



**Auditor of State
Betty Montgomery**

VILLAGE OF DANVILLE
KNOX COUNTY

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**Auditor of State
Betty Montgomery**

Village of Danville
Knox County
512 South Market Street
Danville, Ohio 43014

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

April 6, 2005

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Danville
Knox County
512 South Market Street
Danville, Ohio 43014

To the Village Council:

We have audited the accompanying financial statements of the Village of Danville, Knox County, Ohio (the Village) as of and for the years ended December 31, 2004, and December 31, 2003. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described more fully in Note 1, the Village prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, we presume they are material.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004 (and 2003), the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since the Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

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In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2004, or its changes in financial position or cash flows of its proprietary funds for the years then ended.

Also, In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of Danville, Knox County, as of December 31, 2004 and 2003, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the year ended December 31, 2004. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2005, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Betty Montgomery
Auditor of State

April 6, 2005

**VILLAGE OF DANVILLE
KNOX COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property Tax and Other Local Taxes	\$128,578	\$52,733	\$0	\$0	\$181,311
Intergovernmental Receipts	36,833	55,667	0	0	92,500
Charges for Services	1,391	0	0	0	1,391
Fines, Licenses, and Permits	1,657	0	0	0	1,657
Miscellaneous	12,498	17,088	0	0	29,586
Total Cash Receipts	180,957	125,488	0	0	306,445
Cash Disbursements:					
Current:					
Security of Persons and Property	10,725	110,451	0	0	121,176
Public Health Services	720	0	0	0	720
Leisure Time Activities	51	17,094	0	0	17,145
Basic Utility Services	0	0	0	14,928	14,928
Transportation	0	39,803	0	0	39,803
General Government	116,332	0	0	0	116,332
Debt Service:					
Principal and Interest Payments	0	0	1,534	0	1,534
Capital Outlay	0	59,514	0	0	59,514
Total Cash Disbursements	127,828	226,862	1,534	14,928	371,152
Total Receipts Over/(Under) Disbursements	53,129	(101,374)	(1,534)	(14,928)	(64,707)
Other Financing Receipts and (Disbursements):					
Transfers-In	0	56,000	1,534	59,010	116,544
Transfers-Out	(115,010)	(706)	0	0	(115,716)
Total Other Financing Receipts/(Disbursements)	(115,010)	55,294	1,534	59,010	828
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(61,881)	(46,080)	0	44,082	(63,879)
Fund Cash Balances, January 1, 2004	142,813	80,173	431	(19,653)	203,764
Fund Cash Balances, December 31, 2004	\$80,932	\$34,093	\$431	\$24,429	\$139,885
Reserves for Encumbrances, December 31, 2004	\$14,400	\$14,762	\$0	\$0	\$29,162

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

**VILLAGE OF DANVILLE
KNOX COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Enterprise Funds
Operating Cash Receipts:	
Charges for Services	\$330,588
Miscellaneous	10,986
	341,574
Operating Cash Disbursements:	
Personal Services	137,915
Contractual Services	87,104
Supplies and Materials	21,730
Capital Outlay	17,711
	264,460
Operating Income	77,114
Non-Operating Cash Disbursements:	
Debt Service	118,146
Excess of Receipts Under Disbursements Before Interfund Transfers and Advances	(41,032)
Transfers-Out	(828)
Net Receipts Under Disbursements	(41,860)
Fund Cash Balances, January 1, 2004	304,431
Fund Cash Balances, December 31, 2004	\$262,571
Reserve for Encumbrances, December 31	\$21,099

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

**VILLAGE OF DANVILLE
KNOX COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property Tax and Other Local Taxes	\$129,019	\$52,648	\$0	\$0	\$181,667
Intergovernmental Receipts	62,493	64,775	0	51,596	178,864
Charges for Services	1,455	0	0	0	1,455
Fines, Licenses, and Permits	3,737	0	0	0	3,737
Miscellaneous	14,761	25,606	0	0	40,367
Total Cash Receipts	<u>211,465</u>	<u>143,029</u>	<u>0</u>	<u>51,596</u>	<u>406,090</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	10,503	152,178	0	0	162,681
Public Health Services	325	0	0	0	325
Leisure Time Activities	90	27,371	0	0	27,461
Transportation	0	59,201	0	0	59,201
General Government	140,782	0	0	0	140,782
Debt Service:					
Principal and Interest Payments	0	0	1,534	0	1,534
Capital Outlay	0	0	0	54,971	54,971
Total Cash Disbursements	<u>151,700</u>	<u>238,750</u>	<u>1,534</u>	<u>54,971</u>	<u>446,955</u>
Total Receipts Over/(Under) Disbursements	<u>59,765</u>	<u>(95,721)</u>	<u>(1,534)</u>	<u>(3,375)</u>	<u>(40,865)</u>
Other Financing Receipts and (Disbursements):					
Sale of Fixed Assets	59,142	0	0	0	59,142
Refund of Prior year receipts	0	0	0	(29,010)	(29,010)
Transfers-In	0	75,605	1,534	0	77,139
Transfers-Out	(75,605)	(706)	0	0	(76,311)
Total Other Financing Receipts/(Disbursements)	<u>(16,463)</u>	<u>74,899</u>	<u>1,534</u>	<u>(29,010)</u>	<u>30,960</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	43,302	(20,822)	0	(32,385)	(9,905)
Fund Cash Balances, January 1, 2003	99,511	100,995	431	12,732	213,669
Fund Cash Balances, December 31, 2003	<u><u>\$142,813</u></u>	<u><u>\$80,173</u></u>	<u><u>\$431</u></u>	<u><u>(\$19,653)</u></u>	<u><u>\$203,764</u></u>
Reserves for Encumbrances, December 31, 2003	<u><u>\$881</u></u>	<u><u>\$250</u></u>	<u><u>\$0</u></u>	<u><u>\$30,000</u></u>	<u><u>\$31,131</u></u>

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

**VILLAGE OF DANVILLE
KNOX COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Enterprise Funds</u>
Operating Cash Receipts:	
Charges for Services	\$339,460
Miscellaneous	8,681
	<u>348,141</u>
Operating Cash Disbursements:	
Personal Services	113,760
Contractual Services	87,287
Supplies and Materials	28,495
Capital Outlay	17,230
	<u>246,772</u>
Total Operating Cash Receipts	<u>348,141</u>
Total Operating Cash Disbursements	<u>246,772</u>
Operating Income	<u>101,369</u>
Non-Operating Cash Disbursements:	
Debt Service	118,146
Other Non-Operating Cash Disbursements	63
	<u>118,209</u>
Total Non-Operating Cash Disbursements	<u>118,209</u>
Excess of Receipts Under Disbursements Before Interfund Transfers and Advances	(16,840)
Transfers-Out	<u>(828)</u>
Net Receipts Under Disbursements	(17,668)
Fund Cash Balances, January 1, 2003	<u>322,099</u>
Fund Cash Balances, December 31, 2003	<u><u>\$304,431</u></u>
Reserve for Encumbrances, December 31	<u><u>\$21,099</u></u>

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

**VILLAGE OF DANVILLE
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Danville, Knox County, (the Village) as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides water and sewer utilities, park operations, and police services. The Village contracts with the Eastern Knox County Joint Fire District to receive fire protection services and emergency medical services.

The Village's management believes these financial statements present all activities for which the Village is financially accountable.

B. Basis of Accounting

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. This basis recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements adequately disclose material matters the Auditor of State prescribes.

C. Cash and Investments

The Village maintains an interest bearing checking and savings account.

D. Fund Accounting

The Village uses fund accounting to segregate cash and investments that are restricted as to use. The Village classifies its funds into the following types:

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

Street Construction, Maintenance, and Repair Fund - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village streets.

Police Fund -This fund receives general and tangible personal property tax money for the operation of the Village police department.

**VILLAGE OF DANVILLE
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Debt Service Funds

These funds account for resources the Village accumulates to pay bond and note debt. The Village had the following significant Debt Service Fund:

Richards Street Debt Fund (OPWC Loan Repayment) -This fund is used to retire debt associated with the Richards Street waterline and street extension.

4. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Village had the following significant Capital Project Fund:

Water Well Improvement Fund - This fund was established to record the activity of the OWDA project relating to water well improvements.

5. Enterprise Funds

These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise Funds:

Water Fund - This fund receives charges for services from residents to cover water service costs.

Sewer Fund - This fund receives charges for services from residents to cover sewer service costs.

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

**VILLAGE OF DANVILLE
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2004 and 2003 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. EQUITY IN POOLED CASH

The Village maintains a cash pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash at December 31 was as follows:

	2004	2003
Demand deposits	\$402,456	\$508,195

Deposits: Deposits are insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2004 and 2003 follows:

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$171,443	\$182,254	\$10,811
Special Revenue	240,937	180,191	(60,746)
Debt Service	1,534	1,534	0
Capital Projects	0	59,010	59,010
Enterprise	467,404	341,574	(125,830)
Total	\$881,318	\$764,563	(\$116,755)

**VILLAGE OF DANVILLE
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$265,857	\$257,238	\$8,619
Special Revenue	308,879	242,330	66,549
Debt Service	1,534	1,534	0
Capital Projects	1,006,645	14,928	991,717
Enterprise	768,917	404,533	364,384
Total	<u>\$2,351,832</u>	<u>\$920,563</u>	<u>\$1,431,269</u>

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$184,577	\$270,607	\$86,030
Special Revenue	207,070	218,634	11,564
Debt Service	1,534	1,534	0
Capital Projects	0	51,596	51,596
Enterprise	443,529	348,141	(95,388)
Total	<u>\$836,710</u>	<u>\$890,512</u>	<u>\$53,802</u>

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$392,481	\$228,186	\$164,295
Special Revenue	305,331	239,706	65,625
Debt Service	1,964	1,534	430
Capital Projects	609,497	113,981	495,516
Enterprise	742,487	386,908	355,579
Total	<u>\$2,051,760</u>	<u>\$970,315</u>	<u>\$1,081,445</u>

Contrary to Ohio law, Appropriations exceeded Estimated Resources in the following funds:

Fiscal Year 2004 – Water Well Improvement Fund	\$997,287
Fiscal Year 2003 – General Fund	\$26,958
Fiscal Year 2003 – Water Well Improvement Fund	\$26,182
Fiscal Year 2003 – Police Grant Fund	\$897

Also, contrary to Ohio law, the following funds had negative cash balances:

Fiscal Year 2004 – Police Fund	\$15,818
Fiscal Year 2003 – Police Fund	\$9,473
Fiscal Year 2003 – Water Well Replacement	\$19,652

**VILLAGE OF DANVILLE
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Village.

Property owners assess tangible personal property tax. They must file a list of tangible property to the County by each April 30. The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on the Village's behalf.

5. LOCAL INCOME TAX

The Village levies a municipal income tax of 1 percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

6. DEBT

Debt outstanding at December 31, 2004 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
OPWC Loan - Richards Street	\$11,505	0.00%
OWDA (#2)	<u>793,873</u>	2.20%
Total	<u><u>\$805,378</u></u>	

The Ohio Public Works Commission (OPWC) Street Improvement loan is for the extension of a Village street, and water lines. A portion of this loan is collateralized by water receipts.

The Ohio Water Development Authority (OWDA) Sewer upgrade loan (OWDA #2) was for improvements mandated by the Environmental Protection Agency (EPA), to be completed for the Village Sewer system.

In 2002 an OWDA loan was approved up to \$72,138 for a Water Well Improvement Project. The Village drew down and repaid \$27,035 to date on this loan. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements on any future draw downs.

**VILLAGE OF DANVILLE
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

6. DEBT (Continued)

In August 2001, the OPWC awarded the Village an amount not to exceed \$488,302 for Water Supply Improvements. \$261,590 was awarded as a zero percent per annum loan. The remainder of the project is to be funded with grant monies. As of December 31, 2004, the Village has not drawn down the loan proceeds and only \$45,318 of the grant monies.

Amortization of the above debt, including interest, follows:

<u>Year ending December 31:</u>	<u>OPWC Loan</u>	<u>OWDA #2</u>
2005	\$1,534	\$102,913
2006	1,534	102,913
2007	1,534	102,913
2008	1,534	102,913
2009	1,534	102,913
2010-2013	3,835	360,196
Total	<u>\$11,505</u>	<u>\$874,761</u>

7. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes the plans' retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2004 and 2003, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant wages. OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2004.

8. RISK MANAGEMENT

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

**VILLAGE OF DANVILLE
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

8. RISK MANAGEMENT (Continued)

Casualty Coverage

PEP retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000 from the General Reinsurance Corporation. If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss with an annual aggregate of \$1,250,000 for 2002. There is no aggregate for 2003 and future accident years. Beginning in 2003, PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective township.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2003 and 2002 (the latest information available):

<u>Casualty Coverage</u>	<u>2003</u>	<u>2002</u>
Assets	\$25,288,098	\$20,174,977
Liabilities	(12,872,985)	(8,550,749)
Retained earnings	<u>\$12,415,113</u>	<u>\$11,624,228</u>

<u>Property Coverage</u>	<u>2003</u>	<u>2002</u>
Assets	\$3,158,813	\$2,565,408
Liabilities	(792,061)	(655,318)
Retained earnings	<u>\$2,366,752</u>	<u>\$1,910,090</u>

**VILLAGE OF DANVILLE
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

9. JOINTLY GOVERNED ORGANIZATION

The Eastern Knox Count Joint Fire District (the District) is a jointly governed organization pursuant to Ohio Revised Code Section 505.371. The District was formed in 2001 and consists of the following entities: Danville and Gann Villages, Brown, Butler, Harrison, Howard, Jefferson, and Union Townships. The District Board consists of a Trustee from each Township, a Council Member from each Village and an at-large member appointed by vote of the District Board. Revenues are generated from a 5 mil operating levy.



**Auditor of State
Betty Montgomery**

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

Village of Danville
Knox County
512 South Market Street
Danville, Ohio 43014

To the Village Council:

We have audited the financial statements of the Village of Danville, Knox County, Ohio, (the Village) as of and for the years ended December 31, 2004 and December 31, 2003, and have issued our report thereon dated April 6, 2005, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Village's management dated April 06, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-01, 2004-02 and 2004-03. In a separate letter to the Village's management dated April 6, 2005, we reported other matters related to noncompliance we deemed immaterial.

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Village of Danville
Knox County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of management and Village Council. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

April 6, 2005

**VILLAGE OF DANVILLE
KNOX COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2004-01
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Noncompliance Citation – Appropriations Exceeding Estimated Resources

Ohio Rev. Code Section 5705.39 requires that total appropriations from each fund shall not exceed the total of the estimated resources available for expenditures therefrom, as certified by the budget commission or in case of appeal, but the board of tax appeals. This section also requires the Village to obtain a County Auditor's certificate that total appropriations from each fund do not exceed the total official estimate or amended official estimate when amending estimated resources.

During 2004 and 2003, total appropriations exceeded total estimated resources at year end as follows:

December 31, 2004

Fund	Estimated Resources	Appropriations	Variance
Water Well Improvement Fund	\$9,358	\$1,006,645	(\$997,287)

December 31, 2003

Fund	Estimated Resources	Appropriations	Variance
General Fund	\$365,523	\$392,481	(\$26,958)
Water Well Improvement Fund	\$583,315	\$609,497	(\$26,182)
Police Grant Fund	\$979	\$1,876	(\$897)

The Clerk/Treasurer should monitor appropriations versus estimated resources to avoid overspending. If amendments are needed, a certificate from the county auditor should be obtained.

Finding Number	2004-02
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Noncompliance Citation – Negative Fund Balances

Ohio Rev. Code Section 5705.10 requires that monies paid into any fund be used only for purposes for which such fund is established. The Village had the following negative cash fund balances:

Fiscal Year 2004

FUND	NEGATIVE BALANCE
Police Fund	(\$15,818)

Fiscal Year 2003

FUND	NEGATIVE BALANCE
Police Fund	(\$9,473)
Water Well Replacement	(\$19,652)

**VILLAGE OF DANVILLE
KNOX COUNTY**

**SCHEDULE OF FINDINGS (Continued)
DECEMBER 31, 2004 AND 2003**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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Finding Number	2004-02 (Continued)
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Noncompliance Citation – Negative Fund Balances (Continued)

A negative cash fund balance is an indication that revenues from other sources were used to pay obligations of these funds. Fund activity should be monitored by the Clerk-Treasurer to prevent future expenditures in excess of available resources. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund in accordance with the Ohio Rev. Code.

Finding Number	2004-03
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Finding For Adjustment – Local Government Revenue Assistance

Ohio Rev. Code Section 5747.62 states that “All money received by a subdivision from the county undivided local government revenue assistance fund shall be paid into the subdivision’s general fund and used for current operating expenses.”

The Clerk-Treasurer posted portions of the Local Government Revenue Assistances monies into the Street Maintenance Fund and the State Highway fund. As a result, findings for adjustment are issued in the amounts of \$23,465 and \$25,884 respectfully, in favor of the General Fund from the following funds:

Fiscal Year 2004

Street Maintenance	\$21,705
State Highway	<u>\$1,760</u>
TOTAL	<u>\$23,465</u>

Fiscal Year 2003

Street Maintenance	\$23,943
State Highway	<u>\$1,941</u>
TOTAL	<u>\$25,884</u>

These adjustments were made to the Village’s accounting records by the Clerk-Treasurer and are reflected in the financial statement totals.

**VILLAGE OF DANVILLE
KNOX COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004 AND 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2002-30642-001	Ohio Rev. Code 5705.41(d) – not properly certifying funds	No	Partially corrected – This is reported in the management letter
2002-30642-002	Ohio Rev. Code 5705.41(b) – Expenditures exceeding appropriations	No	Partially corrected – This is reported in the management letter
2002-30642-003	Ohio Rev. Code 5705.39 Appropriations exceeding Estimated Resources	No	Not corrected – Reissued as finding 2004-01
2002-30642-004	Ohio Rev. Code 5705.10 Village had a negative cash balance in the Police Fund	No	Not corrected. – Reissued as finding 2004-02



**Auditor of State
Betty Montgomery**

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VILLAGE OF DANVILLE

KNOX COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 31, 2005**