

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

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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, 2006, 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 at June 30, 2006, 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 10, 2006, 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 36 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, 2005, (which are not presented herein) and expressed unqualified opinions on those financial statements. The Other supplementary 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 10, 2006

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, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$4,000,725 in fiscal 2005 to \$4,117,701 in fiscal 2006, while General Fund expenditures decreased from \$3,946,861 in fiscal 2005 to \$3,806,638 in fiscal 2006. The District's General Fund balance increased from \$767,109 in fiscal 2005 to \$1,087,703 in fiscal 2006, a 42% increase.
- The increase in General Fund revenues was attributable to an increase in state grants, tuition received by the district and other revenues. The primary reason the General Fund balance increased is due to the closing of the Cushing center and in conjunction with the closing came staff reduction and early retirement incentives.

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 District government.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds. 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 Fund, the School Nutrition Fund and the Preschool Fund. The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency Funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

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, 2006 compared to June 30, 2005.

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2005-2006
	Governmental Activities		Business-type Activities		Total School District		
	2005	2006	2005	2006	2005	2006	
	\$	\$	\$	\$	\$	\$	
Current and other assets	3,582,726	7,759,328	31,822	28,857	3,614,548	7,788,195	115.0
Capital assets	6,030,127	5,947,771	83,571	70,099	6,113,698	6,017,870	-1.6
Total assets	9,612,853	13,707,099	115,393	98,956	9,728,246	13,806,055	41.9
Long-term liabilities	4,667,293	8,214,432	-		4,667,293	8,214,432	76.0
Other liabilities	2,314,349	2,231,433	720	577	2,315,069	2,232,010	-.04
Total liabilities	6,981,642	10,445,865	720	577	6,982,362	10,446,442	49.6
Net Assets:							
Invested in capital assets, net of related debt	1,370,127	1,572,771	83,571	70,099	1,473,698	1,642,870	11.4
Restricted	330,115	423,834	-		330,115	423,834	28.4
Unrestricted	910,969	1,264,629	31,102	28,280	942,071	1,292,909	37.2
TOTAL NET ASSETS	2,631,211	3,261,234	114,673	98,379	2,745,884	3,359,613	22.3

The District's combined net assets increased by nearly 21.6%, or approximately \$613,729, 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 increased approximately \$93,719 or 28.4% over the prior year. The increase was primarily a result of decreased expenditures in the Local Option Sales Tax (Capital Projects) 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 \$350,838, or 37.2%. This increase in unrestricted net assets was a result of the District reducing expenditures due to the closing of the Cushing center and therefore increasing carryover fund balance ending June 30, 2006.

Figure A-4 shows the change in net assets for the years ended June 30, 2006 and 2005.

Figure A-4

	Change in Net Assets						Percentage Change 2005-2006
	Governmental Activities		Business-type Activities		Total School District		
	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	
Revenues							
Program Revenues:							
Charges for services	409,735	395,581	99,503	113,823	509,238	509,404	0%
Operating grants & contributions	614,510	717,654	127,226	119,864	741,736	837,518	13%
Capital grants & contributions	-	37,016	-	-	-	37,016	100%
General Revenues:							
Property taxes	1,797,024	1,756,778	-	-	1,797,024	1,756,778	-2%
Income Surtax	162,600	205,624	-	-	162,600	205,624	26%
Local option sales tax	269,693	289,306	-	-	269,693	289,306	7%
Unrestricted state grants	1,646,678	1,757,854	-	-	1,646,678	1,757,854	7%
Unrestricted investment earnings	25,484	48,844	-	-	25,484	48,844	92%
Other revenue	9,590	24,750	-	194	9,590	24,944	160%
Total Revenues	4,935,314	5,233,407	226,729	233,881	5,162,043	5,467,288	6%
Expenses:							
Instruction	2,558,920	2,580,098	-	-	2,558,920	2,580,098	1%
Support services	1,456,109	1,344,664	-	-	1,456,109	1,344,664	-7%
Non-instructional programs	-	4,082	256,141	250,175	256,141	254,257	-1%
Other expenditures	648,541	630,770	-	-	648,541	630,770	-3%
Total expenses	4,663,570	4,559,614	256,141	250,175	4,919,711	4,809,789	-2%
Change in net assets before transfers	271,744	673,793	(29,412)	(16,294)	242,332	657,499	154%
Transfers	(1,410)	(43,770)	1,410	-	-	(43,770)	
CHANGE IN NET ASSETS	270,334	630,023	(28,002)	(16,294)	242,332	613,729	137%
Net assets beginning of year	2,360,877	2,631,211	142,675	114,673	2,503,552	2,745,884	10%
Net assets end of year	<u>2,631,211</u>	<u>3,261,234</u>	<u>114,673</u>	<u>98,379</u>	<u>2,745,884</u>	<u>3,359,613</u>	<u>22%</u>

Property tax, surtax, local option sales tax and unrestricted state grants account for 77% 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 \$5,233,407 and expenses were \$4,559,614. Revenues increased by \$298,093 and are due to multiple reasons. The district received more revenue from tuition; interest earned due to higher rates and larger investments; additional revenue from state sources due to the implementation of teacher quality professional development and additional revenues from income surtax and local option sales tax, indicating more wages are being earned and more dollars are being spent on taxable products in the counties within the district.

Expenditures decreased by \$87,262 and one might ask if the District closed a building why was there not a greater savings? The District undertook many other projects throughout the 2005-2006 school year. We purchase a school bus; installed new radios in all busses and installed a new repeater antenna; installed a sprinkler system on the football field; replaced and expanded the chain-link fence at the Correctionville center; removed carpet and installed new epoxy floor in the high school and purchased additional lockers in preparation of the arrival of the 7th and 8th grades in Correctionville.

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 2006 \$	Net Cost of Services 2005 \$	Net Cost of Services 2006 \$
Instruction	2,558,920	2,580,098	1,682,785	1,735,533
Support Services	1,439,415	1,344,664	1,438,939	1,290,794
Non-instructional Programs	-	4,082	-	4,082
Other Expenses	648,541	630,770	500,907	378,954
TOTAL	4,646,876	4,559,614	3,622,631	3,409,363

- The cost financed by users of the District's programs was \$395,581.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$717,654.
- The net cost of governmental activities was financed with \$2,251,708 in property and other taxes and \$1,757,854 in unrestricted state grants.

BUSINESS TYPE ACTIVITIES

Revenues for business type activities were \$233,881 and expenses were \$250,175. The District's business type activities include the School Nutrition and Preschool Funds. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

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 \$5,371,387, well above last year's ending fund balances of \$1,127,682. However, the primary reason for the increase in combined fund balances in fiscal 2006 is due to the refinancing of bonds in the amount of \$3,902,497.

Governmental Fund Highlights

- The District's General Fund balance showed an increase of \$320,594. Growth in revenues of \$116,966 is primarily a combination of additional monies received from tuition received, interest from investments and additional dollars from state sources do to the implementation of the teacher quality professional development program. Expenditures decreased by \$140,223. This is indicated in the following areas: administrative services and transportation services. Expenditures in administrative services are less due to the expense incurred in the previous year for the payout of the ISEBA health insurance settlement. Expenditures in transportation services are due to no vehicle purchases for 2006 out of the general fund and the elimination of one bus route. The combination of more revenues and less expenditures results in an increase to the District's unreserved undesignated (carryover) fund balance.
- The Capital Projects Fund balance increased due to the refinancing of \$3,847,253 in general obligation revenue bonds during fiscal 2006.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$113,280 at June 30, 2005 to \$96,157 at June 30, 2006, representing a decrease of approximately 15%. For fiscal 2006, the District showed an increase of \$6,770 in revenue from local sources (charges for services) but also received less federal reimbursement dollars for free and reduced meals served in the amount of \$14,896 and showed increased cost of purchased services (repairs, contracted labor) of \$4,858. This consequently affects the fund balance.

BUDGETARY HIGHLIGHTS

The District's receipts were \$259,825 less than budgeted receipts, a variance of 5%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

Total expenditures were less than budgeted by \$375,876, due primarily to the District's budget for the Capital Projects 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 non-instruction and other expenditures areas due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget and additional projects completed earlier than estimated.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$5.95 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 2% from last year. More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$239,006.

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 changes in capital asset activity during the year occurred in the several areas. The reduction of assets under the buildings category was a result of the Cushing building being removed from our inventory. Increases in improvements and equipment and furniture are a result of the following expenditures: the addition of a new sprinkler systems to the football in Correctionville; replacement and expansion of chain link fence at the Correctionville center; purchase of new radios and installation of repeater antenna; removal of carpet and

installation of new epoxy floors in the high school and the purchase of additional lockers in preparation of the arrival of the 7th and 8th grades in Correctionville.

Figure A-6

Capital Assets (net of depreciation)

	Governmental Activities		Business type Activities		Total School District		Percentage Change 2005-2006
	2005	2006	2005	2006	2005	2006	
	\$	\$	\$	\$	\$	\$	
Land	19,689	19,689			19,689	19,689	0
Construction in progress							
Buildings	5,323,032	5,192,109			5,323,032	5,192,109	-2.4
Improvements	394,459	416,469			394,459	416,469	5.5
Equipment & Furniture	292,947	319,504	83,571	70,099	376,518	389,603	3.4
TOTAL	6,030,127	5,947,771	83,571	70,099	6,113,698	6,017,870	-1.5

Long-Term Debt

At June 30, 2006, the District had \$8,214,432 in general obligation, revenue and other long-term debt outstanding. This represents an increase of approximately 76% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

In the 2005-2006, the District's refinanced its General obligations bonds in the amount of \$3,830,000.

Figure A-7

Outstanding Long-Term Obligations

	Total School District		Percentage Change 2005-2006
	2005	2006	
	\$	\$	
General Obligation Bonds	4,640,000	8,205,000	76.83
Local Option Sales and Services			
Tax Revenue Bonds			
Capital Loan Notes			
Capital Leases			
Early Retirement	27,293	9,432	-65.4
Compensated Absences			
	<u>4,667,293</u>	<u>8,214,432</u>	<u>76.4</u>

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:

- School financing is highly dependent upon student enrollment. The District's September 2006 enrollment decreased by 33.2 students. This drop in enrollment will decrease the District's funding for fiscal year 2008.
- The District has begun to experience declining enrollment and the District projects continued declining enrollment thru 2009-2010 school year.
- Fiscal 2006 was the first year of a two-year contract with the River Valley Community Schools Education Teacher Association (RVEA). 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 balance.
- The District will need to evaluate the acquisition of a new transportation facility due to the future retirement of its transportation director, who currently owns the facility used for transportation use. The District will explore building possibilities and the revenue generated through Local Option Sales Tax will be the source of funding. This expenditure will have an impact on the undesignated fund balance.
- The District will continue to upgrade its fleet of school busses and may be facing the need to purchase a small school bus with a chair lift for a special needs student. This expenditure will have an impact on the undesignated fund balance for 2006-2007.

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, District Treasurer/Business Manager, River Valley Community Schools, 916 Hackberry St., Correctionville, IA 51016

BASIC FINANCIAL STATEMENTS

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents:			
Other	1,783,901	25,675	1,809,576
Cash with fiscal agent	3,823,850	-	3,823,850
Receivables:			
Property tax:			
Delinquent	36,078	-	36,078
Succeeding year	1,769,328	-	1,769,328
Accounts	4,874	47	4,921
Unamortized Bond issue costs	63,769	-	63,769
Due from other governments	277,528	-	277,528
Inventories	-	3,135	3,135
Capital assets, net of accumulated depreciation	5,947,771	70,099	6,017,870
Total assets	13,707,099	98,956	13,806,055
Liabilities			
Warrants issued in excess of bank balance	56,792	-	56,792
Salaries and benefits payable	314,297	-	314,297
Accrued interest payable	30,104	-	30,104
Deferred revenue:			
Succeeding year property tax	1,769,328	-	1,769,328
Other	-	577	577
Unamortized bond premium	60,912	-	60,912
Long-term liabilities			
Portion due within one year:			
General obligation bonds payable	275,000	-	275,000
Early retirement	9,432	-	9,432
Portion due after one year:			
General obligation bonds payable	7,930,000	-	7,930,000
Total liabilities	10,445,865	577	10,446,442
Net assets			
Invested in capital assets, net of related debt	1,572,771	70,099	1,642,870
Restricted for:			
Management levy	169,055	-	169,055
Physical plant and equipment levy	10,014	-	10,014
Other special revenue purposes	51,402	-	51,402
Local option sales tax capital projects	193,363	-	193,363
Unrestricted	1,264,629	28,280	1,292,909
Total net assets	3,261,234	98,379	3,359,613

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular instruction	1,749,935	204,842	325,248	-
Special instruction	427,012	66,436	114,666	-
Other instruction	403,151	123,387	9,986	-
	<u>2,580,098</u>	<u>394,665</u>	<u>449,900</u>	<u>-</u>
Support services:				
Student services	97,475	-	-	-
Instructional staff services	116,141	-	52,954	-
Administration services	491,648	-	-	-
Operation and maintenance of plant services	391,523	916	-	-
Transportation services	247,877	-	-	-
	<u>1,344,664</u>	<u>916</u>	<u>52,954</u>	<u>-</u>
Non-instructional programs	<u>4,082</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	22,436	-	-	37,016
Long-term debt interest	308,953	-	65,049	-
AEA flowthrough	149,751	-	149,751	-
Depreciation (unallocated)*	149,630	-	-	-
	<u>630,770</u>	<u>-</u>	<u>214,800</u>	<u>37,016</u>
Total governmental activities	<u>4,559,614</u>	<u>395,581</u>	<u>717,654</u>	<u>37,016</u>
Business type activities:				
Non-instructional programs:				
Food service operations	234,022	96,841	119,864	-
Preschool	16,153	16,982	-	-
Total business-type activities	<u>250,175</u>	<u>113,823</u>	<u>119,864</u>	<u>-</u>
Total	<u>4,809,789</u>	<u>509,404</u>	<u>837,518</u>	<u>37,016</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

Loss on disposal assets

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, 2006

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
Governmental Activities	Business Type Activities	Total
\$	\$	\$
(1,219,845)	-	(1,219,845)
(245,910)	-	(245,910)
(269,778)	-	(269,778)
<u>(1,735,533)</u>	<u>-</u>	<u>(1,735,533)</u>
(97,475)	-	(97,475)
(63,187)	-	(63,187)
(491,648)	-	(491,648)
(390,607)	-	(390,607)
(247,877)	-	(247,877)
<u>(1,290,794)</u>	<u>-</u>	<u>(1,290,794)</u>
(4,082)	-	(4,082)
14,580	-	14,580
(243,904)	-	(243,904)
-	-	-
(149,630)	-	(149,630)
<u>(378,954)</u>	<u>-</u>	<u>(378,954)</u>
<u>(3,409,363)</u>	<u>-</u>	<u>(3,409,363)</u>
-	(17,317)	(17,317)
-	829	829
-	(16,488)	(16,488)
<u>(3,409,363)</u>	<u>(16,488)</u>	<u>(3,425,851)</u>
1,281,034	-	1,281,034
437,634	-	437,634
38,110	-	38,110
205,624	-	205,624
289,306	-	289,306
1,757,854	-	1,757,854
48,844	194	49,038
24,750	-	24,750
<u>4,083,156</u>	<u>194</u>	<u>4,083,350</u>
(43,770)	-	(43,770)
<u>4,039,386</u>	<u>194</u>	<u>4,039,580</u>
630,023	(16,294)	613,729
<u>2,631,211</u>	<u>114,673</u>	<u>2,745,884</u>
<u>3,261,234</u>	<u>98,379</u>	<u>3,359,613</u>

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2006

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments:				
Other	1,374,983	17,609	391,242	1,783,834
Cash with fiscal agent	-	3,823,850	-	3,823,850
Receivables:				
Property tax:				
Delinquent	24,791	8,959	2,328	36,078
Succeeding year	1,194,768	433,348	141,212	1,769,328
Accounts	1,574	-	3,300	4,874
Accrued interest - other	-	-	67	67
Interfund receivable	-	-	12,600	12,600
Due from other governments	231,179	-	46,349	277,528
Total assets	<u>2,827,295</u>	<u>4,283,766</u>	<u>597,098</u>	<u>7,708,159</u>
Liabilities and Fund Balances				
Liabilities:				
Warrants issued in excess of bank balance	34,172	-	22,620	56,792
Salaries and benefits payable	314,297	-	-	314,297
Interfund payable	12,600	-	-	12,600
Deferred revenue:				
Succeeding year property tax	1,194,768	433,348	141,212	1,769,328
Other	183,755	-	-	183,755
Total liabilities	<u>1,739,592</u>	<u>433,348</u>	<u>163,832</u>	<u>2,336,772</u>
Fund balances:				
Reserved for:				
Debt service	-	3,850,418	-	3,850,418
Unreserved reported in:				
General fund	1,087,703	-	-	1,087,703
Special revenue funds	-	-	239,903	239,903
Capital projects funds	-	-	193,363	193,363
Total fund balances	<u>1,087,703</u>	<u>3,850,418</u>	<u>433,266</u>	<u>5,371,387</u>
Total liabilities and fund balances	<u>2,827,295</u>	<u>4,283,766</u>	<u>597,098</u>	<u>7,708,159</u>

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

	\$
Total fund balances of governmental funds (Exhibit C)	5,371,387
<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.	5,947,771
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	183,755
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 funds.	(30,104)
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>(8,211,575)</u>
Net assets of governmental activities (Exhibit A)	<u><u>3,261,234</u></u>

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,386,691	437,634	402,709	2,227,034
Tuition	246,451	-	-	246,451
Other	76,329	65,049	137,561	278,939
State sources	2,130,196	849	1,380	2,132,425
Federal sources	278,034	-	24,733	302,767
Total revenues	<u>4,117,701</u>	<u>503,532</u>	<u>566,383</u>	<u>5,187,616</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	1,747,572	-	22,117	1,769,689
Special instruction	427,012	-	-	427,012
Other instruction	267,583	-	135,568	403,151
	<u>2,442,167</u>	<u>-</u>	<u>157,685</u>	<u>2,599,852</u>
Support services:				
Student services	97,475	-	-	97,475
Instructional staff services	116,141	-	-	116,141
Administration services	483,092	-	2,262	485,354
Operation and maintenance of plant services	324,832	-	59,886	384,718
Transportation services	193,180	-	68,177	261,357
	<u>1,214,720</u>	<u>-</u>	<u>130,325</u>	<u>1,345,045</u>
Non-instructional programs	-	-	4,082	4,082
Other expenditures:				
Facilities acquisition	-	-	128,434	128,434
Long-term debt:				
Principal	-	265,000	-	265,000
Interest and fiscal charges	-	363,776	-	363,776
AEA flowthrough	149,751	-	-	149,751
	<u>149,751</u>	<u>628,776</u>	<u>128,434</u>	<u>906,961</u>
Total expenditures	<u>3,806,638</u>	<u>628,776</u>	<u>420,526</u>	<u>4,855,940</u>
Excess (deficiency) of revenues over (under) expenditures	<u>311,063</u>	<u>(125,244)</u>	<u>145,857</u>	<u>331,676</u>

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Other financing sources (uses):				
Refunding bonds issued	-	3,902,497	-	3,902,497
Sales of equipment and real property	9,531	-	1	9,532
Operating transfers in	-	70,000	-	70,000
Operating transfers out	-	-	(70,000)	(70,000)
Total other financing sources (uses)	<u>9,531</u>	<u>3,972,497</u>	<u>(69,999)</u>	<u>3,912,029</u>
Net change in fund balances	320,594	3,847,253	75,858	4,243,705
Fund balances beginning of year	<u>767,109</u>	<u>3,165</u>	<u>357,408</u>	<u>1,127,682</u>
Fund balances end of year	<u><u>1,087,703</u></u>	<u><u>3,850,418</u></u>	<u><u>433,266</u></u>	<u><u>5,371,387</u></u>

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, 2006

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		4,243,705
<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. Depreciation expense exceeded capital outlay expenditures in the year as follows:		
Expenditures for capital assets	185,348	
Depreciation expense	<u>(267,704)</u>	(82,356)
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.		24,674
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.		265,000
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.		(8,861)
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		17,861
Proceeds from issuing long-term liabilities are included in the governmental funds but increase long-term liabilities in the Statement of Net Assets.		<u>(3,830,000)</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>630,023</u></u>

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2006

	Nonmajor Enterprise Funds
	<u>\$</u>
Assets	
Cash and cash equivalents	25,675
Accounts receivable	47
Inventories	3,135
Capital assets, net of accumulated depreciation	<u>70,099</u>
Total assets	98,956
Liabilities	
Deferred revenue	<u>577</u>
Net assets	
Invested in capital assets, net of related debt	70,099
Unrestricted	<u>28,280</u>
Total net assets	<u><u>98,379</u></u>

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Nonmajor Enterprise Funds
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for service	<u>113,823</u>
Operating expenses:	
Non-instructional programs:	
Salaries	88,886
Benefits	11,418
Purchased services	11,181
Supplies	123,468
Depreciation	15,072
Other	150
	<u>250,175</u>
Operating gain (loss)	<u>(136,352)</u>
Non-operating revenue:	
State sources	17,784
Federal sources	102,080
Interest income	194
Total non-operating revenue	<u>120,058</u>
Change in net assets	(16,294)
Net assets beginning of year	<u>114,673</u>
Net assets end of year	<u><u>98,379</u></u>

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2006

	Nonmajor Enterprise Funds
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	96,709
Cash received from daycare and after school services	16,982
Cash payments to employees for services	(100,326)
Cash payments to suppliers for goods or services	(121,532)
Net cash used by operating activities	<u>(108,167)</u>
Cash flows from non-capital financing activities:	
State grants received	17,784
Federal grants received	88,513
Net cash provided by non-capital financing activities	<u>106,297</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	<u>(1,600)</u>
Cash flows from investing activities:	
Interest on investments	<u>194</u>
Net increase (decrease) in cash and cash equivalents	(3,276)
Cash and cash equivalents at beginning of year	<u>28,951</u>
Cash and cash equivalents at end of year	<u><u>25,675</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(136,352)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	13,567
Depreciation	15,072
Decrease (increase) in inventories	(300)
Decrease (increase) in accounts receivable	(11)
(Decrease) increase in salaries and benefits payable	(22)
(Decrease) increase in deferred revenue	(121)
Net cash used in operating activities	<u><u>(108,167)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received \$13,567 of federal commodities.

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Fund

June 30, 2006

	Private Purpose Trust Scholarship
	<u>\$</u>
Assets	
Cash and pooled investments	155,366
Accrued interest receivable	<u>1,395</u>
Total assets	156,761
Liabilities	<u>-</u>
Net Assets	
Reserved for scholarships	<u><u>156,761</u></u>

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Fund

Year ended June 30, 2006

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions:	
Local sources:	
Gifts and contributions	300
Interest	<u>4,072</u>
Total additions	4,372
Deductions:	
Support services:	
Scholarships awarded	<u>3,218</u>
Change in net assets	1,154
Net assets beginning of year	<u>155,607</u>
Net assets end of year	<u><u>156,761</u></u>

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

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, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

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, 2006, expenditures in the non-instructional programs and other expenditures functions exceeded the amounts budgeted.

2. **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2006 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.

The District has the following investments in government securities invested with a fiscal agent to fund a crossover refunding bond issue at June 30, 2006.

	<u>Fair Value</u>	<u>Maturity</u>
	\$	
US Treasury Note	3,458	12/01/06
US Treasury Note	3,458	06/01/07
US Treasury Note	3,458	12/01/07
US Treasury Note	3,813,457	06/01/08

Interest rate risk: The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
	\$
Diversified Portfolio	1,525,876

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

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

3. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2006 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
		\$
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, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
		\$
Debt Service Fund	Capital Projects Fund	70,000

This transfer 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, 2006 is as follows:

	Balance Beginning of Year, as Restated	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	19,689	-	-	19,689
Total capital assets not being depr.	<u>19,689</u>	<u>-</u>	<u>-</u>	<u>19,689</u>
Capital assets being depreciated:				
Buildings	6,408,149	-	176,000	6,232,149
Improvements other than buildings	475,843	48,213	-	524,056
Furniture and equipment	864,391	137,135	113,963	887,563
Total capital assets being deprec.	<u>7,748,383</u>	<u>185,348</u>	<u>289,963</u>	<u>7,643,768</u>
Less accumulated depreciation for:				
Buildings	1,085,117	124,643	169,720	1,040,040
Improvements other than buildings	81,384	26,203	-	107,587
Furniture and equipment	571,444	73,088	76,473	568,059
Total accumulated depreciation	<u>1,737,945</u>	<u>223,934</u>	<u>246,193</u>	<u>1,715,686</u>
Total capital assets being depreciated, net	<u>6,010,438</u>	<u>(38,586)</u>	<u>43,770</u>	<u>5,928,082</u>
Governmental activities capital assets, net	<u>6,030,127</u>	<u>(38,586)</u>	<u>43,770</u>	<u>5,947,771</u>
	Balance			Balance End
	Beginning of	Increases	Decreases	of Year
	Year	\$	\$	\$
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	188,219	1,600	-	189,819
Less accumulated depreciation	<u>104,648</u>	<u>15,072</u>	<u>-</u>	<u>119,720</u>
Business type activities capital assets, net	<u>83,571</u>	<u>(13,472)</u>	<u>-</u>	<u>70,099</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	6,556
Support Services:	
Instructional staff services	
Administration	3,522
Operation and maintenance of plant services	6,805
Transportation	57,421
Unallocated depreciation	<u>149,630</u>
Total depreciation expense – governmental activities	<u>223,934</u>
Business type activities:	
Food service	<u>15,072</u>

6. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
General obligation bonds	4,640,000	3,830,000	265,000	8,205,000	275,000
Termination benefits	27,293	9,432	27,293	9,432	9,432
Total	4,667,293	3,839,432	292,293	8,214,432	284,432

Termination Benefits

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least ten years of full-time service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education.

At June 30, 2006, the District has obligations to one participant with a total liability of \$9,432. Actual early retirement expenditures for the year ended June 30, 2006 totaled \$27,293.

General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of May, 1998			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
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	4.60	335,000	151,522	486,522
2012-2016	4.625-4.8	1,935,000	471,069	2,406,069
2017-2018	4.85-4.95	915,000	66,258	981,258
		<u>4,375,000</u>	<u>1,439,815</u>	<u>5,814,815</u>

Year Ended June 30,	2005 Crossover Refunding Bond Issue			
	Interest Rates	Principal	Interest	Total
		\$	\$	\$
2007	4.0	-	153,200	153,200
2008	4.0	-	153,200	153,200
2009	4.0	320,000	153,200	473,200
2010	4.0	330,000	140,400	470,400
2011	4.0	345,000	127,200	472,200
2012-2016	4.0	1,940,000	418,200	2,358,200
2017-2018	4.0	895,000	54,200	949,200
Total		<u>3,830,000</u>	<u>1,199,600</u>	<u>5,029,600</u>

Crossover Refunding Bonds

In December, 2005, the District issued \$3,830,000 of general obligation refunding bonds with interest rates of 4.00%. The District issued the bonds to refund the outstanding 1998 bonds in 2008.

This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$115,179.

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, 2006, 2005 and 2004. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$139,715, \$139,252 and \$137,730 respectively, equal to the required contributions for each year.

8. Risk Management

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 \$149,751 for the year ended June 30, 2006 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 decreased by \$16,694 to correct prior year accumulated depreciation and capital assets.

REQUIRED SUPPLEMENTARY INFORMATION

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2006

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	2,752,424	114,017	2,866,441	2,827,059	2,827,059	39,382
State sources	2,132,425	17,784	2,150,209	2,118,613	2,118,613	31,596
Federal sources	302,767	102,080	404,847	216,000	216,000	188,847
Total revenues	<u>5,187,616</u>	<u>233,881</u>	<u>5,421,497</u>	<u>5,161,672</u>	<u>5,161,672</u>	<u>259,825</u>
Expenditures:						
Instruction	2,599,852	-	2,599,852	2,800,000	2,800,000	200,148
Support services	1,345,045	-	1,345,045	1,635,000	1,635,000	289,955
Non-instructional programs	4,082	250,175	254,257	229,000	229,000	(25,257)
Other expenditures	906,961	-	906,961	817,991	817,991	(88,970)
Total expenditures	<u>4,855,940</u>	<u>250,175</u>	<u>5,106,115</u>	<u>5,481,991</u>	<u>5,481,991</u>	<u>375,876</u>
Excess (deficiency) of revenues over (under) expenditures	331,676	(16,294)	315,382	(320,319)	(320,319)	635,701
Other financing sources (uses) net	<u>3,912,029</u>	<u>-</u>	<u>3,912,029</u>	<u>-</u>	<u>-</u>	<u>3,912,029</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	4,243,705	(16,294)	4,227,411	(320,319)	(320,319)	4,547,730
Balance beginning of year	<u>1,127,682</u>	<u>114,673</u>	<u>1,242,355</u>	<u>1,646,682</u>	<u>1,646,682</u>	<u>(404,327)</u>
Balance end of year	<u><u>5,371,387</u></u>	<u><u>98,379</u></u>	<u><u>5,469,766</u></u>	<u><u>1,326,363</u></u>	<u><u>1,326,363</u></u>	<u><u>4,143,403</u></u>

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2006

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Internal Service, Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by 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, 2006, expenditures in the non-instructional programs and other expenditures functions exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2006

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	176,939	51,335	9,234	153,734	391,242
Receivables:					
Property tax:					
Delinquent	1,548	-	780	-	2,328
Succeeding year	100,000	-	41,212	-	141,212
Accounts	-	-	-	3,300	3,300
Accrued interest	-	67	-	-	67
Interfund receivable	-	-	-	12,600	12,600
Due from other governments	-	-	-	46,349	46,349
Total assets	278,487	51,402	51,226	215,983	597,098
Liabilities & Fund Balances					
Liabilities:					
Excess of warrants issued over bank balance	-	-	-	22,620	22,620
Deferred revenue:					
Succeeding year property tax	100,000	-	41,212	-	141,212
Total liabilities	100,000	-	41,212	22,620	163,832
Fund balances:					
Unreserved reported in:					
Special revenue funds	178,487	51,402	10,014	-	239,903
Capital projects funds	-	-	-	193,363	193,363
Total fund balances	178,487	51,402	10,014	193,363	433,266
Total liabilities and fund balances	278,487	51,402	51,226	215,983	597,098

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	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	75,293	-	38,110	289,306	402,709
Other	2,077	121,920	1,281	12,283	137,561
State sources	146	-	1,234	-	1,380
Federal sources	-	-	-	24,733	24,733
Total revenues	<u>77,516</u>	<u>121,920</u>	<u>40,625</u>	<u>326,322</u>	<u>566,383</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	22,117	-	-	-	22,117
Other instruction	-	135,568	-	-	135,568
Support services:					
Administration services	1,959	303	-	-	2,262
Operation and maintenance of plant services	59,886	-	-	-	59,886
Transportation services	9,036	-	-	59,141	68,177
Non-instructional programs	4,082	-	-	-	4,082
Other expenditures:					
Facilities acquisition	-	-	39,645	88,789	128,434
Total expenditures	<u>97,080</u>	<u>135,871</u>	<u>39,645</u>	<u>147,930</u>	<u>420,526</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(19,564)</u>	<u>(13,951)</u>	<u>980</u>	<u>178,392</u>	<u>145,857</u>
Other financing sources (uses):					
Sales of real property	-	-	1	-	1
Operating transfers out	-	-	-	(70,000)	(70,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>1</u>	<u>(70,000)</u>	<u>(69,999)</u>
Net change in fund balances	(19,564)	(13,951)	981	108,392	75,858
Fund balances beginning of year	<u>198,051</u>	<u>65,353</u>	<u>9,033</u>	<u>84,971</u>	<u>357,408</u>
Fund balances end of year	<u>178,487</u>	<u>51,402</u>	<u>10,014</u>	<u>193,363</u>	<u>433,266</u>

See accompanying independent auditor's report.

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Combining Schedule of Net Assets
Nonmajor Enterprise Funds

June 30, 2006

	Enterprise Funds		
	School Nutrition	Preschool	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	23,453	2,222	25,675
Accounts receivable	47	-	47
Inventories	3,135	-	3,135
Capital assets, net of accumulated depreciation	<u>70,099</u>	<u>-</u>	<u>70,099</u>
Total assets	96,734	2,222	98,956
Liabilities			
Deferred revenue	<u>577</u>	<u>-</u>	<u>577</u>
Net assets			
Invested in capital assets, net of related debt	70,099	-	70,099
Unrestricted	<u>26,058</u>	<u>2,222</u>	<u>28,280</u>
Total net assets	<u><u>96,157</u></u>	<u><u>2,222</u></u>	<u><u>98,379</u></u>

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Enterprise Funds		
	School Nutrition	Preschool	Total
	\$	\$	\$
Operating revenue:			
Local sources:			
Charges for service	<u>96,841</u>	<u>16,982</u>	<u>113,823</u>
Operating expenses:			
Non-instructional programs:			
Salaries	74,770	14,116	88,886
Benefits	9,521	1,897	11,418
Purchased services	11,181	-	11,181
Supplies	123,328	140	123,468
Depreciation	15,072	-	15,072
Other	150	-	150
	<u>234,022</u>	<u>16,153</u>	<u>250,175</u>
Operating gain (loss)	<u>(137,181)</u>	<u>829</u>	<u>(136,352)</u>
Non-operating revenue:			
State sources	17,784	-	17,784
Federal sources	102,080	-	102,080
Interest income	194	-	194
Total non-operating revenue	<u>120,058</u>	<u>-</u>	<u>120,058</u>
Change in net assets	(17,123)	829	(16,294)
Net assets beginning of year	<u>113,280</u>	<u>1,393</u>	<u>114,673</u>
Net assets end of year	<u>96,157</u>	<u>2,222</u>	<u>98,379</u>

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Combining Schedule of Cash Flows
Nonmajor Enterprise Funds

Year ended June 30, 2006

	Enterprise Funds		
	School		Total
	Nutrition	Preschool	
	\$	\$	\$
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	96,709	-	96,709
Cash received from daycare and after school services	-	16,982	16,982
Cash payments to employees for services	(84,313)	(16,013)	(100,326)
Cash payments to suppliers for goods or services	(121,392)	(140)	(121,532)
Net cash used by operating activities	<u>(108,996)</u>	<u>829</u>	<u>(108,167)</u>
Cash flows from non-capital financing activities:			
State grants received	17,784	-	17,784
Federal grants received	88,513	-	88,513
Net cash provided by non-capital financing activities	<u>106,297</u>	<u>-</u>	<u>106,297</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	<u>(1,600)</u>	<u>-</u>	<u>(1,600)</u>
Cash flows from investing activities:			
Interest on investments	<u>194</u>	<u>-</u>	<u>194</u>
Net increase (decrease) in cash and cash equivalents	(4,105)	829	(3,276)
Cash and cash equivalents at beginning of year	<u>27,558</u>	<u>1,393</u>	<u>28,951</u>
Cash and cash equivalents at end of year	<u><u>23,453</u></u>	<u><u>2,222</u></u>	<u><u>25,675</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:			
Operating gain (loss)	(137,181)	829	(136,352)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:			
Commodities used	13,567	-	13,567
Depreciation	15,072	-	15,072
Decrease (increase) in inventories	(300)	-	(300)
Decrease (increase) in accounts receivable	(11)	-	(11)
(Decrease) increase in salaries and benefits payable	(22)	-	(22)
(Decrease) increase in deferred revenue	(121)	-	(121)
Net cash used in operating activities	<u>(108,996)</u>	<u>829</u>	<u>(108,167)</u>

RIVER VALLEY COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

Account	Balance	Revenues	Expenditures	Intra-fund Transfers	Balance End of Year
	Beginning of Year				
	\$	\$	\$	\$	\$
MS cheerleaders	3,196	878	302	(1,847)	1,925
MS the loft	192	68	88	-	172
MS renaissance	767	-	-	-	767
MS student council	9,196	6,612	5,124	(2,555)	8,129
Yearbook	3,797	15,514	18,243	602	1,670
HS play	2,939	1,571	1,208	-	3,302
HS athletics	9,315	31,494	32,818	(126)	7,865
District football	915	499	3,973	2,559	-
HS cheerleaders	-	1,118	688	-	430
Speech and drama club	2,144	1,309	3,103	-	350
Chess club	100	-	-	-	100
Drill team	1,801	950	2,512	-	239
Wolverine's den	244	378	484	-	138
HS renaissance	830	2,300	1,717	25	1,438
FFA	12	-	-	-	12
FHA	15,509	32,338	37,935	100	10,012
Art club	274	55	147	-	182
Spanish club	3,691	475	731	-	3,435
Quiz bowl club	475	89	40	-	524
Industrial arts club	176	-	-	-	176
Physics club	305	2,136	2,151	(1)	289
Scholarship banquet fund	-	1,114	1,158	44	-
Class of 2008	150	85	-	-	235
Class of 2007	440	8,332	5,547	-	3,225
Class of 2006	1,087	524	1,011	(600)	-
Class of 2005	472	-	-	-	472
Class of 2004	167	-	-	-	167
Class of 2009	48	60	-	-	108
National honor society	753	-	354	-	399
Activity library bookfair	2,337	3,269	2,753	-	2,853
HS student council	521	6,791	9,111	1,799	-
HS concessions	2,149	5,312	4,673	-	2,788
Beginning accrual entries	1,351	(1,351)	-	-	-
Total	65,353	121,920	135,871	-	51,402

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			
	2006	2005	2004	2003
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,227,034	2,230,236	2,387,053	2,262,917
Tuition	246,451	238,173	244,964	191,819
Other	278,939	206,636	174,671	250,406
State sources	2,132,425	2,001,669	1,802,142	1,950,602
Federal sources	302,767	259,519	276,718	137,701
Total revenues	<u>5,187,616</u>	<u>4,936,233</u>	<u>4,885,548</u>	<u>4,793,445</u>
Expenditures:				
Instruction:				
Regular instruction	1,769,689	1,846,735	1,754,209	1,580,270
Special instruction	427,012	490,293	531,211	536,099
Other instruction	403,151	200,160	217,482	222,643
Support services:				
Student services	97,475	97,235	100,084	96,093
Instructional staff services	116,141	122,843	98,800	109,221
Administration services	485,354	605,385	536,916	542,088
Operation and maintenance of plant services	384,718	335,493	380,176	376,119
Transportation services	261,357	365,048	168,773	166,973
Non-instructional programs	4,082	-	255	17,218
Other expenditures:				
Facilities acquisition	128,434	220,647	316,607	139,130
Long-term debt:				
Principal	265,000	255,000	259,307	248,128
Interest and other charges	363,776	232,898	245,553	257,657
AEA flowthrough	149,751	147,634	150,193	161,605
Total expenditures	<u>4,855,940</u>	<u>4,919,371</u>	<u>4,759,566</u>	<u>4,453,244</u>

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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, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 10, 2006. 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 06-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, 2006 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 10, 2006

River Valley Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

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, 2006

Part II: Other Findings Related to Statutory Reporting:

- 06-II-A Certified Budget: Expenditures for the year ended June 30, 2006, exceeded the amounts budgeted in the non-instructional programs and other expenditures functions.
- Recommendation: The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures 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.
- 06-II-B 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.
- 06-II-C Travel Expenses: No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- 06-II-D Business Transactions: No transactions between the District and District officials or employees were noted.
- 06-II-E Bond Coverage: Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of bond coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 06-II-F Board Minutes: We noted no transactions requiring Board approval that had not been approved by the Board.
- 06-II-G Certified Enrollment: We noted no variances in the basic enrollment data certified to the Department of Education.
- 06-II-H 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.
- 06-II-I Certified Annual Report (CAR): The audit field work was performed prior to the date the Certified Annual Report was certified to the Iowa Department of Education.