



**Auditor of State
Betty Montgomery**

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	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 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
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	41
Schedule of Findings.....	43
Schedule of Prior Audit Findings.....	44

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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 the Danbury Local School District (the District) as of and for the year ended June 30, 2003, 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, 2003, 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 February 4, 2004, 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.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

February 4, 2004

This page intentionally left blank.

This page intentionally left blank.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2003

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
ASSETS AND OTHER DEBITS			
Assets:			
Equity in pooled cash and cash equivalents	\$ 1,347,341	\$ 71,001	\$ 2,179,388
Equity in pooled cash and cash equivalents - nonexpendable trust fund	-	-	-
Investments	-	-	-
Receivables (net of allowances of uncollectibles):			
Property taxes - current and delinquent	4,470,629	-	648,804
Accounts	4,171	164	-
Accrued interest	1,596	-	-
Interfund loan receivable	500	-	-
Materials and supplies inventory	-	-	-
Prepayments	14,170	-	-
Restricted assets:			
Equity in pooled cash and cash equivalents	18,184	-	-
Property, plant and equipment (net of accumulated depreciation where applicable)	-	-	-
Other debits:			
Amount available in debt service fund	-	-	-
Amount to be provided for retirement of general long-term obligations	-	-	-
Total assets and other debits	\$ 5,856,591	\$ 71,165	\$ 2,828,192

<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Types</u>	<u>Account Groups</u>		<u>Total (Memorandum Only)</u>
<u>Enterprise</u>	<u>Internal Service</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
\$ 22,799	\$ 984	\$ 36,012	\$ -	\$ -	\$ 3,657,525
-	-	15,706	-	-	15,706
-	-	74,875	-	-	74,875
-	-	-	-	-	5,119,433
135	-	1,500	-	-	5,970
-	-	58	-	-	1,654
-	-	-	-	-	500
2,452	-	-	-	-	2,452
-	-	-	-	-	14,170
-	-	-	-	-	18,184
107,360	-	-	10,465,273	-	10,572,633
-	-	-	-	2,260,930	2,260,930
-	-	-	-	1,533,485	1,533,485
\$ 132,746	\$ 984	\$ 128,151	\$ 10,465,273	\$ 3,794,415	\$ 23,277,517

(Continued)

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2003
(Continued)

	Governmental Fund Types		
	General	Special Revenue	Debt Service
LIABILITIES, EQUITY AND OTHER CREDITS			
Liabilities:			
Accounts payable	\$ 70,968	\$ 20,116	\$ -
Accrued wages and benefits	437,125	-	-
Compensated absences payable	9,051	-	-
Pension obligation payable	93,256	-	-
Interfund loan payable	-	-	-
Deferred revenue	3,939,939	-	567,262
Due to other governments	29,015	718	-
Due to students	-	-	-
General obligation bonds payable	-	-	-
Total liabilities	4,579,354	20,834	567,262
Equity and other credits:			
Investment in general fixed assets	-	-	-
Contributed capital	-	-	-
Retained earnings: unreserved	-	-	-
Fund balances:			
Reserved for encumbrances	11,388	11,332	-
Reserved for prepayments	14,170	-	-
Reserved for tax revenue unavailable for appropriation	530,690	-	81,542
Reserved for principal endowment	-	-	-
Reserved for bus purchase allowance	18,184	-	-
Unreserved-undesignated	702,805	38,999	2,179,388
Total equity and other credits	1,277,237	50,331	2,260,930
Total liabilities, equity and other credits	\$ 5,856,591	\$ 71,165	\$ 2,828,192

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

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$ 5,928	\$ 160	\$ -	\$ -	\$ -	\$ 97,172
17,199	-	-	-	-	454,324
8,803	-	-	-	405,147	423,001
9,844	-	-	-	39,268	142,368
-	-	500	-	-	500
-	-	-	-	-	4,507,201
887	-	-	-	-	30,620
-	-	24,766	-	-	24,766
-	-	-	-	3,350,000	3,350,000
<u>42,661</u>	<u>160</u>	<u>25,266</u>	<u>-</u>	<u>3,794,415</u>	<u>9,029,952</u>
-	-	-	10,465,273	-	10,465,273
24,219	-	-	-	-	24,219
65,866	-	-	-	-	65,866
-	-	-	-	-	22,720
-	-	-	-	-	14,170
-	-	-	-	-	612,232
-	-	75,000	-	-	75,000
-	-	-	-	-	18,184
-	824	27,885	-	-	2,949,901
<u>90,085</u>	<u>824</u>	<u>102,885</u>	<u>10,465,273</u>	<u>-</u>	<u>14,247,565</u>
<u>\$ 132,746</u>	<u>\$ 984</u>	<u>\$ 128,151</u>	<u>\$ 10,465,273</u>	<u>\$ 3,794,415</u>	<u>\$ 23,277,517</u>

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Governmental Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>
Revenues:		
From local sources:		
Taxes	\$ 4,701,744	\$ -
Tuition	91,670	-
Earnings on investments	62,190	-
Extracurricular	-	88,230
Other local revenues	41,277	24,014
Other revenue	-	109
Intergovernmental - State	1,317,529	34,750
Intergovernmental - Federal	-	172,305
	<hr/>	<hr/>
Total revenue	6,214,410	319,408
	<hr/>	<hr/>
Expenditures:		
Current:		
Instruction:		
Regular	3,165,751	4,124
Special	437,701	53,845
Other	5,931	-
Support services:		
Pupil	289,882	53,557
Instructional staff	268,977	116,620
Board of Education	79,222	2,500
Administration	550,836	2,189
Fiscal	268,787	-
Operations and maintenance	729,057	-
Pupil transportation	239,690	-
Central	2,400	6,370
Community services	5,882	-
Extracurricular activities	151,331	107,616
Facilities acquisition and construction	485,092	-
Debt service:		
Principal retirement	-	-
Interest and fiscal charges	-	-
	<hr/>	<hr/>
Total expenditures	6,680,539	346,821
	<hr/>	<hr/>
Excess of revenues over (under) expenditures	(466,129)	(27,413)
	<hr/>	<hr/>
Other financing uses:		
Operating transfers out	(70,000)	-
	<hr/>	<hr/>
Total other financing sources	(70,000)	-
	<hr/>	<hr/>
Excess of revenues over (under) expenditures and other financing uses	(536,129)	(27,413)
	<hr/>	<hr/>
Fund balances, July 1	1,813,366	77,744
	<hr/>	<hr/>
Fund balances, June 30	\$ 1,277,237	\$ 50,331
	<hr/> <hr/>	<hr/> <hr/>

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

<u>Governmental Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
\$ 671,251	\$ -	\$ -	\$ 5,372,995
-	-	-	91,670
-	-	-	62,190
-	-	-	88,230
-	-	10,600	75,891
-	-	-	109
79,551	9,721	-	1,441,551
-	-	-	172,305
<u>750,802</u>	<u>9,721</u>	<u>10,600</u>	<u>7,304,941</u>
-	-	-	3,169,875
-	-	-	491,546
-	-	-	5,931
-	12,732	-	356,171
-	-	1,345	386,942
-	-	-	81,722
-	-	-	553,025
14,260	-	-	283,047
-	-	-	729,057
-	-	-	239,690
-	-	-	8,770
-	-	9,950	15,832
-	-	-	258,947
-	-	-	485,092
160,000	-	-	160,000
188,833	-	-	188,833
<u>363,093</u>	<u>12,732</u>	<u>11,295</u>	<u>7,414,480</u>
<u>387,709</u>	<u>(3,011)</u>	<u>(695)</u>	<u>(109,539)</u>
-	-	-	(70,000)
-	-	-	(70,000)
387,709	(3,011)	(695)	(179,539)
1,873,221	3,011	12,941	3,780,283
<u>\$ 2,260,930</u>	<u>\$ -</u>	<u>\$ 12,246</u>	<u>\$ 3,600,744</u>

**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 FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:			
From local sources:			
Taxes	\$ 4,761,366	\$ 4,807,589	\$ 46,223
Tuition	89,632	90,502	870
Earnings on investments	62,824	63,434	610
Extracurricular	-	-	-
Other local revenues	50,697	51,189	492
Other revenue	-	-	-
Intergovernmental - State	1,304,862	1,317,529	12,667
Intergovernmental - Federal	-	-	-
Total revenues	<u>6,269,381</u>	<u>6,330,243</u>	<u>60,862</u>
Expenditures:			
Current:			
Instruction:			
Regular	3,194,663	3,164,577	30,086
Special	452,088	434,165	17,923
Other	6,139	5,931	208
Support services:			
Pupil	358,574	328,982	29,592
Instructional staff	272,476	264,045	8,431
Board of Education	83,537	77,728	5,809
Administration	554,379	541,293	13,086
Fiscal	273,884	268,683	5,201
Operations and maintenance	790,428	738,586	51,842
Pupil transportation	301,627	240,498	61,129
Central	3,229	2,400	829
Community services	5,947	5,882	65
Extracurricular activities	150,621	149,208	1,413
Facilities acquisition and construction	526,000	512,617	13,383
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	<u>6,973,592</u>	<u>6,734,595</u>	<u>238,997</u>
Excess of revenues over (under) expenditures	<u>(704,211)</u>	<u>(404,352)</u>	<u>299,859</u>
Other financing sources (uses):			
Advances out	(500)	(500)	-
Operating transfers out	(99,500)	(71,587)	27,913
Refund of prior year expenditure	12,307	12,426	119
Total other financing sources (uses)	<u>(87,693)</u>	<u>(59,661)</u>	<u>28,032</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(791,904)	(464,013)	327,891
Fund balances, July 1	1,703,048	1,703,048	-
Prior year encumbrances appropriated	107,775	107,775	-
Fund balances, June 30	<u><u>\$ 1,018,919</u></u>	<u><u>\$ 1,346,810</u></u>	<u><u>\$ 327,891</u></u>

Special Revenue			Debt Service		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ 678,152	\$ 688,172	\$ 10,020
-	-	-	-	-	-
-	-	-	-	-	-
87,862	88,229	367	-	-	-
23,964	24,074	110	-	-	-
109	109	-	-	-	-
34,591	34,750	159	83,920	79,551	(4,369)
168,792	169,567	775	-	-	-
<u>315,318</u>	<u>316,729</u>	<u>1,411</u>	<u>762,072</u>	<u>767,723</u>	<u>5,651</u>
3,246	3,246	-	-	-	-
54,244	54,244	-	-	-	-
-	-	-	-	-	-
61,962	59,890	2,072	-	-	-
123,543	123,543	-	-	-	-
-	-	-	-	-	-
2,544	2,183	361	-	-	-
-	-	-	15,000	14,260	740
-	-	-	-	-	-
-	-	-	-	-	-
7,908	6,348	1,560	-	-	-
-	-	-	-	-	-
121,810	116,697	5,113	-	-	-
-	-	-	-	-	-
-	-	-	160,000	160,000	-
-	-	-	195,000	188,833	6,167
<u>375,257</u>	<u>366,151</u>	<u>9,106</u>	<u>370,000</u>	<u>363,093</u>	<u>6,907</u>
<u>(59,939)</u>	<u>(49,422)</u>	<u>10,517</u>	<u>392,072</u>	<u>404,630</u>	<u>12,558</u>
-	-	-	-	-	-
-	-	-	-	-	-
87	87	-	-	-	-
<u>87</u>	<u>87</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(59,852)	(49,335)	10,517	392,072	404,630	12,558
85,154	85,154	-	1,774,758	1,774,758	-
7,863	7,863	-	-	-	-
<u>\$ 33,165</u>	<u>\$ 43,682</u>	<u>\$ 10,517</u>	<u>\$ 2,166,830</u>	<u>\$ 2,179,388</u>	<u>\$ 12,558</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 FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

	Capital Projects		
	Budget Revised	Actual	Variance: Favorable (Unfavorable)
Revenues:			
From local sources:			
Taxes	\$ -	\$ -	\$ -
Tuition	-	-	-
Earnings on investments	-	-	-
Extracurricular	-	-	-
Other local revenues	-	-	-
Other revenue	-	-	-
Intergovernmental - State	9,721	9,721	-
Intergovernmental - Federal	-	-	-
Total revenues	9,721	9,721	-
Expenditures:			
Current:			
Instruction:			
Regular	-	-	-
Special	-	-	-
Other	-	-	-
Support services:			
Pupil	12,732	12,732	-
Instructional staff	-	-	-
Board of Education	-	-	-
Administration	-	-	-
Fiscal	-	-	-
Operations and maintenance	-	-	-
Pupil transportation	-	-	-
Central	-	-	-
Community services	-	-	-
Extracurricular activities	-	-	-
Facilities acquisition and construction	-	-	-
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	12,732	12,732	-
Excess of revenues over (under) expenditures	(3,011)	(3,011)	-
Other financing sources (uses):			
Advances out	-	-	-
Operating transfers out	-	-	-
Refund of prior year expenditure	-	-	-
Total other financing sources (uses)	-	-	-
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(3,011)	(3,011)	-
Fund balances, July 1	3,011	3,011	-
Prior year encumbrances appropriated	-	-	-
Fund balances, June 30	\$ -	\$ -	\$ -

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

Total (Memorandum only)		
Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$ 5,439,518	\$ 5,495,761	\$ 56,243
89,632	90,502	870
62,824	63,434	610
87,862	88,229	367
74,661	75,263	602
109	109	-
1,433,094	1,441,551	8,457
168,792	169,567	775
7,356,492	7,424,416	67,924
3,197,909	3,167,823	30,086
506,332	488,409	17,923
6,139	5,931	208
433,268	401,604	31,664
396,019	387,588	8,431
83,537	77,728	5,809
556,923	543,476	13,447
288,884	282,943	5,941
790,428	738,586	51,842
301,627	240,498	61,129
11,137	8,748	2,389
5,947	5,882	65
272,431	265,905	6,526
526,000	512,617	13,383
160,000	160,000	-
195,000	188,833	6,167
7,731,581	7,476,571	255,010
(375,089)	(52,155)	322,934
(500)	(500)	-
(99,500)	(71,587)	27,913
12,394	12,513	119
(87,606)	(59,574)	28,032
(462,695)	(111,729)	350,966
3,565,971	3,565,971	-
115,638	115,638	-
\$ 3,218,914	\$ 3,569,880	\$ 350,966

**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 FISCAL YEAR ENDED JUNE 30, 2003

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Nonexpendable Trust</u>	
Operating revenues:				
Tuition and fees	\$ 27,708	\$ -	\$ -	\$ 27,708
Sales/charges for services	145,223	6,399	-	151,622
Investment earnings	-	-	3,333	3,333
Total operating revenues	<u>172,931</u>	<u>6,399</u>	<u>3,333</u>	<u>182,663</u>
Operating expenses:				
Personal services	165,099	-	-	165,099
Contract services	13,252	6,594	-	19,846
Materials and supplies	126,675	-	-	126,675
Depreciation	6,830	-	-	6,830
Other	214	-	10,751	10,965
Total operating expenses	<u>312,070</u>	<u>6,594</u>	<u>10,751</u>	<u>329,415</u>
Operating loss	<u>(139,139)</u>	<u>(195)</u>	<u>(7,418)</u>	<u>(146,752)</u>
Nonoperating revenues:				
Operating grants	44,707	-	-	44,707
Federal commodities	6,997	-	-	6,997
Other	-	289	-	289
Total nonoperating revenues	<u>51,704</u>	<u>289</u>	<u>-</u>	<u>51,993</u>
Net income (loss) before operating transfers	(87,435)	94	(7,418)	(94,759)
Operating transfers in	<u>70,000</u>	<u>-</u>	<u>-</u>	<u>70,000</u>
Net income (loss)	(17,435)	94	(7,418)	(24,759)
Retained earnings/fund balance, July 1	<u>83,301</u>	<u>730</u>	<u>98,057</u>	<u>182,088</u>
Retained earnings/fund balance, June 30	<u>\$ 65,866</u>	<u>\$ 824</u>	<u>\$ 90,639</u>	<u>\$ 157,329</u>

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 FISCAL YEAR ENDED JUNE 30, 2003

	<u>Proprietary Fund Types</u>		<u>Fiduciary</u> <u>Fund Type</u>	<u>Total</u> <u>(Memorandum</u> <u>Only)</u>
	<u>Enterprise</u>	<u>Internal</u> <u>Service</u>	<u>Nonexpendable</u> <u>Trust</u>	
Cash flows from operating activities:				
Cash received from tuition and fees	\$ 27,603	\$ -	\$ -	\$ 27,603
Cash received from sales/service charges	145,193	6,399	-	151,592
Cash payments for personal services	(160,055)	-	-	(160,055)
Cash payments for contract services	(13,252)	(6,434)	-	(19,686)
Cash payments for materials and supplies	(125,485)	-	-	(125,485)
Cash payments for other expenses	(214)	-	(10,751)	(10,965)
Net cash used in operating activities	<u>(126,210)</u>	<u>(35)</u>	<u>(10,751)</u>	<u>(136,996)</u>
Cash flows from noncapital financing activities:				
Cash received from operating grants	50,803	-	-	50,803
Transfers in from other funds	70,000	-	-	70,000
Other noncapital financing activities	-	289	-	289
Net cash provided by noncapital financing activities	<u>120,803</u>	<u>289</u>	<u>-</u>	<u>121,092</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	<u>(25,402)</u>	<u>-</u>	<u>-</u>	<u>(25,402)</u>
Net cash used in capital and related financing activities	<u>(25,402)</u>	<u>-</u>	<u>-</u>	<u>(25,402)</u>
Cash flows from investing activities:				
Interest received	<u>-</u>	<u>-</u>	<u>3,389</u>	<u>3,389</u>
Net cash provided by investing activities	<u>-</u>	<u>-</u>	<u>3,389</u>	<u>3,389</u>
Net increase (decrease) in cash and cash equivalents	(30,809)	254	(7,362)	(37,917)
Cash and cash equivalents at beginning of year	<u>53,608</u>	<u>730</u>	<u>23,068</u>	<u>77,406</u>
Cash and cash equivalents at end of year	<u>\$ 22,799</u>	<u>\$ 984</u>	<u>\$ 15,706</u>	<u>\$ 39,489</u>

(Continued)

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Nonexpendable Trust</u>	
Reconciliation of operating loss to net cash used in operating activities:				
Operating loss	\$ (139,139)	\$ (195)	\$ (7,418)	\$ (146,752)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation	6,830	-	-	6,830
Federal donated commodities	6,997	-	-	6,997
Interest reported as operating income	-	-	(3,333)	(3,333)
Changes in assets and liabilities:				
Increase in materials and supplies inventory	(1,094)	-	-	(1,094)
Decrease in accounts receivable	193	-	-	193
Increase (decrease) in accounts payable	(4,645)	160	-	(4,485)
Increase in accrued wages and benefits	2,370	-	-	2,370
Increase in compensated absences payable	1,333	-	-	1,333
Increase in due to other governments	354	-	-	354
Increase in pension obligation payable	987	-	-	987
Decrease in deferred revenue	(396)	-	-	(396)
Net cash used in operating activities	<u>\$ (126,210)</u>	<u>\$ (35)</u>	<u>\$ (10,751)</u>	<u>\$ (136,996)</u>

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

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

1. DESCRIPTION OF THE SCHOOL DISTRICT

The 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 27 non-certified and 56 certified (including administrative) full-time and part-time employees to provide services to approximately 598 students in grades K through 12 and various community groups. The District ranks 598th of the 740 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 accounting principles generally accepted in the United States of America (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 GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(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 \$25,667 to NOECA during fiscal year 2003.

EHOVE Career Center

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. See Note 11.B. for more information on this group purchasing pool.

The San-Ott School Employees Welfare Benefit Association (Consortium)

The District participates in a shared risk pool, with participants from Sandusky and Ottawa counties. The Consortium 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. See Note 11.C. for more information on this risk pool.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(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 GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(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.B. 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 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 for governmental funds and the expendable trust fund. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is 60 days after the June 30 year-end. Revenues accrued at the end of the year include taxes (to the extent they are intended to finance the current fiscal

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

year), interest, intergovernmental grants (to the extent they are intended to finance the current fiscal year) and accounts (student fees and tuition). Current property taxes measurable as of June 30, 2003, and which are intended to finance fiscal 2004 operations, have been recorded as deferred revenues. In proprietary funds, unused donated commodities are reported as federal commodities revenue.

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 of accounting, 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. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis.

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 exceptions: 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 2003 is as follows:

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

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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 2003.
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 amount. Supplemental appropriations were legally enacted by the Board during fiscal 2003; 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 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

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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 2003, 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, 2003.

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 2003 amounted to \$62,190, which includes \$36,369 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 GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(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.

2. Proprietary Funds

Furniture and 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 and equipment	15-20

H. 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 balance of the liability is recorded in the general long-term obligations account group.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

Vacation and sick leave for employees meeting the above requirements who are paid from proprietary funds is recorded as an expense when earned.

I. 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 current expendable available financial resources is reported as a fund liability of a government 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.

J. Fund Balance Reserves

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 bus purchase allowance. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

K. Contributed Capital

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from developers, customers or other funds. These assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year-end. In accordance with GASB Statement No. 33, capital contributions are recorded as revenue and a component of retained earnings at fiscal year-end. The enterprise funds did not receive contributions of capital during fiscal 2003. Contributed capital in the enterprise funds at June 30, 2003, is \$24,219.

L. 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. The District had transfers during fiscal year 2003.
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.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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, 2003.
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, 2003.

An analysis of interfund transactions is presented in Note 5.

M. 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.

N. 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 benefiting 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.

O. Restricted Assets

Restricted assets in the General Fund represent cash and cash equivalents that are restricted in use for school bus purchases as required by state statute. Fund balance reserves have also been established. See Note 17 for detail of statutory reserves and restricted assets.

P. 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.

Q. 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.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

3. ACCOUNTABILITY AND COMPLIANCE

A. Deficit Fund Balances/Retained Earnings

The following funds had deficit fund balances at June 30, 2003:

	Deficit Balance
Special Revenue Funds:	
Teacher Development	\$ 13
Title VI-B	303
Drug-Free Schools	877
Reducing Class Size	8
Enterprise Fund:	
Adult Education	3,668

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The deficit fund balances in the special revenue funds are a result of accruing wage obligations in accordance with GAAP. These deficits will be eliminated by intergovernmental revenues not recognized at June 30.

The deficit retained earnings in the Adult Education enterprise fund is a result of an accruing wage, benefit, retirement obligation in accordance with GAAP. This deficit will be eliminated by user charges and intergovernmental revenues not recognized at June 30.

B. Agency Fund

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

<u>LIABILITIES</u>	
Accounts payable	\$ 106

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 two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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.

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 percent 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 percent 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

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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."

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 \$197,165, and the bank balance, including non-negotiable certificates of deposit, was \$303,467. Of the bank balance:

1. \$171,593 was covered by federal depository insurance.
2. \$131,874 was uninsured and uncollateralized as defined by GASB although because it was secured by collateral held by third party trustees, pursuant to § 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although 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 FDIC.

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.

	Category 2	Reported Amount	Fair Value
Federal agency securities	\$ 74,875	\$ 74,875	\$ 74,875
Investment in STAR Ohio		3,492,580	3,492,580
Total		\$ 3,567,455	\$ 3,567,455

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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 Non-Expendable 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:

	Cash and Cash Equivalents	
	Deposits	Investments
GASB Statement No. 9	\$ 3,691,415	\$ 74,875
Investments of the cash management pool:		
Investment in STAR Ohio	(3,492,580)	3,492,580
Cash on hand	(1,670)	-
GASB Statement No. 3	\$ 197,165	\$ 3,567,455

5. INTERFUND TRANSACTIONS

A. Interfund balances at June 30, 2003, consist of the following individual interfund loans receivable and payable:

	Interfund Receivable	Interfund Payable
General Fund	\$ 500	\$ -
Expendable Trust Fund		
Special Trust	-	500
Total	\$ 500	\$ 500

B. The following is a summarized breakdown of the District's operating transfers for fiscal year 2003:

	Transfers In	Transfers Out
General Fund	\$ -	\$ 70,000
Enterprise Funds		
Food Service	55,000	-
Adult Education	15,000	-
Total	\$ 70,000	\$ 70,000

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 April 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by state law at 35 percent of appraised market value.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35 percent of market value and personal property is assessed at varying rates of true value.

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25 percent of true value. The assessed value upon which the 2002 taxes were collected was \$244,972,463. Agricultural/residential and public utility/minerals real estate represented 79.58 percent or \$194,948,440 of this total; commercial & industrial real estate represented 14.58 percent or \$35,641,670 of this total; public utility tangible represented 2.96 percent or \$7,248,940 of this total and general tangible property represented 2.91 percent or \$7,133,413 of this total. The voted general tax rate at the fiscal year ended June 30, 2003 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 represents delinquent taxes outstanding and real property, personal property and public utility taxes, which became measurable as of June 30, 2003. 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 \$612,232 (General Fund \$530,690 and Debt Service Fund \$81,542) 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, 2003, are reflected as a reservation of fund balance for future appropriations. The District is prohibited, by law, from appropriating this revenue in accordance with ORC § 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end.

7. RECEIVABLES

Receivables at June 30, 2003, consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and interfund loans. 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.

A summary of the principal items of receivables follows:

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

	Amounts
General Fund	
Taxes - current and delinquent	\$ 4,470,629
Accounts	4,171
Accrued interest	1,596
Interfund loan	500
Special Revenue Funds	
Accounts	164
Debt Service Fund	
Taxes - current and delinquent	648,804
Enterprise Fund	
Accounts	135
Expendable Trust Fund	
Accounts	1,500
Nonexpendable Trust Fund	
Accrued Interest	58

8. FIXED ASSETS

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

	Balance 07/01/02	Increase	Decrease	Balance 06/30/03
Land\improvements	\$ 645,221	\$ 64,435	\$ -	\$ 709,656
Buildings\improvements	7,675,628	351,360	-	8,026,988
Furniture\equipment	1,100,990	181,065	-	1,282,055
Vehicles	446,574	-	-	446,574
Total	\$ 9,868,413	\$ 596,860	\$ -	\$ 10,465,273

There was no significant construction in progress at June 30, 2003.

A summary of the proprietary fixed assets at June 30, 2003 follows:

Furniture and equipment	\$ 175,650
Less: accumulated depreciation	(68,290)
Net fixed assets	\$ 107,360

9. 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

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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, 2003:

Purpose	Interest Rate	Bonds		Bonds		Outstanding 06/30/03
		Issue Date	Maturity Date	Outstanding 07/01/02	Retired in 2003	
School Improvement Bond	5.48%	7/1/1993	12/1/2016	\$ 3,510,000	\$ (160,000)	\$ 3,350,000

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

Year Ending June 30,	Principal on Bonds	Interest on Bonds	Total
2004	\$ 165,000	\$ 181,111	\$ 346,111
2005	175,000	172,735	347,735
2006	185,000	163,596	348,596
2007	195,000	153,714	348,714
2008	205,000	142,804	347,804
2009 - 2013	1,200,000	522,909	1,722,909
2014 - 2017	1,225,000	143,088	1,368,088
Total	<u>\$ 3,350,000</u>	<u>\$ 1,479,957</u>	<u>\$ 4,829,957</u>

- C.** During the year ended June 30, 2003, the following changes occurred in the liabilities reported in the general long-term obligations account group. Compensated absences and the pension obligation payable will be paid from the fund in which the employee was paid.

	Balance 07/01/02	Increase	Decrease	Balance 06/30/03
Compensated absences	324,551	104,799	24,203	405,147
Pension obligation payable	34,948	39,268	34,948	39,268
Bonds payable	3,510,000	-	160,000	3,350,000
Total	<u>\$ 3,869,499</u>	<u>\$ 144,067</u>	<u>\$ 219,151</u>	<u>\$ 3,794,415</u>

D. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9 percent of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1 percent of the property valuation of the District. The effects of these debt limitations at June 30, 2003 are a voted debt margin of \$20,958,452 (including available funds of \$2,260,930) and an unvoted debt margin of \$244,972.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

10. EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and state laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 220 days for all personnel. Upon retirement, payment is made for one-fourth of the accrued, but unused, sick leave balance to a maximum of 55 days for all employees.

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 percent 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:	Ohio School Plan		
Each occurrence		\$ 1,000,000	-
Aggregate		3,000,000	-
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:	Ohio School Plan	2,000,000	-

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 Plan

For fiscal year 2003, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent 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.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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 (the 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 percent 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, 2003.

	Food Service	Uniform School Supplies	Adult Education	Total
Operating revenue	\$ 145,223	\$ 14,482	\$ 13,226	\$ 172,931
Operating expenses before depreciation	244,815	17,846	42,579	305,240
Depreciation	6,830	-	-	6,830
Operating loss	(106,422)	(3,364)	(29,353)	(139,139)
Operating grants	44,707	-	-	44,707
Federal commodities	6,997	-	-	6,997
Net loss	(54,718)	(3,364)	(29,353)	(87,435)
Net working capital	(7,282)	4,726	(3,668)	(6,224)
Fixed asset additions	30,980	-	-	30,980
Total assets	120,645	10,563	1,538	132,746
Total liabilities	31,618	5,837	5,206	42,661
Contributed capital	24,219	-	-	24,219
Total equity	89,027	4,726	(3,668)	90,085
Encumbrances at 6/30/03	1,114	242	-	1,356

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(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. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$77,852, \$48,213, and \$35,316, respectively; 58 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. \$32,970 represents the unpaid contribution for fiscal year 2003.

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 43215-3771, or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 13 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 9.5 percent of annual covered salary 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 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$497,179, \$329,398, and \$303,569, respectively; 86 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. \$68,670 represents the unpaid contribution for fiscal year 2003.

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. As of June 30, 2003, certain members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

14. POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS 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 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1 percent of

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$38,245 during fiscal 2003.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002 (the latest information available), net health care costs paid by STRS were \$354.697 million and STRS had 105,300 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 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available) were \$182.947 million and the target level was \$274.4 million. At June 30, 2002, (the latest information available) SERS had net assets available for payment of health care benefits of \$335.2 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 \$59,742 during the 2003 fiscal year.

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 Comparison - 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:

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

	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	\$ (464,013)	\$ (49,335)	\$ 404,630	\$ (3,011)
Net adjustment for revenue accruals	(115,833)	2,679	(16,921)	-
Net adjustment for expenditure accruals	35,341	(7,989)	-	-
Net adjustment for other financing sources/(uses)	(10,339)	(87)	-	-
Encumbrances (budget basis)	18,715	27,319	-	-
GAAP basis	\$ (536,129)	\$ (27,413)	\$ 387,709	\$ (3,011)

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, 2003.

B. Litigation

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

C. School Funding Decision

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

The Supreme Court relinquished jurisdiction over the case and directed "... the Ohio General Assembly to enact a school funding scheme that is thorough and efficient ...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(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, 2003, the reserve activity was as follows:

	Textbooks	Capital Acquisition
Set-aside balance as of June 30, 2002	\$ (44,841)	\$ -
Current year set-aside requirement	81,711	81,711
Qualifying disbursements	(192,854)	(458,638)
Total	\$ (155,984)	\$ (376,927)
Set-aside balance carried forward to FY 2004	\$ (155,984)	\$ -

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.

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases.

A schedule of restricted assets at June 30, 2003, follows:

Amount restricted for school bus purchases	\$ 18,184
--	-----------



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT 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, 2003, and have issued our report thereon dated February 4, 2004. 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 management of the District in a separate letter dated February 4, 2004.

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. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect 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 2003-001.

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.

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

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

Betty Montgomery
Auditor of State

February 4, 2004

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

SCHEDULE OF FINDINGS
JUNE 30, 2003

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

FINDING NUMBER 2003-001

Reportable Condition - Fixed Assets

The original list of fixed assets was prepared by an appraiser several years ago. The process of accounting for fixed asset additions and deletions for the past few years has been a review of the special cost centers that relate to purchase of fixed asset type items. The District does not maintain a listing of these items including the description, serial number, historical cost, and location. 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 steps to implement a fixed asset policy and to maintain an up to date fixed asset listing which includes additions, deletions, and transfers. The District should also require fixed asset additions, deletion, and transfer sheets to be used by individuals to track the fixed asset activity of the District. The District should also consider raising its capitalization threshold.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

SCHEDULE OF PRIOR AUDIT FINDINGS
FISCAL YEAR END JUNE 30, 2003

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2002-10162-001	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., has been maintained to support the exact amount of the additions.	No	Not corrected and reissued as a reportable condition in this report. The District entered into an agreement on August 20, 2002 to have an appraisal company prepare an updated and detailed fixed asset listing. A listing was received during December 2003. The District will review the list and plans to use it for its 2004 fiscal report.



**Auditor of State
Betty Montgomery**

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
MARCH 4, 2004**