



**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2001**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Report of Independent Accountants .....	1
Combined Balance Sheet – All Fund Types and Account Groups .....	4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – All Governmental and Similar Fiduciary Fund Types .....	8
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual Comparison (Non-GAAP Budgetary Basis) – All Governmental and Similar Fiduciary Fund Types .....	10
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings/ Fund Balance – All Proprietary and Similar Fiduciary Fund Types .....	14
Combined Statement of Cash Flows – All Proprietary and Similar Fiduciary Fund Types .....	15
Notes to the General-Purpose Financial Statements .....	17
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> .....	43
Schedule of Findings .....	45

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STATE OF OHIO  
OFFICE OF THE AUDITOR  
JIM PETRO, AUDITOR OF STATE

One Government Center  
Room 1420  
Toledo, Ohio 43604-2246  
Telephone 419-245-2811  
800-443-9276  
Facsimile 419-245-2484  
www.auditor.state.oh.us

## REPORT OF INDEPENDENT ACCOUNTANTS

Danbury Local School District  
Ottawa County  
9451 East Harbor Road  
Lakeside Marblehead, Ohio 43440-1300

To the Board of Education:

We have audited the accompanying general-purpose financial statements of Danbury Local School District (the District) as of and for the year ended June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Danbury Local School District, Ottawa County, as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2002 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

**Jim Petro**  
Auditor of State

January 15, 2002

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**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**Combined Balance Sheet  
All Fund Types and Account Groups  
As of June 30, 2001**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b>ASSETS AND OTHER DEBITS</b>				
<b>Assets:</b>				
Equity in pooled cash and cash equivalents	\$2,258,223	\$120,195	\$1,372,242	\$43,849
Equity in pooled cash and cash equivalents - nonexpendable trust fund				
Investments				
Cash with fiscal agent		449		
Receivables:				
Taxes	4,985,581		698,041	
Accounts	2,912	133		
Accrued interest	5,755			
Interfund receivable	4,000			
Intergovernmental receivable		2,749		
Materials and supplies inventory				
Prepaid items	6,504			
Property plant and equipment (net of accumulated depreciation)				
Restricted Assets:				
Equity in pooled cash and cash equivalents	41,160			
<b>Other Debits:</b>				
Amount available in debt service fund				
Amount to be provided for retirement of general long-term obligations				
<b>Total Assets and Other Debits</b>	<b>\$7,304,135</b>	<b>\$123,526</b>	<b>\$2,070,283</b>	<b>\$43,849</b>



Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$45,083	\$429	\$41,992			\$3,882,013
		22,490			22,490
		76,547			76,547
					449
					5,683,622
13	4				3,062
		285			6,040
					4,000
602					3,351
1,839					1,839
					6,504
73,251			\$8,762,444		8,835,695
					41,160
				\$1,484,924	1,484,924
				2,523,983	2,523,983
<b>\$120,788</b>	<b>\$433</b>	<b>\$141,314</b>	<b>\$8,762,444</b>	<b>\$4,008,907</b>	<b>\$22,575,679</b>

(Continued)

**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**Combined Balance Sheet  
All Fund Types and Account Groups  
As of June 30, 2001  
(Continued)**

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<b>LIABILITIES, FUND EQUITY AND OTHER CREDITS</b>				
<b>Liabilities:</b>				
Accounts payable	\$50,669	\$461		
Accrued wages and benefits	403,369	6,549		
Compensated absences payable	6,644			
Pension obligation payable	76,949			
Interfund payable		4,000		
Deferred revenue	4,253,981		\$585,359	
Due to students				
General obligation bonds payable				
<b>Total Liabilities</b>	<u>4,791,612</u>	<u>11,010</u>	<u>585,359</u>	
<b>Fund Equity and Other Credits:</b>				
Investment in general fixed assets				
Contributed capital				
Retained earnings:				
Unreserved				
Fund balances:				
Reserved for encumbrances	1,039,896	49,856		\$12,000
Reserved for prepaid items	6,504			
Reserved for budget stabilization	41,160			
Reserved for property taxes unavailable for appropriation	731,600		112,682	
Reserved for endowment				
Unreserved, undesignated	693,363	62,660	1,372,242	31,849
<b>Total Fund Equity and Other Credits</b>	<u>2,512,523</u>	<u>112,516</u>	<u>1,484,924</u>	<u>43,849</u>
<b>Total Liabilities, Fund Equity and Other Credits</b>	<u><b>\$7,304,135</b></u>	<u><b>\$123,526</b></u>	<u><b>\$2,070,283</b></u>	<u><b>\$43,849</b></u>

*The notes to the general-purpose financial statements are an integral part of this statement.*

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$1,258					\$52,388
15,734					425,652
7,897				\$316,133	330,674
9,312				32,774	119,035
					4,000
173					4,839,513
		\$25,705			25,705
				3,660,000	3,660,000
34,374		25,705		4,008,907	9,456,967
			\$8,762,444		8,762,444
18,641					18,641
67,773	\$433				68,206
		7,098			1,108,850
					6,504
					41,160
		75,000			844,282
		33,511			75,000
					2,193,625
86,414	433	115,609	8,762,444		13,118,712
<b>\$120,788</b>	<b>\$433</b>	<b>\$141,314</b>	<b>\$8,762,444</b>	<b>\$4,008,907</b>	<b>\$22,575,679</b>

**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances  
All Governmental and Similar Fiduciary Fund Types  
For the Year Ended June 30, 2001**

	<u>Governmental Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>
<b>Revenues:</b>		
Taxes	\$4,689,857	
Interest	234,055	
Extracurricular activities	5,939	\$92,072
Intergovernmental-state	1,138,838	48,682
Intergovernmental-federal		103,758
Miscellaneous		9,859
Total Revenues	<u>6,068,689</u>	<u>254,371</u>
<b>Expenditures:</b>		
Instruction:		
Regular	2,652,022	
Special	404,194	45,432
Other	18,355	
Support services:		
Pupils	309,257	63,394
Instructional staff	203,976	34,955
Board of Education	54,413	
Administration	427,173	94
Fiscal	182,767	
Operation and maintenance of plant	724,465	
Pupil transportation	205,306	
Central	3,025	3,680
Community services		
Extracurricular activities	128,813	94,126
Facilities acquisition and construction	409,352	
Debt service		
Principal retirement		
Interest and fiscal charges		
Total Expenditures	<u>5,723,118</u>	<u>241,681</u>
Excess of Revenues Over (Under) Expenditures	<u>345,571</u>	<u>12,690</u>
<b>Other Financing Sources and Uses</b>		
Operating transfers out	<u>(91,731)</u>	
Total Other Financing Sources (Uses)	<u>(91,731)</u>	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	253,840	12,690
Fund Balance at Beginning of Year	<u>2,258,683</u>	<u>99,826</u>
<b>Fund Balance at End of Year</b>	<u><b>\$2,512,523</b></u>	<u><b>\$112,516</b></u>

*The notes to the general-purpose financial statements are an integral part of this statement.*

Governmental Fund Types		Fiduciary Fund Types	Totals (Memorandum Only)
Debt Service	Capital Projects	Expendable Trust	
\$656,127	\$36,438		\$5,382,422
			234,055
		11,935	109,946
71,062	21,995		1,280,577
			103,758
			9,859
727,189	58,433	11,935	7,120,617
			2,652,022
			449,626
			18,355
			372,651
		640	239,571
			54,413
			427,267
11,965	908		195,640
			724,465
			205,306
			6,705
		\$3,390	3,390
			222,939
	50,649		460,001
145,000			145,000
202,420			202,420
359,385	51,557	4,030	6,379,771
367,804	6,876	7,905	740,846
			(91,731)
			(91,731)
367,804	6,876	7,905	649,115
1,117,120	36,973	\$8,382	3,520,984
<b>\$1,484,924</b>	<b>\$43,849</b>	<b>\$16,287</b>	<b>\$4,170,099</b>

**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual Comparison (Non-GAAP Budgetary Basis)  
All Governmental and Similar Fiduciary Fund Types  
For the Year Ended June 30, 2001**

	<b>General</b>		<b>Variance: Favorable (Unfavorable)</b>
	<b>Budget</b>	<b>Actual</b>	
<b>Revenues:</b>			
Taxes	\$4,367,733	\$4,416,074	\$48,341
Interest	231,666	234,230	2,564
Extracurricular activities	5,831	5,896	65
Miscellaneous revenues			
Intergovernmental - state	1,126,373	1,138,839	12,466
Intergovernmental - federal			
Total Revenues	5,731,603	5,795,039	63,436
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	\$2,860,486	2,778,161	82,325
Special	448,415	417,442	30,973
Other	20,000	18,355	1,645
Support services:			
Pupils	369,366	312,795	56,571
Instructional staff	273,837	211,597	62,240
Board of Education	63,326	54,803	8,523
Administration	561,877	444,728	117,149
Fiscal	222,593	190,447	32,146
Operation and maintenance	831,887	754,028	77,859
Pupil transportation	303,654	262,074	41,580
Central	5,000	3,025	1,975
Extracurricular activities	149,275	121,648	27,627
Facilities acquisition and construction	1,254,273	1,198,150	56,123
Debt service:			
Principal retirement			
Interest and fiscal charges			
Total Expenditures	7,363,989	6,767,253	596,736
Excess of Revenues Over (Under) Expenditures	(1,632,386)	(972,214)	660,172
<b>Other Financing Sources and Uses</b>			
Advances in	33,519	33,890	371
Refund of prior year expenditures	16,699	16,884	185
Operating transfers out	(200,000)	(98,731)	101,269
Advances out	(100,000)	(4,000)	96,000
Total Other Financing Sources (Uses)	(249,782)	(51,957)	197,825
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,882,168)	(1,024,171)	857,997
Fund Balances at Beginning of Year	1,933,115	1,933,115	
Prior Year Encumbrances Appropriated	299,874	299,874	
<b>Fund Balance at end of Year</b>	<b>\$350,821</b>	<b>\$1,208,818</b>	<b>\$857,997</b>

*The notes to the general-purpose financial statements are an integral part of this statement.*

Special Revenue			Debt Service		
Budget	Actual	Variance: Favorable (Unfavorable)	Budget	Actual	Variance: Favorable (Unfavorable)
			\$614,167	\$614,167	
91,800	92,070	270			
9,830	9,859	29			
48,539	48,682	143	\$71,062	71,062	
97,834	98,122	288			
<u>248,003</u>	<u>248,733</u>	<u>730</u>	<u>685,229</u>	<u>685,229</u>	
13,887	1,939	11,948			
45,451	45,451				
81,345	76,919	4,426			
55,283	50,590	4,693			
400	196	204			
5,241	5,241		15,000	11,965	3,035
4,951	3,678	1,273			
116,612	100,376	16,236			
			145,000	145,000	
			225,000	202,420	22,580
<u>323,170</u>	<u>284,390</u>	<u>38,780</u>	<u>385,000</u>	<u>359,385</u>	<u>25,615</u>
<u>(75,167)</u>	<u>(35,657)</u>	<u>39,510</u>	<u>300,229</u>	<u>325,844</u>	<u>25,615</u>
3,988	4,000	12			
1,983	1,989	6			
<u>5,971</u>	<u>5,989</u>	<u>18</u>			
(69,196)	(29,668)	39,528	300,229	325,844	25,615
88,587	88,587		1,046,398	1,046,398	
10,959	10,959				
<u><b>\$30,350</b></u>	<u><b>\$69,878</b></u>	<u><b>\$39,528</b></u>	<u><b>\$1,346,627</b></u>	<u><b>\$1,372,242</b></u>	<u><b>\$25,615</b></u>

(Continued)

**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual Comparison (Non-GAAP Budgetary Basis)  
All Governmental and Similar Fiduciary Fund Types  
For the Year Ended June 30, 2001  
(Continued)**

	<b>Capital Projects</b>		<b>Variance: Favorable (Unfavorable)</b>
	<b>Budget</b>	<b>Actual</b>	
<b>Revenues:</b>			
Taxes	\$42,456	\$42,456	
Interest			
Extracurricular activities			
Miscellaneous revenues			
Intergovernmental - state	21,995	21,995	
Intergovernmental - federal			
Total Revenues	64,451	64,451	
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular			
Special			
Other			
Support services:			
Pupils			
Instructional staff	12,000	12,000	
Board of Education			
Administration			
Fiscal	1,500	908	592
Operation and maintenance			
Pupil transportation			
Central			
Extracurricular activities			
Facilities acquisition and construction	76,307	50,649	25,658
Debt service:			
Principal retirement			
Interest and fiscal charges			
Total Expenditures	89,807	63,557	26,250
Excess of Revenues Over (Under) Expenditures	(25,356)	894	26,250
<b>Other Financing Sources and Uses</b>			
Advances in			
Refund of prior year expenditures			
Operating transfers out			
Advances out	(31,890)	(31,890)	
Total Other Financing Sources (Uses)	(31,890)	(31,890)	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(57,246)	(30,996)	26,250
Fund Balances at Beginning of Year	11,181	11,181	
Prior Year Encumbrances Appropriated	51,664	51,664	
<b>Fund Balance at end of Year</b>	<b>\$5,599</b>	<b>\$31,849</b>	<b>\$26,250</b>

*The notes to the general-purpose financial statements are an integral part of this statement.*



**Totals (Memorandum Only)**

<b>Budget</b>	<b>Actual</b>	<b>Variance: Favorable (Unfavorable)</b>
\$5,024,356	\$5,072,697	\$48,341
231,666	234,230	2,564
97,631	97,966	335
9,830	9,859	29
1,267,969	1,280,578	12,609
97,834	98,122	288
6,729,286	6,793,452	64,166
2,874,373	2,780,100	94,273
493,866	462,893	30,973
20,000	18,355	1,645
450,711	389,714	60,997
341,120	274,187	66,933
63,326	54,803	8,523
562,277	444,924	117,353
239,093	203,320	35,773
837,128	759,269	77,859
303,654	262,074	41,580
9,951	6,703	3,248
265,887	222,024	43,863
1,330,580	1,248,799	81,781
145,000	145,000	
225,000	202,420	22,580
8,161,966	7,474,585	687,381
(1,432,680)	(681,133)	751,547
37,507	37,890	383
18,682	18,873	191
(200,000)	(98,731)	101,269
(131,890)	(35,890)	96,000
(275,701)	(77,858)	197,843
(1,708,381)	(758,991)	949,390
3,079,281	3,079,281	
362,497	362,497	
<b>\$1,733,397</b>	<b>\$2,682,787</b>	<b>\$949,390</b>

**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balance  
All Proprietary and Similar Fiduciary Fund Types  
For the Year Ended June 30, 2001**

	<b>Proprietary Fund Types</b>		<b>Fiduciary Fund Types</b>	<b>Totals (Memorandum Only)</b>
	<b>Enterprise</b>	<b>Internal Service</b>	<b>Nonexpendable Trust</b>	
<b>Operating revenues:</b>				
Sales/charges for services	\$136,166	\$3,954		\$140,120
Tuition and fees	35,768			35,768
Interest			\$7,792	7,792
<b>Total operating revenues</b>	<b>171,934</b>	<b>3,954</b>	<b>7,792</b>	<b>183,680</b>
<b>Operating expenses</b>				
Personal services	140,053			140,053
Contract services	14,755	3,820		18,575
Materials and supplies	112,601			112,601
Capital outlay	12,498			12,498
Depreciation	4,868			4,868
Other operating expenses	327		2,500	2,827
<b>Total operating expenses</b>	<b>285,102</b>	<b>3,820</b>	<b>2,500</b>	<b>291,422</b>
Operating loss	(113,168)	134	5,292	(107,742)
<b>Non-operating revenues and expenses</b>				
Federal donated commodities	4,582			4,582
Federal and state subsidies	33,765			33,765
Other	6			6
<b>Total non-operating revenues and expenses</b>	<b>38,353</b>			<b>38,353</b>
Income (loss) before operating transfers in	(74,815)	134	5,292	(69,389)
Operating transfers in	91,731			91,731
Net income	16,916	134	5,292	22,342
Retained earnings/fund balance at beginning of year	50,857	299	94,030	145,186
<b>Retained earnings/fund balance at end of year</b>	<b>\$67,773</b>	<b>\$433</b>	<b>\$99,322</b>	<b>\$167,528</b>

*The notes to the general-purpose financial statements are an integral part of this statement.*

**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**Combined Statement of Cash Flows  
All Proprietary and Similar Fiduciary Fund Types  
For the Year Ended June 30, 2001**

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<b>Totals (Memorandum Only)</b>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Nonexpendable Trust</u>	
<b>Increase (Decrease) in Cash and Cash Equivalents</b>				
<u>Cash Flows from Operating Activities:</u>				
Cash received from sales	\$136,153	\$3,954		\$140,107
Cash received from tuition and fees	35,768			35,768
Cash payments for materials and supplies	(119,036)			(119,036)
Cash payments for contract services	(15,069)	(3,824)		(18,893)
Cash payments for personal services	(135,419)			(135,419)
Cash payments for other	(327)		(\$6,500)	(6,827)
Net Cash Used by Operating Activities	<u>(97,930)</u>	<u>130</u>	<u>(6,500)</u>	<u>(104,300)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>				
Operating grants received	33,592			33,592
Transfers in from other funds	91,731			91,731
Other noncapital received	6			6
Net Cash Provided by Noncapital Financing Activities	<u>125,329</u>			<u>125,329</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>				
Acquisition of capital assets	(19,111)			(19,111)
<u>Cash Flows from Investing Activities:</u>				
Interest received			5,468	5,468
Net Increase (decrease) in cash and cash equivalents	8,288	130	(1,032)	7,386
Cash and Cash Equivalents at Beginning of Year	36,795	299	\$23,522	60,616
<b>Cash and Cash Equivalents at End of Year</b>	<b><u>\$45,083</u></b>	<b><u>\$429</u></b>	<b><u>\$22,490</u></b>	<b><u>\$68,002</u></b>
<b>Reconciliation of Operating Loss to Net Cash Used by Operating Activities:</b>				
Operating loss	(\$113,168)	\$134	\$5,292	(\$107,742)
<u>Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:</u>				
Depreciation	4,868			4,868
Donated commodities used during the year	4,582			4,582
Interest reported as operating income			(7,792)	(7,792)
(Increase) decrease in assets:				
Accounts receivable	(13)	(4)		(17)
Material and supplies inventory	1,124			1,124
Increase (decrease) in liabilities:				
Compensated absences payable	1,224			1,224
Due to other governments	(122)			(122)
Deferred revenue	(612)			(612)
Pension obligation payable	1,437			1,437
Accrued wages and benefits	1,973			1,973
Accounts payable	777		(4,000)	(3,223)
Total Adjustments	<u>15,238</u>	<u>(4)</u>	<u>(11,792)</u>	<u>3,442</u>
<b>Net Cash Used by Operating Activities</b>	<b><u>(\$97,930)</u></b>	<b><u>\$130</u></b>	<b><u>(\$6,500)</u></b>	<b><u>(\$104,300)</u></b>

*The notes to the general-purpose financial statements are an integral part of this statement.*

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**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001**

**1. DESCRIPTION OF THE SCHOOL DISTRICT**

Danbury Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The District is organized in accordance with Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws, there is no authority for a school district to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms.

The District currently operates one elementary school, one middle school and one comprehensive high school. The District employs 30 non-certified and 51 certified (including administrative) full-time and part-time employees to provide services to approximately 631 students in grades K through 12 and various community groups. The District ranks 584<sup>th</sup> of the 682 public and community school districts in Ohio and is the fourth largest of the seven districts in Ottawa County.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

The District's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". When applying GASB Statement No. 14, management has considered all potential component units. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the Board's ability to exercise significant oversight responsibility. The most significant manifestation of this ability is financial interdependence. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of the governing authority, the designation of management, the ability to significantly influence operations, and the accountability for fiscal matters.

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the District and/or its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units. The following organizations are described due to their relationship with the District:

**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

*JOINTLY GOVERNED ORGANIZATIONS*

*Northern Ohio Educational Computer Association (NOECA)*

The District is a participant in the Northern Ohio Educational Computer Association (NOECA), which is a computer consortium. NOECA is an association of 41 public school districts formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees, and a representative from the fiscal agent. Financial information can be obtained from Betty Schwiefert, who serves as Controller, 2900 South Columbus Avenue, Sandusky, Ohio 44870. The District paid \$16,227 to NOECA during fiscal year 2001.

*EHOVE Joint Vocational School*

The vocational school district is a separate body politic and corporate, established by the Ohio Revised Code (ORC) to provide vocational and special education needs of the students. The school accepts non-tuition students from the District as a member school, however, it is considered a separate political subdivision and is not considered to be part of the District.

*PUBLIC ENTITY RISK POOLS*

*Ohio School Boards Association Workers' Compensation Group Rating Plan*

The District participates in a group rating plan for workers' compensation as established under § 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the Plan) was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

*The San-Ott School Employees Welfare Benefit Association*

The District participates in a shared risk pool for health care benefits, with participants from Sandusky and Ottawa counties. The Council is governed by an assembly which consists of one representative from each participant (usually the superintendent or designee). The assembly exercises control over the operation of the consortium. All consortium revenues are generated from charges for services. Financial information can be obtained by writing to San-Ott Consortium, Jay Valasek, Treasurer of Vanguard-Sentinel Vocational Schools, at 1306 Cedar Street, Fremont, Ohio 43420.

**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**B. Fund Accounting**

The District uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

*GOVERNMENTAL FUNDS*

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the District's governmental fund types:

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

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition of construction of major capital facilities (other than those financed by proprietary funds).

*PROPRIETARY FUNDS*

Proprietary funds are used to account for the District's ongoing activities, which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following is the District's proprietary fund types:

Enterprise Funds - The enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

*Internal Service Fund* - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis.

*FIDUCIARY FUNDS*

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include a nonexpendable trust fund, an expendable trust fund and an agency fund. The nonexpendable trust fund is accounted for in the same manner as proprietary funds. The expendable trust fund is accounted for in the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency fund is presented on a budget basis, with note disclosure, regarding items, which, in other fund types, would be subject to accrual. See Note 3.D. for agency fund accruals which, in other fund types, would be recognized in the combined balance sheet.

*ACCOUNT GROUPS*

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of general nature, the following account groups are used.

*General Fixed Assets Account Group* - This group of accounts is established to account for all fixed assets of the District, other than those accounted for in the proprietary or trust funds.

*General Long-Term Obligations Account Group* - This group of accounts is established to account for all long-term obligations of the District, other than those accounted for in the proprietary funds.

**C. Measurement Focus/Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and the expendable trust fund are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All proprietary funds and the nonexpendable trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The modified accrual basis of accounting is followed by Governmental funds and Expendable Trust funds.



**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the modified accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied and the resources are available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met and the resources are available.

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

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the recognition of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exception: general long-term obligation principal and interest are reported only when due; and costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The proprietary funds and the nonexpendable trust fund are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense and a like amount is reported as donated commodities revenue.

On the accrual basis of accounting, revenue from nonexchange transactions, such as grants, entitlements and donations, is recognized in the fiscal year in which all eligibility requirements have been met. The proprietary funds receive no revenue from property taxes.

**D. Budgets**

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2001 is as follows:

**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Ottawa County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2001.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. Supplemental appropriations were legally enacted by the Board during fiscal 2001; however, none of these amendments were significant. The budget figures which appear in the statements of budgetary comparisons represent the permanent appropriation amounts plus all supplemental appropriations legally enacted during the year.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus

**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year-end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 15 provides a reconciliation of the budgetary and GAAP basis of accounting and Note 12 discloses encumbrances outstanding for the enterprise funds at fiscal year-end.

**E. Cash and Investments**

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" and "Investments" on the combined balance sheet.

During fiscal year 2001, investments were limited to federal agency securities, nonnegotiable certificates of deposit and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2001.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal 2001 amounted to \$234,055, which includes \$95,128 assigned from other District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the Treasurer's investment account at year-end is provided in Note 4.

**F. Inventory**

Inventories of proprietary funds are valued at the lower of cost (first-in/first-out method) or market and expensed when used rather than when purchased.

**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**G. Fixed Assets and Depreciation**

1. General Fixed Assets Account Group

General fixed assets are capitalized at cost or estimated historical cost. Donated fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$500. No depreciation is recognized for assets in the general fixed assets account group. The District has not included infrastructure in the general fixed assets account group. Interest incurred during the construction of general fixed assets is also not capitalized.

2. Proprietary Funds

Equipment reflected in these funds are stated at historical cost or estimated historical cost and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives:

<u>Asset</u>	<u>Life (years)</u>
Furniture, fixtures and equipment	15-20

**H. Intergovernmental Revenues**

In governmental funds, entitlements and non-reimbursable grants (to the extent such grants and entitlements relate to the current fiscal year) are recorded as receivables and revenue when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants and entitlements for proprietary fund operations are recognized as non-operating revenue when measurable and earned. The District currently participates in various state and federal programs categorized as follows:

Entitlements

General Fund  
State Foundation Program

Reimbursable Grants

Proprietary Funds  
National School Lunch Program  
National School Milk Program

Non-Reimbursable Grants

Special Revenue Funds  
Career Development  
Teacher Development

**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

Raising the Bar Grant  
Management Information Systems  
Title VI-B  
Title I  
Title VI  
Drug Free Grant  
School Net Professional Development  
Ohio Reads  
Safe Schools Helpline  
Title VI-R  
Data Communications  
Eisenhower Grant

Capital Projects Funds  
Permanent Improvement  
SchoolNet

Proprietary Funds  
Food Distribution Program

Grants and entitlements amounted to approximately 19% of the District's operating revenue during the 2001 fiscal year.

**I. Compensated Absences**

Compensated absences of the District consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service and all employees with at least 20 years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

Accumulated vacation and severance of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The

**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

balance of the liability is recorded in the general long-term obligations account group. Vacation and sick leave for employees meeting the above requirements who are paid from proprietary funds is recorded as an expense when earned.

**J. Long-Term Obligations**

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term obligations account group.

Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

**K. Fund Balance Reserves/Designations**

Reserved fund balances indicate that portion of fund equity, which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, prepayments, tax revenue unavailable for appropriation, principal endowment and budget stabilization. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

**L. Contributed Capital**

Contributed capital represents resources from other funds, other governments, and private sources provided to proprietary funds that is not subject to repayment. These assets are recorded at their fair market value on the date donated. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year-end.

**M. Interfund Transactions**

During the course of normal operations, the District may have numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Quasi-external transactions are accounted for as revenues, expenditures or expenses.
3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as "interfund loans receivable or payable". The District had short-term interfund loans receivable and payable at June 30, 2001.

**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

4. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The District had no long-term advances receivable or payable at June 30, 2001.

An analysis of interfund transactions is presented in Note 5.

**N. Restricted Assets**

Restricted assets in the general fund represent cash whose use is restricted by State statute. A fund balance reserve has also been established. See Note 17 for details.

**O. Estimates**

The preparation of the GPFS in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the GPFS and accompanying notes. Actual results may differ from those estimates.

**P. Prepayments**

Prepayments for governmental funds represent cash disbursements, which have occurred and are, therefore, not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefitting from the advance payment. At year-end, since prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

**Q. Other Local Revenues**

Other local revenues reported in the governmental funds and expendable trust fund represents revenues received from extracurricular activities, classroom materials and fees, contributions and donations and all other local sources not classified elsewhere.

**R. Memorandum Only - Total Columns**

Total columns on the GPFS are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**3. ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principle**

GASB Statements No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," and No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues," were implemented during fiscal 2001. These statements pertain to the financial reporting of certain types of revenue

**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

received by the District for which no value is given in return, including derived tax revenues, imposed nonexchange transactions, government-mandated nonexchange transactions, and voluntary nonexchange transactions. The adoption of this statement had no effect on fund balances or retained earnings as previously reported by the District at June 30, 2000.

**B. Prior Period Adjustment**

The prior year, the District "advanced" monies from the general fund to various other funds to subsidize their activities. These "advances" should be reclassified as "operating transfers" since they are not subject to repayment. The effect of this adjustment on fund balances/retained earnings, as previously reported, is as follows:

	<u>General</u>	<u>Capital Projects</u>	<u>Enterprise</u>
Excess of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses	\$218,504	(\$110,704)	
Net income for the year ended June 30, 2000			\$8,216
Adjustment	<u>(50,319)</u>	<u>44,819</u>	<u>2,000</u>
Restated for the year ended June 30, 2000	<u>\$168,185</u>	<u>(\$65,885)</u>	<u>\$10,216</u>

	<u>General</u>	<u>Capital Projects</u>	<u>Enterprise</u>
Fund balance (accumulated deficit)/retained earnings, as previously reported	\$2,309,002	(\$7,846)	\$48,857
Restatement for advances	<u>(50,319)</u>	<u>44,819</u>	<u>2,000</u>
Fund balance/retained earnings as of July 1, 2000	<u>\$2,258,683</u>	<u>\$36,973</u>	<u>\$50,857</u>

**C. Deficit Fund Balance**

The following fund had a deficit fund balance at June 30, 2001:



**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

<u>Special Revenue Fund</u>	<u>Deficit Balance</u>
Title I	\$127

This fund complied with Ohio state law, which does not permit a cash basis deficit at year-end. The deficit fund balance in the Title I special revenue fund is a result of accruing wage obligations in accordance with GAAP. This deficit will be eliminated by revenues not recognized at June 30.

**D. Agency Fund**

The following are accruals for the agency fund, which, in another fund type, would be recognized in the combined balance sheet:

<u>ASSETS</u>	
Accounts receivable	\$262
 <u>LIABILITIES</u>	
Accounts payable	\$ 25

**4. EQUITY IN POOLED CASH AND INVESTMENTS**

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents" and "Investments". Statutes require the classification of monies held by the District into three categories:

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

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

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

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

**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

*Cash on hand:* At fiscal year-end, the District had \$1,670 in undeposited cash on hand, which is included on the combined balance sheet of the District as part of "Equity in Pooled Cash and Cash Equivalents."

*Cash with fiscal agent:* The District had \$449 in cash held by the Erie-Ottawa-Huron Educational Service Center, which is included on the combined balance sheet as "Cash with Fiscal Agent". The money is held in a pooled amount which is representative of numerous entities and therefore cannot be classified by risk under GASB Statement No. 3.

**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

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

*Deposits:* At year-end, the carrying amount of the District's deposits, including non-negotiable certificates of deposit, was \$229,405, and the bank balance, including non-negotiable certificates of deposit, was \$372,477. Of the bank balance:

1. \$200,000 was covered by federal depository insurance.
2. \$172,477 was covered by collateral held by a qualified third party trustee in the name of the District. Although the securities serving as collateral were held by the pledging financial institution's trust department in the District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

Collateral is required for demand deposits and certificates of deposits in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

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

	<u>Category 2</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Federal Agency Securities	<u>\$76,547</u>	\$ 76,547	\$ 76,547
Investment in STAR Ohio		<u>3,714,588</u>	<u>3,714,588</u>
Total		<u>\$3,791,135</u>	<u>\$3,791,135</u>

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9 entitled, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classifications of cash and cash equivalents and investments on the combined balance sheet and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 3,946,112	\$ 76,547
Investments of the cash management pool:		
Investment in STAR Ohio	(3,714,588)	3,714,588
Cash with fiscal agent	(449)	
Cash on hand	(1,670)	
GASB Statement No. 3	\$ 229,405	\$3,791,135

**5. INTERFUND TRANSACTIONS**

A. The following is a summarized breakdown of the District's operating transfers for fiscal year 2001:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund		\$91,731
<u>Enterprise Funds</u>		
Food Service	\$70,000	
Uniform School Supply	2,000	
Adult Education	19,731	
Total	\$91,731	\$91,731

B. Interfund balances at June 30, 2001, consist of the following individual interfund loans receivable and payable:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$4,000	
<u>Special Revenue Fund</u>		
District Managed Activities	_____	\$4,000
Total	\$4,000	\$4,000

**6. PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District. Real property taxes and public utility taxes are levied after November 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35% of appraised market value.

**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35% of market value and personal property is assessed at 100% of market value, except for the personal property of rural electric companies, which is assessed 50% of market and railroads, which are assessed at 29%.

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The assessed value upon which the 2000 taxes were collected was \$235,702,801. Agricultural/residential and public utility/minerals real estate represented 77.36% or \$182,345,650 of this total; Commercial & industrial real estate represented 15.14% or \$35,678,880 of this total, public utility tangible represented 4.18% or \$9,842,480 of this total and general tangible property represented 3.32% or \$7,835,791 of this total. The voted general tax rate at the fiscal year ended June 30, 2001 was \$43.40 per \$1,000.00 of assessed valuation for operations and \$3.10 per \$1,000.00 of assessed valuation for debt service.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20.

The District receives property taxes from Ottawa County. The County Treasurer collects property taxes on behalf of the District. The County Auditor periodically remits to the District its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes, which became measurable as of June 30, 2001. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue. A total of \$844,282 was available to the District as an advance at June 30 and is recognized as revenue.

Taxes available for advance and recognized as revenue, but not received by the district prior to June 30, 2001, are reflected as a reservation of fund balance for future appropriations. The District is prohibited, by law, from appropriating this revenue in accordance with Ohio Revised Code § 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end.

**7. RECEIVABLES**

Receivables at June 30, 2001, consisted of taxes, accounts (billings for user charged services and student fees), interfund loans, accrued interest, and intergovernmental grants and entitlements (to the extent such grants and entitlements relate to the current fiscal year). Intergovernmental receivables have been reported as "due from other governments" on the combined balance sheet. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of Federal funds.

**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

A summary of the principal items of receivables follows:

	<u>Amounts</u>
<u>General Fund</u>	
Taxes - current and delinquent	\$4,985,581
Accounts	2,912
Accrued interest	5,755
Interfund loan	4,000
 <u>Special Revenue Funds</u>	
Accounts	133
Due from other governments	2,749
<u>Debt Service Fund</u>	
Taxes - current and delinquent	698,041
 <u>Enterprise Funds</u>	
Due from other governments	602

**8. FIXED ASSETS**

A summary of the changes in the general fixed assets account group during the fiscal year follows:

	<u>Balance</u> <u>July 1, 2000</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2001</u>
Land/ improvements	\$ 537,871	\$ 87,335		\$ 625,206
Buildings/ improvements	6,667,394	137,530		6,804,924
Furniture/ equipment	821,019	114,806		935,825
Vehicles	<u>343,493</u>	<u>52,996</u>	<u>          </u>	<u>396,489</u>
Total	<u>\$8,369,777</u>	<u>\$ 392,667</u>	<u>          </u>	<u>\$8,762,444</u>

There was no significant construction in progress at June 30, 2001.

A summary of the proprietary fixed assets at June 30, 2001 follows:

Furniture and equipment	\$128,972
Less: accumulated depreciation	<u>(55,721)</u>
Net fixed assets	<u>\$ 73,251</u>

**9. CHANGES IN CONTRIBUTED CAPITAL**

Changes in contributed capital for the year ended June 30, 2001 are summarized by source as follows:

**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

	<u>Food Service</u>
Contributed capital, July 1, 2000	\$18,641
Current contributions	_____
Contributed capital, June 30, 2001	<u>\$18,641</u>

**10. LONG-TERM OBLIGATIONS**

- A.** All current obligation bonds outstanding, issued to provide funds for the acquisition and construction of equipment and facilities, are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the general long-term obligations account group. Payments of principal and interest relating to these liabilities are recorded as expenditures in the debt service fund. The source of payment is derived from a current 3.1 mill bonded debt tax levy.

The following is a description of the District's bonds outstanding as of June 30, 2001:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Bonds Outstanding July 1, 2000</u>	<u>Retired in 2001</u>	<u>Bonds Outstanding June 30, 2001</u>
School Improvement Bond	5.48%	07/01/93	12/01/16	<u>\$3,805,000</u>	<u>\$(145,000)</u>	<u>\$3,660,000</u>

- B.** The following is a summary of the District's future annual debt service requirements to maturity for the general obligation bonds:

<u>Year Ending June 30,</u>	<u>Principal on Bonds</u>	<u>Interest on Bonds</u>	<u>Total</u>
2002	\$ 150,000	\$ 195,928	\$ 345,928
2003	160,000	188,833	348,833
2004	165,000	181,111	346,111
2005	175,000	172,735	347,735
2006	185,000	163,596	348,596
2007 - 2011	1,080,000	651,339	1,731,339
2012 - 2016	1,415,000	301,853	1,716,853
2017	<u>330,000</u>	<u>9,323</u>	<u>339,323</u>
Total	<u>\$3,660,000</u>	<u>\$1,864,718</u>	<u>\$5,524,718</u>

During the year ended June 30, 2001, the following changes occurred in the liabilities reported in the general long-term obligations account group. Compensated absences are presented net of actual increases and decreases due to the practicality of determining these values. Compensated absences and the pension obligation payable will be paid from the fund in which the employee was paid.

**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

	<u>Balance</u> <u>July 1, 2000</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2001</u>
Compensated absences	\$ 275,019	\$41,114		\$ 316,133
Pension obligation payable	30,895	32,774	\$ (30,895)	32,774
Bonds payable	<u>3,805,000</u>	<u>          </u>	<u>(145,000)</u>	<u>3,660,000</u>
Total	<u>\$4,110,914</u>	<u>\$73,888</u>	<u>\$(175,895)</u>	<u>\$4,008,907</u>

**D. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 2001 are a voted debt margin of \$19,038,176 (including available funds of \$1,484,924) and an unvoted debt margin of \$235,703.

**11. RISK MANAGEMENT**

**A. Comprehensive**

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents, boiler/machinery and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are 90% coinsured. The following is a description of the District's insurance coverage:

<u>Coverage</u>	<u>Insurer</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability:	Harcum-Hyre		
Each occurrence		\$ 1,000,000	\$ 0
Aggregate		\$ 5,000,000	\$ 0
Property	Utica Insurance Co.	\$13,389,834	\$1,000
Fleet:	Nationwide/		
Comprehensive	Harcum-Hyre	\$ 1,000,000	\$1,000
	Collision	\$ 1,000,000	\$1,000
Umbrella liability:	Harcum-Hyre	\$ 2,000,000	\$ 0

Settled claims have not exceeded this coverage in any of the past three years and there has not been a significant reduction in coverage from the prior year.

**B. OSBA Group Workers Compensation Rating Program**

For fiscal year 2001, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent



**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

**C. Group Health Insurance**

The District has joined together with other school districts in the area to form the San-Ott Schools Employee Welfare Benefit Association, whose purpose is to provide health coverage and benefits to and for the eligible employees of Association members and their dependents. The District pays premiums to the Association based upon the benefits structure selected. The Association Trust Agreement provides that the Association will be self-sustaining through member premiums and will reinsure through commercial companies for specific claims in excess of \$100,000 and aggregate claims in excess of 120% of expected claims.

**12. SEGMENT INFORMATION - ENTERPRISE FUNDS**

The District maintains three enterprise funds to account for the operations of food service, uniform school supplies and adult education. The table below reflects, in a summarized format, the more significant financial data relating to the enterprise funds of the District as of and for the year ended June 30, 2001.

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Adult Education</u>	<u>Total</u>
Operating revenue	\$ 136,166	\$ 23,626	\$ 12,142	\$171,934
Operating expenses				
before depreciation	226,410	21,114	32,710	280,234
Depreciation	4,868			4,868
Operating income (loss)	(95,112)	2,512	(20,568)	(113,168)
Operating grants	33,765			33,765
Federal commodities	4,582			4,582
Net income (loss)	13,235	4,512	(831)	16,916
Net working capital	(3,141)	18,291	8,313	23,463
Fixed asset additions	19,111			19,111
Total assets	89,309	18,564	12,915	120,788
Total liabilities	27,872	273	6,229	34,374
Contributed capital	18,641			18,641
Total equity	61,437	18,291	6,686	86,414
Encumbrances at 6/30/01	12,817	16,574	243	29,634

**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**13. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634, or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute 14% for 2001; 4.2% was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2001, 2000 and 1999 were \$117,720, \$114,957, and \$104,364, respectively; 58.31% has been contributed for fiscal year 2001, and 100% for the fiscal years 2000 and 1999. \$49,080, representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds and the general long-term obligations account group.

**B. State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, or by calling (614) 227-4090.

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute 14%; 9.5% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The District's required contributions to STRS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$447,365, \$414,927, and \$377,610, respectively; 85.93% has been contributed for fiscal year 2001 and 100% for the fiscal years 2000 and 1999. \$62,923, representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds.

**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. The District's liability is 6.2% of wages paid.

**14. POSTEMPLOYMENT BENEFITS**

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the Board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$143,796 during fiscal 2001.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.419 billion at June 30, 2000 (the latest information available). For the year ended June 30, 2000 (the latest information available), net health care costs paid by STRS were \$283.137 million and STRS had 99,011 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

For this fiscal year, employer contributions to fund health care benefits were 9.8% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2000 (the latest information available), were \$140.7 million and the target level was \$211.0 million. At June 30, 2000 (the latest information available), SERS had net assets available for payment of health care benefits of \$252.3 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$86,406 during the 2001 fiscal year.

**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**15. BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance is done on a GAAP basis, the budgetary basis, as provided by law, is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

	Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Budget basis	\$(1,024,171)	\$(29,668)	\$325,844	\$(30,996)
Net adjustment for revenue accruals	273,650	5,638	41,960	(6,018)
Net adjustment for expenditure accruals	(46,430)	(7,608)		
Net adjustment for other financing sources (uses)	(39,774)	(5,989)		31,890
Encumbrances (budget basis)	<u>1,090,565</u>	<u>50,317</u>	<u>          </u>	<u>12,000</u>
GAAP basis	<u>\$ 253,840</u>	<u>\$ 12,690</u>	<u>\$367,804</u>	<u>\$ 6,876</u>

**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**16. CONTINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds; however, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2001.

**B. Litigation**

The District is not currently a party to any legal proceedings.

**C. School Funding Decision**

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of January 15, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the District is unable to determine the effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**17. STATUTORY RESERVES**

The District is required by State law to set-aside certain general fund revenue amounts, as defined by Statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2001, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside balance as of June 30, 2000	\$ (12)		\$ 64,966
Current year set-aside requirement	127,755	\$127,755	
Legislative deduction			(23,806)
Current year offsets		(40,496)	
Qualifying disbursements	<u>(148,725)</u>	<u>(292,448)</u>	<u>          </u>
Total	<u>\$ (20,982)</u>	<u>\$(205,189)</u>	<u>\$ 41,160</u>
Balance carried forward to FY 2002	<u>\$ (20,982)</u>	<u>          </u>	<u>\$ 41,160</u>
Cash balance carried forward to FY 2002			<u>\$ 41,160</u>

Effective April 10, 2001, Am. Sub. Senate Bill 345 amended Ohio Revised Code Section 5705.29, effectively eliminating the requirement for the District to establish and maintain a budget stabilization reserve. Monies representing Bureau of Workers Compensation (BWC) refunds that were received prior to April 10, 2001, have been shown as a restricted asset and reserved fund balance in the general fund since allowable expenditures are restricted by State statute. All remaining monies previously reported in the budget stabilization reserve are now reported as unreserved and undesignated fund balance in the general fund. The District is still required by state law to maintain the textbook reserve and capital acquisition reserve.

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amount below zero for the capital acquisition reserve, this extra amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

A schedule of the restricted assets at June 30, 2001 follows:

Amount restricted for Budget Stabilization	<u>\$41,160</u>
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**18. SIGNIFICANT SUBSEQUENT EVENT**

Effective July 1, 2001, the District is offering a \$15,000 one-time cash payment early retirement incentive. This early retirement incentive is available to employees who become eligible to retire and retire in the first year of eligibility. Employees eligible to retire during the fiscal year 2002 school year that plan to take advantage of the early retirement incentive must notify the District on or before July 1, 2001.



STATE OF OHIO  
OFFICE OF THE AUDITOR  
JIM PETRO, AUDITOR OF STATE

One Government Center  
Room 1420  
Toledo, Ohio 43604-2246  
Telephone 419-245-2811  
800-443-9276  
Facsimile 419-245-2484  
www.auditor.state.oh.us

**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL  
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Danbury Local School District  
Ottawa County  
9451 East Harbor Road  
Lakeside Marblehead, Ohio 43440-1300

To the Board of Education:

We have audited the financial statements of Danbury Local School District (the District) as of and for the year ended June 30, 2001, and have issued our report thereon dated January 15, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance 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 noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the District in a separate letter dated January 15, 2002.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. A reportable condition involves 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. The reportable condition is described in the accompanying schedule of findings as item 2001-10162-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the District in a separate letter dated January 15, 2002.

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

**Jim Petro**  
Auditor of State

January 15, 2002



**DANBURY LOCAL SCHOOL DISTRICT  
OTTAWA COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2001**

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

**FINDING NUMBER 2001-10162-001**

**Reportable Condition - Fixed Assets**

The original list of fixed assets was prepared by an appraiser several years ago. The process for additions/deletions for the past few years has been a review of the special cost centers that relate to purchase of fixed asset type items. No listing of these items including description, serial number, etc., have been maintained to support the exact amount of the additions. In order to determine if an asset should be included as a fixed asset and to maintain accurate records to support the figures presented on the financial statements and with the impending implementation of GASB 34, we recommend that the District take strides to implement a fixed asset policy and to maintain up to date fixed asset listings which include additions, deletions, transfers, et cetera to support the fixed asset figure presented. The District should also implement fixed asset addition, deletion and transfer sheets to be used by individuals to track the fixed asset movement at the school. We also reported this matter in the management letter of the fiscal year 2000 audit of the financial statements.





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**DANBURY LOCAL SCHOOL DISTRICT**

**OTTAWA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 12, 2002**