
Regular instruction	1,846,735	1,754,209	1,580,270	1,723,528
Special instruction	490,293	531,211	536,099	557,908
Other instruction	200,160	217,482	222,643	258,717
Support services:				
Student services	97,235	100,084	96,093	100,646
Instructional staff services	122,843	98,800	109,221	112,302
Administration services	605,385	536,916	542,088	597,643
Operation and maintenance of plant services	335,493	380,176	376,119	391,681
Transportation services	365,048	168,773	166,973	227,283
Central support services	-	-	-	34
Non-instructional programs	-	255	17,218	17,807
Other expenditures:				
Facilities acquisition	220,647	316,607	139,130	160,752
Long-term debt:				
Principal	255,000	259,307	248,128	237,064
Interest and other charges	232,898	245,553	257,657	269,030
AEA flowthrough	147,634	150,193	161,605	163,933
Total expenditures	<u>4,919,371</u>	<u>4,759,566</u>	<u>4,453,244</u>	<u>4,818,328</u>

Gary E. Horton CPA

PO Box 384
Clarion, IA 50525-0384
(515)532-6681 Phone
(515) 532-2405 Fax

BETCO@mchsi.com E-mail

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of
River Valley Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of River Valley Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 4, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered River Valley Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting 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 to be material weaknesses. However, of the reportable conditions described above, we believe item 05-I-A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether River Valley Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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

August 4, 2005

River Valley Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2005

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

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

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

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

Conclusion: Response accepted.

River Valley Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting:

- 05-II-A Official Depositories: Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.
- 05-II-B Certified Budget: Disbursements for the year ended June 30, 2005, exceeded the amounts budgeted in the support services and other expenditures functions.
- Recommendation: The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.
- District Response: Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.
- Conclusion: Response accepted.
- 05-II-C Questionable Expenditures: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 05-II-D Travel Expenses: No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- 05-II-E Business Transactions: No transactions between the District and District officials or employees were noted.
- 05-II-F Bond Coverage: Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of bond coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 05-II-G Board Minutes: We noted no transactions requiring Board approval that had not been approved by the Board.
- 05-II-H Certified Enrollment: We noted no variances in the basic enrollment data certified to the Department of Education.
- 05-II-I Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- 05-II-J Certified Annual Report (CAR): The CAR was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

River Valley Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2005

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

05-II-K Fund Transfers: We noted fund transfers from the General Fund to the Enterprise Preschool Fund and from the Capital Projects Fund to Debt Service Fund for which we could find no documentation of approval by the Board.

\$22,000 transfer from Capital Projects Fund to Debt Service Fund
\$1,410 transfer from General Fund to Preschool Fund

Recommendation: All fund transfers should be approved by the Board and documented in the minutes.

District Response: We will document approval of all fund transfers in the future.

Conclusion: Response accepted.

05-II-L Reclassification of Student Activity Fund Accounts: The Student Activity Fund is to be used to account for the District's extracurricular student activity program. We noted accounts in the Student Activity Fund that may belong more appropriately in other funds.

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

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

Conclusion: Response accepted.