



**Auditor of State  
Betty Montgomery**



**DANVILLE LOCAL SCHOOL DISTRICT  
KNOX COUNTY**

**TABLE OF CONTENTS**

<b>Title</b>	<b>Page</b>
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets .....	13
Statement of Activities.....	14
Balance Sheet – Governmental Funds.....	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities .....	16
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds.....	17
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances of Governmental Funds to the Statement of Activities .....	18
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual General Fund .....	19
Statement of Fiduciary Net Assets – Fiduciary Funds.....	20
Statement of Changes in Fiduciary Net Assets – Private Purpose Trust Fund.....	21
Notes to the Basic Financial Statements .....	23
Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	43

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Danville Local School District  
Knox County  
411 South Market Street  
Danville, Ohio 43014

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Danville Local School District, Knox County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Danville Local School District, Knox County, Ohio, as of June 30, 2005, and the respective changes in financial position, thereof and the budgetary comparison for the General fund 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 March 21, 2006, 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 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

**Betty Montgomery**  
Auditor of State

March 21, 2006

**Danville School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

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The discussion and analysis of Danville Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the financial statements and notes to those respective statements to enhance their understanding of the School District's financial performance.

**Financial Highlights**

Key Financial Highlights for 2005 are as follows:

- In total, net assets decreased by \$306,075.
- Revenues for governmental activities totaled \$5,185,392 in 2005. Of this total, 72.7 percent consisted of general revenues while program revenues accounted for the balance of 27.3 percent.
- Program expenses totaled \$5,491,467. Instructional expenses made up 55.7 percent of this total while support services accounted for 35.5 percent. Other expenses rounded out the remaining 8.8 percent.
- Outstanding general obligation bonded debt decreased from \$1,581,000 to \$1,546,000 in 2005.

**Using these Basic Financial Statements**

This annual report consists of a series of financial statements and notes pertaining to those statements. The statements are organized so the reader can understand the Danville Local School District as a financial whole, or complete operating entity.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate and longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements explain how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of Danville Local School District, the general fund is the most significant fund.

**Reporting the School District as a Whole**

*Statement of Net Assets and Statement of Activities*

While this document contains all the funds used by the School District to provide programs and activities, the view of the School District as a whole considers all financial transactions and asks the question, "How did we do financially during 2005?" The *Statement of Net Assets* and *Statement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses, regardless of when cash is received or paid.

**Danville Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

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These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors. Non-financial factors may include the School District's performance, demographic and socioeconomic factors and willingness of the community to support the School District. On the other hand, financial factors may include the School District's financial position, liquidity and solvency and fiscal capacity.

In the Statement of Net Assets and the Statement of Activities, the School District's activities are classified as governmental activities. All of the School District's programs and services are reported here including instruction, support services, operation and maintenance, pupil transportation, operation of food service and extracurricular activities.

**Reporting the School District's Most Significant Funds**

*Fund Financial Statements*

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's only major governmental fund is the general fund.

*Governmental Funds*

All of the School District's activities are reported as governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending in future periods. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

**The School District as a Whole**

You may recall that the *Statement of Net Assets* provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2005 compared to 2004:

**Danville Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

**Table 1**  
**Net Assets**  
**Governmental Activities**

	2005	2004
<b>Assets</b>		
Current and Other Assets	\$3,218,683	\$3,206,689
Capital Assets, Net	9,263,818	9,523,342
<i>Total Assets</i>	<u>12,482,501</u>	<u>12,730,031</u>
<b>Liabilities</b>		
Current Liabilities	1,273,341	1,199,459
Long-Term Liabilities:		
Due Within One Year	76,625	69,127
Due in More Than One Year	1,604,256	1,627,091
<i>Total Liabilities</i>	<u>2,954,222</u>	<u>2,895,677</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	7,717,818	7,942,342
Restricted for:		
Capital Projects	0	23,126
Debt Service	159,847	154,526
Other Purposes	263,690	248,269
Unrestricted	1,386,924	1,466,091
<i>Total Net Assets</i>	<u>\$9,528,279</u>	<u>\$9,834,354</u>

Total assets decreased by \$247,530. This decrease was caused by a decrease in capital assets caused by the current year depreciation expense. Total liabilities increased by \$58,545, due to less property taxes revenue available as an advance at year end compared to the prior year.

By comparing assets and liabilities, one can see the overall position of the School District has decreased as evidenced by the decrease in net assets of \$306,075.

The vast majority of revenue supporting all governmental activities is general revenue. General revenue totaled \$3,767,494 or 72.7 percent of the total revenue. The most significant portions of the general revenue are grants and entitlements, and local property and income tax. The remaining amount of revenue received was in the form of program revenues equaling \$1,417,898 or 27.3 percent of total revenue.

Table 2 shows the changes in net assets for fiscal year 2005. Since this is the second year that the School District prepared financial statements following GASB Statement 34, revenue and expense comparisons can be made between the fiscal years 2005 and 2004.

**Danville Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

**Table 2**  
**Changes in Net Assets**  
**Governmental Activities**

	2005	2004
<b>Revenues</b>		
Program Revenues:		
Charges for Services and Sales	\$687,226	\$557,592
Operating Grants and Contributions	724,585	642,027
Capital Grants and Contributions	6,087	22,596
Total Program Revenues	<u>1,417,898</u>	<u>1,222,215</u>
General Revenues:		
Property Taxes	896,065	1,314,700
Income Taxes	365,792	607,495
Grants and Entitlements	2,421,162	2,555,327
Investment Earnings	41,122	25,253
Miscellaneous	43,353	49,118
Total General Revenues	<u>3,767,494</u>	<u>4,551,893</u>
Total Revenues	<u>5,185,392</u>	<u>5,774,108</u>
<b>Program Expenses</b>		
Instruction:		
Regular	2,292,286	2,443,462
Special	658,912	696,053
Vocational	104,894	105,810
Support Services:		
Pupils	222,037	201,819
Instructional Staff	437,092	468,377
Board of Education	16,484	14,159
Administration	416,142	425,610
Fiscal	125,847	155,627
Operation and Maintenance of Plant	507,844	517,161
Pupil Transportation	215,345	235,396
Central	10,307	8,904
Food Service Operations	230,741	223,133
Extracurricular Activities	153,944	168,568
Interest and Fiscal Charges	99,592	99,619
Total Program Expenses	<u>5,491,467</u>	<u>5,763,698</u>
Increase/Decrease in Net Assets	(306,075)	10,410
<i>Net Assets Beginning of Year</i>	<u>9,834,354</u>	<u>9,823,944</u>
<i>Net Assets End of Year</i>	<u>\$9,528,279</u>	<u>\$9,834,354</u>

**Danville Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

Property taxes decreased by \$418,635 due to the timing and amounts of property tax advances and collections at June 30. Income tax revenue decreased due to the lapse of the levy in 2004 which was reissued in January 2005. The School District has an overall decrease in expenses due to budget cuts, payroll freezes and reductions in support staff.

***Governmental Activities***

The School District has carefully planned its financial existence by forecasting its revenues and expenses over the next five years. Although the School District relies heavily upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating costs.

Approximately 55.7 percent of the School District's budget is used to fund instructional expenses. Additional supporting services for pupils, staff, transportation and business operations encompass 35.5 percent. The remaining amount of program expenses, 8.8 percent, is budgeted to facilitate other obligations of the School District such as interest and fiscal charges, the food service program and numerous extracurricular activities.

The Statement of Activities shows the total net cost of program services. Table 3 shows the total cost of services for governmental activities and the net cost of those services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

**Table 3**  
**Governmental Activities**

	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
<b>Governmental Activities:</b>				
Instruction:				
Regular	\$2,292,286	(\$1,727,292)	\$2,443,462	(\$1,981,519)
Special	658,912	(310,702)	696,053	(355,304)
Vocational	104,894	(50,931)	105,810	(85,794)
Support Services:				
Pupils	222,037	(218,375)	201,819	(197,229)
Instructional Staff	437,092	(308,061)	468,377	(380,333)
Board of Education	16,484	(16,484)	14,159	(14,159)
Administration	416,142	(416,142)	425,610	(425,610)
Fiscal	125,847	(125,847)	155,627	(155,627)
Operation and Maintenance of Plant	507,844	(496,964)	517,161	(507,078)
Pupil Transportation	215,345	(209,258)	235,396	(228,475)
Central	10,307	(10,307)	8,904	(8,904)
Food Service Operations	230,741	867	223,133	(412)
Extracurricular Activities	153,944	(84,481)	168,568	(101,420)
Interest and Fiscal Charges	99,592	(99,592)	99,619	(99,619)
<b>Total</b>	<b>\$5,491,467</b>	<b>(\$4,073,569)</b>	<b>\$5,763,698</b>	<b>(\$4,541,483)</b>

**Danville Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

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As one can see, the reliance upon local tax revenues for governmental activities is crucial. Approximately 23 percent of expenses are directly supported by local property and income taxes. Grant and entitlements not restricted to specific programs support 44.1 percent, while investment and other miscellaneous type revenues support the remaining activity costs. Program revenues account for 25.8 percent of all governmental expenses.

**School District's Funds**

Information regarding the School District's major funds can be found on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$5,237,781 and expenditures of \$5,283,896. The net change in fund balance for the year was most significant in the general fund, with a decrease of \$48,596.

**General Fund Budgeting Highlights**

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant fund to be budgeted is the main operating fund of the School District, the general fund.

During the course of fiscal year 2005, the School District amended its general fund budget numerous times, none significant. The School District uses an operational unit budget process and has in place systems that are designed to tightly control expenditures but provide flexibility for program based decision and management.

For the General fund, the original and final budget basis estimated revenue totaled \$4,391,280 and \$4,591,051, respectively. Final budget basis appropriations totaled \$4,706,940 compared to the original estimate of \$4,658,247.

The general fund's unencumbered ending cash balance totaled \$1,540,569, which was well above the original budgeted amount of \$1,158,317, due to other special education costs actually being lower than estimated at the end of fiscal year 2005.

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal year 2005, the School District had \$9,263,818 invested in land, buildings, furniture, fixtures and equipment, and vehicles. Table 4 shows fiscal 2005 values compared to 2004. More detailed information is presented in Note 11 to the basic financial statements.

**Danville Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

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**Table 4**  
**Capital Assets at June 30**  
**Governmental Activities**

	2005	2004
Land	\$105,035	\$105,035
Buildings	8,805,914	9,017,151
Furniture, Fixtures and Equipment	251,710	277,629
Vehicles	101,159	123,527
<i>Total Capital Assets</i>	\$9,263,818	\$9,523,342

All capital assets, except land, are reported net of depreciation. As one can see, there was a decrease in capital assets during the fiscal year, mainly due to depreciation expense of \$321,110 for fiscal year 2005.

*Debt*

At June 30, 2005 the School District had \$1,546,000 of classroom facilities improvement bonds. Table 5 below summarizes the School District's bonds outstanding. More detailed information is presented in Note 17 to the basic financial statements.

**Table 5**  
**Outstanding Debt at Year End**  
**Governmental Activities**

	2005	2004
Classroom Facilities Improvement Bonds	\$1,546,000	\$1,581,000
Accretion	61,510	46,947
	\$1,607,510	\$1,627,947

The bonds will be retired out of the debt service fund. The 2000 general obligation bonds include serial bonds and capital appreciation bonds that will mature in fiscal years 2012, 2013, 2014 and 2015. The final amount of the capital appreciation bonds will be \$325,000.

The School District's overall legal debt margin was \$3,023,769 with an unvoted debt margin of \$49,343.

**Current Issues Affecting Financial Condition**

The Danville Local School District's motto is *Excellence From All . . . Shaping Quality Graduates*. The District Continuous Improvement Plan (revised 2005) includes the primary goal of "Increasing Student Achievement." While the District remains in Continuous Improvement Status on the Ohio State Report Card, Danville High School received a rating of "Excellent" in 2003-2004. In all we do, the School District strives to promote and maintain a high quality program of free and appropriate education for all.

**Danville Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

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The financial future of the School District is not without its challenges. These challenges are internal and external in nature. The internal challenges will continue to exist as the School District must continue to rely heavily on local property and income taxes to fund its operations. External challenges continue to evolve as the State of Ohio determines the outcome of the Ohio Supreme Court case dealing with the unconstitutionality of the State's educational funding system, and budget cuts at the State level.

On August 9, 1999, the State Controlling Board approved the School District's participation in the Classroom Facilities Assistance Program with \$1,656,000 as the local share of twenty percent and \$6,499,688 as the State share of eighty percent. With these funds, a K-8 facility was constructed. The School District decided to meet its local share by issuing bonds. In addition, the School District decided to fund its maintenance obligation for the project with a one-half mill levy.

Although the School District relies heavily on its property taxpayers to support its operations, the community support for the school is very strong. On March 7, 2000, the voters approved the following:

- 3.1 mill levy not to exceed 23 years, for the local share of the Ohio School Facilities building project and
- a .50 mill levy not to exceed 23 years, for maintenance of the new facilities built during the Ohio School Facilities building project

The community last passed a property tax levy February, 1986, for a continuing period of time. Currently, the School District is at the 20-mill floor, like the majority of other Ohio School Districts. In March 2004, the School District passed an increase to their income tax rate of 1.50 percent, which brought the income tax rate to a total current collection rate of 2.00 percent. The income tax is a very valuable tool as Danville is a rural community and the income tax does not unfairly overburden the predominant agricultural community.

Danville Local School District does not anticipate any meaningful growth in State revenue due to the recently adopted biennial budget, and the unknown affects of HB 66.

Expenditure reductions, including staff reduction and institution of new fees have helped to offset the effects of declining revenues due to factors including phantom revenue and other factors effecting state funding. This was necessary, especially with large increases in health care costs, utilities and fuel, supplies and other expenses.

Currently, the District is developing a plan for upgrading antiquated science facilities at the High School. Lack of funding makes this need very difficult to meet, but the continued success of our science programs depend on the upgrade.

As a result of the challenges mentioned above, it is imperative the School District's management continue to carefully and prudently plan in order to provide the resources required to meet student needs over the next several years.

In summary, the Danville Local School District has committed itself to financial and educational excellence for many years to come.

**Danville Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

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**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Mary Payne, Treasurer, at Danville Local School District, 405 S. Market St., P.O. Box 30, Danville, Ohio 43014, or email at [payne\\_m@treca.org](mailto:payne_m@treca.org).

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**Danville Local School District**

*Statement of Net Assets*

*June 30, 2005*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$1,954,683
Accrued Interest Receivable	1,973
Accounts Receivable	889
Intergovernmental Receivable	27,172
Inventory Held for Resale	7,978
Materials and Supplies Inventory	1,516
Prepaid Items	35,396
Income Taxes Receivable	138,777
Property Taxes Receivable	1,050,299
Nondepreciable Capital Assets	105,035
Depreciable Capital Assets, Net	<u>9,158,783</u>
<i>Total Assets</i>	<u>12,482,501</u>
<b>Liabilities</b>	
Accounts Payable	971
Accrued Wages Payable	371,754
Matured Compensated Absences Payable	9,126
Intergovernmental Payable	109,169
Deferred Revenue	775,296
Accrued Interest Payable	7,025
Long-Term Liabilities:	
Due Within One Year	76,625
Due In More Than One Year	<u>1,604,256</u>
<i>Total Liabilities</i>	<u>2,954,222</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	7,717,818
Restricted for:	
Debt Service	159,847
Food Service Operations	112,262
Public School Support	40,431
Classroom Facilities Maintenance	58,439
Student Activities	34,146
Other Purposes	18,412
Unrestricted	<u>1,386,924</u>
<i>Total Net Assets</i>	<u><u>\$9,528,279</u></u>

See accompanying notes to the basic financial statements

**Danville Local School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2005

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>					
Instruction:					
Regular	\$2,292,286	\$498,633	\$66,361	\$0	(\$1,727,292)
Special	658,912	0	348,210	0	(310,702)
Vocational	104,894	0	53,963	0	(50,931)
Support Services:					
Pupils	222,037	0	3,662	0	(218,375)
Instructional Staff	437,092	0	129,031	0	(308,061)
Board of Education	16,484	0	0	0	(16,484)
Administration	416,142	0	0	0	(416,142)
Fiscal	125,847	0	0	0	(125,847)
Operation and Maintenance of Plant	507,844	10,880	0	0	(496,964)
Pupil Transportation	215,345	0	0	6,087	(209,258)
Central	10,307	0	0	0	(10,307)
Food Service Operations	230,741	108,250	123,358	0	867
Extracurricular Activities	153,944	69,463	0	0	(84,481)
Interest and Fiscal Charges	99,592	0	0	0	(99,592)
<b>Totals</b>	<b>\$5,491,467</b>	<b>\$687,226</b>	<b>\$724,585</b>	<b>\$6,087</b>	<b>(4,073,569)</b>
<b>General Revenues</b>					
Income Taxes Levied for					
General Purposes				365,792	
Property Taxes Levied for:					
General Purposes				769,784	
Debt Service				110,084	
Classroom Maintenance				16,197	
Grants and Entitlements not Restricted to Specific Programs				2,421,162	
Investment Earnings				41,122	
Miscellaneous				43,353	
<i>Total General Revenues</i>				<u>3,767,494</u>	
Change in Net Assets				(306,075)	
<i>Net Assets Beginning of Year</i>				<u>9,834,354</u>	
<i>Net Assets End of Year</i>				<u><u>\$9,528,279</u></u>	

See accompanying notes to the basic financial statements

**Danville Local School District**

*Balance Sheet*

*Governmental Funds*

*June 30, 2005*

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and			
Cash Equivalents	\$1,560,184	\$394,499	\$1,954,683
Inventory Held for Resale	0	7,978	7,978
Materials and Supplies Inventory	0	1,516	1,516
Accrued Interest Receivable	1,973	0	1,973
Accounts Receivable	0	889	889
Intergovernmental Receivable	9,913	17,259	27,172
Prepaid Items	33,413	1,983	35,396
Income Taxes Receivable	138,777	0	138,777
Property Taxes Receivable	898,229	152,070	1,050,299
<i>Total Assets</i>	<u>\$2,642,489</u>	<u>\$576,194</u>	<u>\$3,218,683</u>
 <b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts Payable	\$971	\$0	\$971
Accrued Wages Payable	343,767	27,987	371,754
Matured Compensated Absences Payable	9,126	0	9,126
Intergovernmental Payable	102,586	6,583	109,169
Deferred Revenue	691,994	117,154	809,148
<i>Total Liabilities</i>	<u>1,148,444</u>	<u>151,724</u>	<u>1,300,168</u>
 <b>Fund Balances</b>			
Reserved for Encumbrances	19,616	1,919	21,535
Reserved for Property Taxes	206,235	34,916	241,151
Unreserved, Undesignated			
Reported in:			
General Fund	1,268,194	0	1,268,194
Special Revenue Funds	0	253,751	253,751
Debt Service Fund	0	133,884	133,884
<i>Total Fund Balances</i>	<u>1,494,045</u>	<u>424,470</u>	<u>1,918,515</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$2,642,489</u>	<u>\$576,194</u>	<u>\$3,218,683</u>

See accompanying notes to the basic financial statements

**Danville Local School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2005*

<b>Total Governmental Funds Balances</b>	\$1,918,515
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	9,263,818
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. These deferrals are attributed to property taxes and intergovernmental receivable.	33,852
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(7,025)
Long-term liabilities, including bonds payable and compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds:	
Compensated Absences	(73,371)
General Obligation Bonds	<u>(1,607,510)</u>
 Total	 <u>(1,680,881)</u>
 <i>Net Assets of Governmental Activities</i>	 <u><u>\$9,528,279</u></u>

See accompanying notes to the basic financial statements

**Danville Local School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2005*

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Property Taxes	\$808,267	\$133,455	\$941,722
Income Tax	365,792	0	365,792
Intergovernmental	2,682,339	472,713	3,155,052
Interest	38,079	3,043	41,122
Tuition and Fees	491,933	6,700	498,633
Extracurricular Activities	0	69,463	69,463
Contributions and Donations	3,514	0	3,514
Customer Sales and Services	0	108,250	108,250
Rentals	10,880	0	10,880
Miscellaneous	21,564	21,789	43,353
<i>Total Revenues</i>	<u>4,422,368</u>	<u>815,413</u>	<u>5,237,781</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	2,047,075	76,776	2,123,851
Special	499,102	136,857	635,959
Vocational	108,892	0	108,892
Support Services:			
Pupils	210,398	3,034	213,432
Instructional Staff	265,647	143,922	409,569
Board of Education	16,650	0	16,650
Administration	394,278	14,624	408,902
Fiscal	123,374	3,335	126,709
Operation and Maintenance of Plant	503,379	10,999	514,378
Pupil Transportation	197,024	0	197,024
Central	10,307	0	10,307
Operation of Non-Instructional Services	0	220,016	220,016
Extracurricular Activities	94,838	58,647	153,485
Capital Outlay	0	23,547	23,547
Debt Service:			
Principal Retirement	0	35,000	35,000
Interest and Fiscal Charges	0	85,175	85,175
<i>Total Expenditures</i>	<u>4,470,964</u>	<u>811,932</u>	<u>5,282,896</u>
<i>Net Change in Fund Balances</i>	(48,596)	3,481	(45,115)
<i>Fund Balances Beginning of Year</i>	<u>1,542,641</u>	<u>420,989</u>	<u>1,963,630</u>
<i>Fund Balances End of Year</i>	<u>\$1,494,045</u>	<u>\$424,470</u>	<u>\$1,918,515</u>

See accompanying notes to the basic financial statements

**Danville Local School District**

*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2005*

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**Net Change in Fund Balances - Total Governmental Funds** (\$45,115)

*Amounts reported for governmental activities in the  
statement of activities are different because*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Outlay	61,586
Depreciation	<u>(321,110)</u>

Total (259,524)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property Taxes	(45,657)
Intergovernmental	<u>(6,732)</u>

Total (52,389)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 35,000

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Accrued Interest on Bonds	146
Bond Accretion	<u>(14,563)</u>

Total (14,417)

Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represent contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	(5,100)
Pension Obligation	<u>35,470</u>

Total 30,370

*Change in Net Assets of Governmental Activities* (\$306,075)

See accompanying notes to the basic financial statements

**Danville Local School District**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2005*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Property Taxes	\$943,883	\$943,883	\$943,883	\$0
Income Tax	384,195	384,195	384,195	0
Intergovernmental	2,501,983	2,701,754	2,701,754	0
Interest	33,589	33,589	36,595	3,006
Tuition and Fees	491,933	491,933	491,933	0
Contributions and Donations	3,514	3,514	3,514	0
Rentals	10,880	10,880	10,880	0
Miscellaneous	21,303	21,303	21,303	0
<i>Total Revenues</i>	<u>4,391,280</u>	<u>4,591,051</u>	<u>4,594,057</u>	<u>3,006</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	2,099,010	2,099,010	2,056,421	42,589
Special	589,209	637,902	433,636	204,266
Vocational	116,218	116,218	109,274	6,944
Other	63,018	63,018	67,927	(4,909)
Support Services:				
Pupils	199,956	199,956	210,673	(10,717)
Instructional Staff	218,343	218,343	267,859	(49,516)
Board of Education	17,993	17,993	16,485	1,508
Administration	401,803	401,803	387,749	14,054
Fiscal	145,287	145,287	142,715	2,572
Operation and Maintenance of Plant	498,191	494,191	491,570	2,621
Pupil Transportation	197,004	201,004	191,400	9,604
Central	11,128	11,128	10,307	821
Extracurricular Activities	101,087	101,087	92,756	8,331
<i>Total Expenditures</i>	<u>4,658,247</u>	<u>4,706,940</u>	<u>4,478,772</u>	<u>228,168</u>
<i>Net Change in Fund Balance</i>	(266,967)	(115,889)	115,285	231,174
<i>Fund Balance Beginning of Year</i>	1,422,579	1,422,579	1,422,579	0
Prior Year Encumbrances Appropriated	<u>2,705</u>	<u>2,705</u>	<u>2,705</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$1,158,317</u>	<u>\$1,309,395</u>	<u>\$1,540,569</u>	<u>\$231,174</u>

See accompanying notes to the basic financial statements

**Danville Local School District**  
*Statement of Fiduciary Net Assets*  
*Fiduciary Funds*  
*June 30, 2005*

	Private Purpose Trust	
	Scholarship	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$1,383	\$53,262
<b>Liabilities</b>		
Due to Students	0	\$53,262
<b>Net Assets</b>		
Held in Trust for Scholarships	\$1,383	

See accompanying notes to the basic financial statements

**Danville Local School District**  
*Statement of Changes in Fiduciary Net Assets*  
*Private Purpose Trust Fund*  
*June 30, 2005*

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	<u>Scholarship</u>
<b>Additions</b>	
Contributions and Donations	\$101,400
Interest	<u>487</u>
<i>Total Additions</i>	101,887
<b>Deductions</b>	
Scholarships Awarded	<u>112,282</u>
<i>Change in Net Assets</i>	(10,395)
<i>Net Assets Beginning of Year</i>	<u>11,778</u>
<i>Net Assets End of Year</i>	<u><u>\$1,383</u></u>

See accompanying notes to the basic financial statements

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**Danville Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**Note 1 - Description of the School District and Reporting Entity**

Danville Local School 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 School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State statute and federal guidelines. This Board of Education controls the School District's two instructional facilities and one administrative building staffed by 26 noncertified and 58 certificated full-time teaching personnel who provide services to 678 students and other community members.

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards and agencies that are not legally separate from the School District. For Danville Local School District, this includes general operations, food service, preschool and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes for the organization. The School District has no component units.

The School District participates in two jointly governed organizations and one insurance pool. These organizations are the Tri-Rivers Educational Computer Association, Knox County Career Center, and the Ohio School Plan. These organizations are presented in Notes 10 and 12 to the basic financial statements.

**Note 2 - Summary of Significant Accounting Policies**

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

**A. Basis of Presentation**

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**Danville Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**Government-wide Financial Statements** The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type. However, the School District has only governmental activities; therefore no business-type activities are presented.

The statement of net assets presents the financial condition of the governmental activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

**Fund Financial Statements** During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**B. Fund Accounting**

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The School District reports its activities in two categories of funds: governmental and fiduciary.

**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the School District's major governmental fund:

**General Fund** The general fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

**Fiduciary Funds** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's only trust fund is a private

**Danville Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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purpose trust fund which accounts for accounts for a program that provides college scholarship assistance to students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts for student activities.

***C. Measurement Focus***

***Government-wide Financial Statements*** The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

***Fund Financial Statements*** All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (e.g., revenues and other financing sources) and uses (e.g., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private purpose trust fund is accounted for on a flow of economic resources measurement focus.

***D. Basis of Accounting***

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from income taxes is recognized in the period the income is earned. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

**Danville Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, income taxes, interest, tuition, grants, fees and rentals.

***Deferred Revenue*** Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

***Expenses/Expenditures*** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

***E. Cash and Cash Equivalents***

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents."

During fiscal year 2005, investments were limited to certificates of deposits and STAR Ohio.

Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2005.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$38,079, which includes \$5,771 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents.

***F. Inventory***

Inventories are presented at cost on a first-in, first-out basis and are expensed/expended when used. Inventories consist of donated and purchased food held for resale and supplies held for consumption.

**Danville Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**G. Capital Assets**

All capital assets of the School District are classified as general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives
Buildings	45 years
Furniture, Fixtures and Equipment	5 - 15 years
Vehicles	10 years

**H. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column of the statement of net assets.

**I. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for all accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

**Danville Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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On the governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employee who has accumulated unpaid leave is paid.

***J. Accrued Liabilities and Long-term Obligations***

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the governmental fund financial statements when due.

***K. Interfund Activity***

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

***L. Fund Balance Reserves***

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances and property taxes.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute

***M. Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$423,537 of restricted net assets, of which \$218,286 is restricted by enabling legislation. Net assets restricted for other purposes include resources restricted for various state and federal grants, uniform school supplies and summer school.

The School District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**Danville Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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***N. Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

***O. Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

***P. Budgetary Data***

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The treasurer has been authorized to allocate Board appropriations to the function and object level within each fund.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that was in effect at the time the final appropriations were passed by the Board of Education.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

**Note 3 - Change in Accounting Principles**

For fiscal year 2005, the School District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers."

GASB Statement No. 40 establishes disclosure requirements for investment credit risk, interest rate risk, deposit custodial risk and foreign currency risk.

GASB Statement No. 46 clarifies how enabling legislation should be defined for determining restricted net assets.

**Danville Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 46 did not affect the presentation of the financial statements of the School District. The implementation of GASB Technical Bulletin No. 2004-2 had no material effect on the financial statements as they were previously reported as of June 30, 2004.

**Note 4 - Fund Deficits**

The following funds had deficit fund balances at June 30, 2005:

<u>Special Revenue Funds:</u>	<u>Deficit</u>
EMIS	\$15
DPIA	21
Ohio Reads	5
Title II-A	4,391
Miscellaneous Federal Grants	5

The deficits in the special revenue funds resulted from the recognition of liabilities in accordance with generally accepted accounting principles. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

**Note 5 - Budgetary Basis of Accounting**

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual presented for the general fund 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 GAAP basis are:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

**Danville Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis for the general fund.

Net Change in Fund Balance	
GAAP Basis	(\$48,596)
Net Adjustment for Revenue Accruals	171,689
Net Adjustment for Expenditure Accruals	11,807
Encumbrances	(19,615)
Budget Basis	<u><u>\$115,285</u></u>

**Note 6 - Deposits and Investments**

Monies held by the School District are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the School District treasury. Active monies must be maintained either as cash in the School 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 that the Board has identified as not required for use within the current five 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 designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and 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;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;

**Danville Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio); and,
8. Commercial paper and bankers' acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

**Deposits**

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$700,000 of the School District's bank balance of \$863,835 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**Investments**

As of June 30, 2005, the School District had one investment, STAROhio. The School District's investment in STAROhio had a carrying and fair value of \$1,201,968 and an average days to maturity of 33 days. The investment is in an internal investment pool.

**Credit Risk** STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that would further limit its investment choices.

**Note 7 - Property Taxes**

Property taxes are levied and assessed on a calendar year basis while the School District fiscal year runs from July through June. First half tax collections are received by the School District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

**Danville Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. 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. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible property is currently assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Knox and Holmes Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes are available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$206,235 in the general fund, \$4,375 in the classroom facilities maintenance special revenue fund and \$30,541 in the bond retirement fund. The amount available as an advance at June 30, 2004, was \$341,851 in the general fund, \$6,843 in the classroom facilities maintenance special revenue fund and \$48,480 in the bond retirement fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

**Danville Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second- Half Collections		2005 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$45,571,920	92.62 %	\$45,709,340	92.64 %
Public Utility Personal	2,172,440	4.42	2,244,880	4.55
Tangible Personal Property	1,456,042	2.96	1,388,942	2.81
Total	\$49,200,402	100.00 %	\$49,343,162	100.00 %
Tax rate per \$1,000 of assessed valuation	\$44.60		\$44.60	

**Note 8 - Income Tax**

The School District levies a voted tax of one half percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1990, and is a continuing tax. On January 1, 2005, an additional one and one-half percent tax collection began. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund.

**Note 9 - Receivables**

Receivables at June 30, 2005, consisted of taxes, accounts (rent and student fees), tuition and intergovernmental grants. 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 year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Funds:	
CAFS	\$9,913
Title VI-B	9,328
Title I	6,865
Drug Free	1,066
Total	\$27,172

**Danville Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**Note 10 - Jointly Governed Organizations**

***A. Tri-Rivers Educational Computer Association***

Tri-Rivers Educational Computer Association (TRECA) is a jointly governed organization among school districts and educational service centers located in Delaware, Marion, Wyandot, Knox, and Morrow Counties. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts.

The legislative and advisory body is the assembly which is comprised of the superintendents of the participating schools. The degree of control exercised by any participating school district is limited to its representation on the assembly, which elects the board of directors, who exercises total control over the operation of TRECA including budgeting, appropriating, contracting and designating management. All revenues are generated from participating districts and State funding. Danville Local School District paid \$45,905 to TRECA during fiscal year 2005. The Tri-Rivers Joint Vocational School is the fiscal agent of TRECA. Financial information can be obtained by writing to TRECA, 2222 Marion-Mt. Gilead Road, Marion, Ohio 43302.

***B. Knox County Career Center***

The Knox County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards, which possesses its own budgeting and taxing authority. The School District made \$3,220 in payments to the Career Center during fiscal year 2005. To obtain financial information, write to the Knox County Career Center, Tracy Elliot, who serves as Treasurer, at 306 Martinsburg Road, Mount Vernon, Ohio 43050.

**Danville Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

**Note 11 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance 7/1/04	Additions	Deductions	Balance 6/30/05
<b>Governmental Activities</b>				
Capital Assets, not being depreciated:				
Land	\$105,035	\$0	\$0	\$105,035
Capital Assets, being Depreciated				
Buildings	10,358,149	8,067	0	10,366,216
Furniture, Fixtures and Equipment	1,074,159	53,519	0	1,127,678
Vehicles	548,582	0	0	548,582
Total Capital Assets, being Depreciated	<u>11,980,890</u>	<u>61,586</u>	<u>0</u>	<u>12,042,476</u>
Less Accumulated Depreciation:				
Buildings	(1,340,998)	(219,304)	0	(1,560,302)
Furniture, Fixtures and Equipment	(796,530)	(79,438)	0	(875,968)
Vehicles	(425,055)	(22,368)	0	(447,423)
Total Accumulated Depreciation	<u>(2,562,583)</u>	<u>(321,110) *</u>	<u>0</u>	<u>(2,883,693)</u>
Total Capital Assets, being Depreciated, net	<u>9,418,307</u>	<u>(259,524)</u>	<u>0</u>	<u>9,158,783</u>
Governmental Activities Capital Assets, Net	<u>\$9,523,342</u>	<u>(\$259,524)</u>	<u>\$0</u>	<u>\$9,263,818</u>

\* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$167,759
Special	22,666
Vocational	2,192
Support Services:	
Pupils	10,281
Instructional Staff	31,836
Administration	5,470
Fiscal	584
Operation and Maintenance of Plant	30,912
Pupil Transportation	25,489
Food Service Operations	21,428
Extracurricular Activities	2,493
Total Depreciation Expense	<u>\$321,110</u>

**Danville Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**Note 12 – Insurance Pool**

The School District participates in the Ohio School Plan (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a fifteen member board consisting of superintendents, treasurers, the president of Harcum-Hyre Insurance Agency, Inc., and a member of the Hylant Group, Inc. The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum-Hyre Insurance Agency serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Harcum-Hyre Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

**Note 13 - Risk Management**

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2005, the School District contracted with Selective Insurance Company for general liability coverage with a \$1,000,000 single occurrence limit and \$3,000,000 aggregate and no deductible. Professional liability is protected at the level of \$1,000,000 for single occurrence limit and \$3,000,000 aggregate and no deductible. Vehicles have a \$1,000 deductible for both comprehensive and collision and are covered for property and general liability insurance in the amount of \$1,000,000 with no deductible.

Selective Insurance Company holds the coverage for the blanket building and contents, boiler and machinery with a \$22,606,245 limit and a \$1,000 deductible. Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in coverage from the prior year.

The School District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

**Note 14 - Defined Benefit Pension Plans**

***A. School Employees Retirement System***

The School District contributes to the School Employees Retirement System (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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension

**Danville Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 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 School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$55,302, \$51,555 and \$46,584 respectively; 52.62 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

***B. State Teachers Retirement System***

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 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 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.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations 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 employer contributions.

**Danville Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$272,709, \$274,079, and \$273,468 respectively; 83.04 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were none made by the School District and \$5,844 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2005, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid.

**Note 15 - Postemployment Benefits**

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$20,978 for fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. 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 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, School District paid \$17,946 to fund health care benefits, including the surcharge.

**Danville Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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 for the fiscal year ended June 30, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**Note 16 - Other Employee Benefits**

**A. Compensated Absences**

The criteria for determining vacation, personal and sick leave benefits 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 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 to a maximum of 195 days. Upon retirement, payment is made for one-fourth of total sick leave accumulation up to a maximum accumulation of 160 days. An employee receiving such payment must meet the retirement provisions set by STRS or SERS.

**B. Health and Life Insurance**

The School District provided health insurance to most employees through United Health Care. The School District provides life insurance in the amount of \$30,000 for all regular certified and noncertified employees and accidental death and dismemberment insurance to most employees through Metropolitan Educational Council Health Benefits Program.

**Note 17 - Long-Term Obligations**

Changes in long-term obligations of the School District during fiscal year 2005 were as follows:

	Amount Outstanding 6/30/04	Additions	Deletions	Amount Outstanding 6/30/05	Amounts Due in One Year
<b>Governmental Activities</b>					
2000 Classroom Facilities Improvement					
\$1,610,001 4.85%-5.75% Serial Bonds	\$1,535,001	\$0	\$35,000	\$1,500,001	\$40,000
\$45,999 4.85%-5.75%					
Capital Appreciation Bonds	45,999	0	0	45,999	0
Accretion on Capital Appreciation Bonds	46,947	14,563	0	61,510	0
Compensated Absences	68,271	16,485	11,385	73,371	36,625
<b>Total Governmental Activities</b>	<b>\$1,696,218</b>	<b>\$31,048</b>	<b>\$46,385</b>	<b>\$1,680,881</b>	<b>\$76,625</b>

**Danville Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

The bonds will be retired out of the debt service fund. The 2000 general obligation bonds include serial bonds and capital appreciation bonds that will mature in fiscal years 2012, 2013, 2014 and 2015. The addition was \$14,563 which represents the annual accretion of discounted interest. The final amount of the capital appreciation bonds will be \$325,000.

Compensated absences will be paid from the general fund and food service, Title VI-B, Title I and Title II special revenue funds.

The School District's overall legal debt margin was \$3,023,769 with an unvoted debt margin of \$49,343 at June 30, 2005.

Principal and interest requirements to retire the classroom facilities improvement bonds outstanding at June 30, 2005 are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds			
	Serial		Capital Appreciation	
	Principal	Interest	Principal	Interest
2006	\$40,000	\$83,300	\$0	\$0
2007	45,000	81,164	0	0
2008	50,000	78,753	0	0
2009	55,000	76,061	0	0
2010	60,000	73,085	0	0
2011-2015	70,001	341,088	45,999	279,001
2016-2020	550,000	265,937	0	0
2021-2024	630,000	75,326	0	0
Total	<u>\$1,500,001</u>	<u>\$1,074,714</u>	<u>\$45,999</u>	<u>\$279,001</u>

**Note 18 - Set-Asides**

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year end or offset by similarly restricted resources received during the year must be held in cash at year end. These amounts must be carried forward to be used for the same purposes in future years.

The following cash basis information describes the change in the fiscal year-end set-aside amounts for textbooks, capital acquisition and budget stabilization. The budget stabilization set-aside is no longer required due to legislative revisions of the statute. Disclosure of this information is required by State statute.

**Danville Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

	Textbooks	Capital Acquisition
Set-aside Reserve Balance as of June 30, 2005	\$1,246	(\$24,943)
Current Year Set-aside Requirement	91,105	91,105
Current Year Offsets	0	(22,032)
Qualifying Disbursements	(92,803)	(109,154)
Totals	(\$452)	(\$65,024)
Set-aside Balance Carried Forward to Future Fiscal Years	(\$452)	(\$65,024)
Set-aside Reserve Balance as of June 30, 2005	\$0	\$0

The School District had qualifying disbursements and offsets during the fiscal year that reduced the textbook and capital improvement set-aside amounts to zero. The total reserve balance for the two set-asides at the end of the fiscal year was zero.

**Note 19 - Contingencies**

***A. Grants***

The School District received financial assistance from federal and state 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 adverse effect on the overall financial position of the School District at June 30, 2005.

***B. Litigation***

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



## 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*

Danville Local School District  
Knox County  
411 South Market Street  
Danville, Ohio 43014

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Danville Local School District, Knox County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 21, 2006. 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 District's internal control over financial reporting to determine our auditing procedures in order to express our opinions 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 District's management dated March 21, 2006, 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 District'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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated March 21, 2006, we reported an other matter related to noncompliance we deemed immaterial.

35 N. Fourth St. / Second Floor / Columbus, OH 43215  
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

We intend this report solely for the information and use of the audit committee, management, and the Board of Education. 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

March 21, 2006



**Auditor of State  
Betty Montgomery**

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**DANVILLE LOCAL SCHOOL DISTRICT  
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 4, 2006**