



**Auditor of State
Betty Montgomery**

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

TABLE OF CONTENTS

Title	Page
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets	12
Statement of Activities.....	13
Balance Sheet – Governmental Funds.....	14
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds.....	16
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual General Fund	18
Statement of Fiduciary Net Assets – Fiduciary Funds.....	19
Statement of Changes in Fiduciary Net Assets – Private Purpose Trust Fund.....	20
Notes to the Basic Financial Statements	21
Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	41

THIS PAGE INTENTIONALLY LEFT BLANK



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, 2006, 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, 2006, 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 December 8, 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

December 8, 2006

Danville Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

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, 2006. 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 fiscal year 2006 are as follows:

- In total, net assets increased by \$428,075.
- Revenues for governmental activities totaled \$6,362,633 in 2006. Of this total, 77.7 percent consisted of general revenues while program revenues accounted for the balance of 22.3 percent.
- Program expenses totaled \$5,934,558. Instructional expenses made up 55.0 percent of this total while support services accounted for 36.7 percent. Other expenses rounded out the remaining 8.3 percent.
- Outstanding general obligation bonded debt decreased from \$1,546,000 to \$1,506,000 in 2006.

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 2006?" 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, 2006
Unaudited

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 2006 compared to 2005:

Danville Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Table 1
Net Assets
Governmental Activities

	2006	2005
Assets		
Current and Other Assets	\$3,849,100	\$3,218,683
Capital Assets, Net	9,010,905	9,263,818
<i>Total Assets</i>	<u>12,860,005</u>	<u>12,482,501</u>
Liabilities		
Current Liabilities	1,190,793	1,273,341
Long-Term Liabilities:		
Due Within One Year	69,530	76,625
Due in More Than One Year	1,643,328	1,604,256
<i>Total Liabilities</i>	<u>2,903,651</u>	<u>2,954,222</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	7,504,905	7,717,818
Restricted for:		
Capital Projects	4,864	0
Debt Service	199,070	159,847
Other Purposes	325,212	263,690
Unrestricted	1,922,303	1,386,924
<i>Total Net Assets</i>	<u>\$9,956,354</u>	<u>\$9,528,279</u>

Total assets increased by \$377,504. The increase was largely caused by increases in equity in pooled cash and cash equivalents and taxes receivable and partially offset by a decrease in capital assets caused by the current year depreciation expense. Total liabilities decreased by \$50,571, due primarily to a reduction in deferred revenues as more property taxes revenue was 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 increased as evidenced by the increase in net assets of \$428,075.

The vast majority of revenue supporting all governmental activities is general revenue. General revenue totaled \$4,945,914 or 77.7 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 \$1,416,719 or 22.3 percent of total revenue.

Table 2 shows the revenues, expenses and changes in net assets for fiscal years 2006 and 2005.

Danville Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Table 2
Changes in Net Assets
Governmental Activities

	2006	2005
Revenues		
Program Revenues:		
Charges for Services and Sales	\$707,228	\$687,226
Operating Grants and Contributions	699,349	724,585
Capital Grants and Contributions	10,142	6,087
Total Program Revenues	<u>1,416,719</u>	<u>1,417,898</u>
General Revenues:		
Property Taxes	1,419,510	896,065
Income Taxes	928,136	365,792
Grants and Entitlements	2,462,194	2,421,162
Investment Earnings	93,252	41,122
Miscellaneous	42,822	43,353
Total General Revenues	<u>4,945,914</u>	<u>3,767,494</u>
Total Revenues	<u>6,362,633</u>	<u>5,185,392</u>
Program Expenses		
Instruction:		
Regular	2,457,913	2,292,286
Special	664,051	658,912
Vocational	122,977	104,894
Student Intervention Services	20,139	
Support Services:		
Pupils	282,662	222,037
Instructional Staff	431,070	437,092
Board of Education	20,938	16,484
Administration	444,333	416,142
Fiscal	148,097	125,847
Operation and Maintenance of Plant	574,582	507,844
Pupil Transportation	239,455	215,345
Central	34,453	10,307
Food Service Operations	236,270	230,741
Extracurricular Activities	158,020	153,944
Interest and Fiscal Charges	99,598	99,592
Total Program Expenses	<u>5,934,558</u>	<u>5,491,467</u>
Increase/Decrease in Net Assets	428,075	(306,075)
<i>Net Assets Beginning of Year</i>	<u>9,528,279</u>	<u>9,834,354</u>
<i>Net Assets End of Year</i>	<u>\$9,956,354</u>	<u>\$9,528,279</u>

Danville Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Property taxes increased by \$523,445 due to the timing and amounts of property tax advances and collections at June 30. Income tax revenue increased due to the lapse of the levy in 2004 which was reissued in January 2005. The School District has an overall increase in expenses of \$443,091 with the largest increases in regular instruction, operation and maintenance of plant, and pupil support services.

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 55.0 percent of the School District's fiscal year 2006 expenses were for instructional services. Additional supporting services for pupils, staff, pupil transportation and business operations amounted to 36.7 percent. The remaining amount of program expenses, 8.3 percent, is 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 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
Governmental Activities:				
Instruction:				
Regular	\$2,457,913	\$1,849,345	\$2,292,286	\$1,727,292
Special	664,051	310,970	658,912	310,702
Vocational	122,977	102,250	104,894	50,931
Student Intervention Services	20,139	20,139		
Support Services:				
Pupils	282,662	275,385	222,037	218,375
Instructional Staff	431,070	325,295	437,092	308,061
Board of Education	20,938	20,938	16,484	16,484
Administration	444,333	440,504	416,142	416,142
Fiscal	148,097	148,097	125,847	125,847
Operation and Maintenance of Plant	574,582	561,906	507,844	496,964
Pupil Transportation	239,455	236,513	215,345	209,258
Central	34,453	33,474	10,307	10,307
Food Service Operations	236,270	(674)	230,741	(867)
Extracurricular Activities	158,020	94,099	153,944	84,481
Interest and Fiscal Charges	99,598	99,598	99,592	99,592
Total	\$5,934,558	\$4,517,839	\$5,491,467	\$4,073,569

Danville Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

As one can see, the reliance upon local tax revenues for governmental activities is crucial. Approximately 76.1 percent of expenses are supported by general revenues including local property and income taxes and grant and entitlements not restricted to specific programs. Program revenues provided for the remaining 23.9 percent of all governmental expenses.

School District's Funds

Information regarding the School District's major fund can be found on pages 14 - 18. The governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$6,338,117 and expenditures of \$5,649,835. The net change in fund balance for the year was most significant in the general fund, with an increase of \$584,958.

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 fiscal year 2006, the School District amended its general fund budget numerous times, but none were 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 \$4,673,922 and \$5,030,438, respectively. Final budget basis appropriations totaled \$5,061,258 compared to the original estimate of \$4,917,680.

The general fund's unencumbered ending cash balance totaled \$1,784,154, which was well above the original budgeted amount of \$1,316,440, due primarily to actual revenues throughout the year exceeding the original estimates. Additionally actual expenditures were less than appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the School District had \$9,010,905 invested in land, construction in process, buildings, furniture, fixtures and equipment, and vehicles. Table 4 shows fiscal 2006 values compared to 2005. 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, 2006
Unaudited

Table 4
Capital Assets at June 30
Governmental Activities

	2006	2005
Land	\$105,035	\$105,035
Construction In Process	2,500	0
Buildings and Improvements	8,633,688	8,805,914
Furniture, Fixtures and Equipment	190,890	251,710
Vehicles	78,792	101,159
<i>Total Capital Assets</i>	\$9,010,905	\$9,263,818

All capital assets, except land and construction in process, 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 \$269,399 for fiscal year 2006.

Debt

At June 30, 2006 the School District had \$1,506,000 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

	2006	2005
Classroom Facilities		
Improvement Bonds	\$1,506,000	\$1,546,000
Accretion	77,975	61,510
	\$1,583,975	\$1,607,510

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 \$3,495,604 with an unvoted debt margin of \$53,856.

Current Issues Affecting Financial Condition

The Danville Local School District's motto is *Excellence from All - Shaping Quality Graduates*. The District Continuous Improvement Plan is based on the primary goal of *Increasing Achievement for All Students*. The District achieved the distinction of "Effective" status on the 2005-2006 Ohio State Report Card and Danville High School was rated as "Excellent."

Danville Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

The Danville Local School District Continuous Improvement Plan also includes the crucial goal of *Developing Adequate Support for Increasing Achievement*. Relative to accomplishing this end, the following activities are suggested:

1. Manage available funding to support achievement
2. Advocate for resources to support achievement
3. Align available resources to support achievement
4. Formulate and maintain plans for acquisition and rotation of technology, textbooks, and other resources

Assuring the district's financial welfare is an extreme challenge. Effective internal controls and careful budgeting have created positive cash flow and placed the district on firm financial footing for the short term. Unfortunately, as is the case for a majority of Ohio's public school districts, the outlook over the longer term is far less hopeful. As the struggle to maintain solvency continues inside the district, major external forces persist to make the task of preparing our youth for the 21st century increasingly difficult to support. The major external factors include: inadequate funding, a broken foundation system of school support, the state's refusal to meet the order of the Ohio Supreme Court in the DeRolph decision, the recent superfluity of unfunded mandates from both Federal and State levels, and more.

Danville Local School District is forced to rely heavily on local taxpayers to support our programs. The District property tax rate is currently at the 20 mill floor. The taxpayers, in an incredible show of support for our children's future, have also shouldered the burden of a 2% school income tax. The effect of phantom revenue at just the top level of the state foundation cost the district approximately \$147,551 in basic state aid for fiscal year 2006 alone. Yet, that is just the beginning of the story.

For fiscal year 2006 the State of Ohio set the foundation level at \$5,283 per student. The district actually expended \$7,343 to educate each student in that year - down from \$7,809 in fiscal year 2004. Based on the state's formula, in fiscal year 2006, the District received \$3,393.34 per student, or 46%, in state aid. That left \$3,948.66, or 54%, to be picked up by the local taxpayer! Property reappraisal, when coming in at a significantly higher percentage than the yearly increases in state basic aid reflect, further exacerbates the inadequacy of the state funding mechanism and further increases the burden on local taxpayers by widening the gulf between actual property tax receipts and the charge-off. Additionally, the district is distressed by an increase in the number of economically disadvantaged students attending our schools. In the past ten years the number of students participating in the free lunch program has increased 52%. Reduced lunch program participation has increased 58%. It is clear to see how the deleterious effects of the school funding mechanism, unfunded mandates, and a declining ability by local residents to assume the state's responsibility combine to create a downward spiral that must eventually lead to insolvency.

The Danville Elementary and Middle School building project was completed in 2003. Built through the Ohio School Facilities Commission the 3.1 mill local share was approved by the voters and amounted to 20% of construction costs. The local share bonded indebtedness, originally \$1,656,000, was recently refinanced in order to save money for the taxpayers a portion of the cost over time. That savings will be better reflected in next year's numbers. A one-half mill levy was passed that helps offset maintenance costs.

Currently the District has begun a major renovation of High School Science facilities. Project costs are slated to range from \$250,000 to \$300,000. Funding for this project will come from the general fund and alumni contributions. Obviated by the need to upgrade science rooms, aging facilities at the district's High School building are beginning to deteriorate and require additional expenditures to maintain. The modern systems included in the Elementary and Middle School Building are also expensive to operate and maintain in spite of their newness.

Danville Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Other factors of concern in maintaining the fiscal integrity of the district are numerous. CAFS reimbursement has ended, and the bus purchase allowance was reduced by 50% from FY2005. School safety issues are forcing upgrade of security and response systems. No Child Left Behind legislation has forced long overdue changes in American public education, even as it has wrought perhaps the largest set of under-funded and unfunded mandates imaginable. The increased costs of harvesting and applying data, training existing staff and recruiting new teachers, retooling systems and classrooms, among others has greatly taxed financial resources.

Open enrollment accounts for nearly 10% of district general fund revenue. Unfortunately, this too is a mixed blessing since the state's formula for reimbursing the educating district is based on the foundation amount – some \$2,060 less than the actual cost of educating the average student in fiscal year 2006. On a more positive note, interest on investments has doubled as rates of return continue to rise.

Basically, the financial outlook is not good. Continued vigilance inside the district along with the historically strong support of our local citizens can only offset the governmental indifference for the near term. Without some form of relief on the part of the state and federal governments it is difficult if not impossible to see the situation improving.

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.

Danville Local School District

Statement of Net Assets

June 30, 2006

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$2,224,357
Investments	4,941
Accrued Interest Receivable	2,740
Accounts Receivable	902
Intergovernmental Receivable	61,604
Inventory Held for Resale	7,489
Materials and Supplies Inventory	1,730
Income Taxes Receivable	343,162
Property Taxes Receivable	1,202,175
Nondepreciable Capital Assets	107,535
Depreciable Capital Assets, Net	<u>8,903,370</u>
<i>Total Assets</i>	<u>12,860,005</u>
Liabilities	
Accounts Payable	3,264
Accrued Wages Payable	386,533
Intergovernmental Payable	113,793
Deferred Revenue	680,345
Accrued Interest Payable	6,858
Long-Term Liabilities:	
Due Within One Year	69,530
Due In More Than One Year	<u>1,643,328</u>
<i>Total Liabilities</i>	<u>2,903,651</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	7,504,905
Restricted for:	
Capital Projects	4,864
Debt Service	199,070
Food Service Operations	137,256
Public School Support	45,618
Classroom Facilities Maintenance	68,580
Student Activities	35,093
Other Purposes	38,665
Unrestricted	<u>1,922,303</u>
<i>Total Net Assets</i>	<u><u>\$9,956,354</u></u>

See accompanying notes to the basic financial statements

Danville Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2006

	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
Governmental Activities					
Instruction:					
Regular	\$2,457,913	\$526,031	\$72,395	\$10,142	(\$1,849,345)
Special	664,051	0	353,081	0	(310,970)
Vocational	122,977	0	20,727	0	(102,250)
Student Intervention Services	20,139	0	0	0	(20,139)
Support Services:					
Pupils	282,662	0	7,277	0	(275,385)
Instructional Staff	431,070	0	105,775	0	(325,295)
Board of Education	20,938	0	0	0	(20,938)
Administration	444,333	0	3,829	0	(440,504)
Fiscal	148,097	0	0	0	(148,097)
Operation and Maintenance of Plant	574,582	12,676	0	0	(561,906)
Pupil Transportation	239,455	0	2,942	0	(236,513)
Central	34,453	0	979	0	(33,474)
Food Service Operations	236,270	104,600	132,344	0	674
Extracurricular Activities	158,020	63,921	0	0	(94,099)
Interest and Fiscal Charges	99,598	0	0	0	(99,598)
<i>Totals</i>	<u>\$5,934,558</u>	<u>\$707,228</u>	<u>\$699,349</u>	<u>\$10,142</u>	<u>(4,517,839)</u>

General Revenues

Income Taxes Levied for	
General Purposes	928,136
Property Taxes Levied for:	
General Purposes	1,246,230
Debt Service	149,302
Classroom Maintenance	23,978
Grants and Entitlements not Restricted to Specific Programs	2,462,194
Investment Earnings	93,252
Miscellaneous	42,822
<i>Total General Revenues</i>	<u>4,945,914</u>
Change in Net Assets	428,075
<i>Net Assets Beginning of Year</i>	<u>9,528,279</u>
<i>Net Assets End of Year</i>	<u>\$9,956,354</u>

See accompanying notes to the basic financial statements

Danville Local School District

Balance Sheet

Governmental Funds

June 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Equity in Pooled Cash and			
Cash Equivalents	\$1,786,525	\$437,832	\$2,224,357
Investments	0	4,941	4,941
Inventory Held for Resale	0	7,489	7,489
Materials and Supplies Inventory	0	1,730	1,730
Accrued Interest Receivable	2,740	0	2,740
Accounts Receivable	0	902	902
Intergovernmental Receivable	362	61,242	61,604
Income Taxes Receivable	343,162	0	343,162
Property Taxes Receivable	1,060,305	141,870	1,202,175
<i>Total Assets</i>	<u>\$3,193,094</u>	<u>\$656,006</u>	<u>\$3,849,100</u>
 Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$0	\$3,264	\$3,264
Accrued Wages Payable	358,273	28,260	386,533
Intergovernmental Payable	111,217	2,576	113,793
Deferred Revenue	644,601	94,112	738,713
<i>Total Liabilities</i>	<u>1,114,091</u>	<u>128,212</u>	<u>1,242,303</u>
 Fund Balances			
Reserved for Encumbrances	2,371	16,928	19,299
Reserved for Property Taxes	415,704	55,622	471,326
Unreserved, Undesignated			
Reported in:			
General Fund	1,660,928	0	1,660,928
Special Revenue Funds	0	295,856	295,856
Debt Service Fund	0	154,524	154,524
Capital Projects Funds	0	4,864	4,864
<i>Total Fund Balances</i>	<u>2,079,003</u>	<u>527,794</u>	<u>2,606,797</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$3,193,094</u>	<u>\$656,006</u>	<u>\$3,849,100</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, 2006*

Total Governmental Funds Balances	\$2,606,797
<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	9,010,905
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.	58,368
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(6,858)
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	(128,883)
General Obligation Bonds	<u>(1,583,975)</u>
Total	<u>(1,712,858)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$9,956,354</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, 2006

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Property Taxes	\$1,230,973	\$171,885	\$1,402,858
Income Tax	928,136	0	928,136
Intergovernmental	2,631,901	526,442	3,158,343
Interest	87,249	6,003	93,252
Tuition and Fees	520,898	3,883	524,781
Extracurricular Activities	0	63,921	63,921
Contributions and Donations	1,250	5,478	6,728
Customer Sales and Services	0	104,600	104,600
Rentals	12,676	0	12,676
Miscellaneous	22,064	20,758	42,822
<i>Total Revenues</i>	<u>5,435,147</u>	<u>902,970</u>	<u>6,338,117</u>
Expenditures			
Current:			
Instruction:			
Regular	2,221,517	68,964	2,290,481
Special	474,204	173,708	647,912
Vocational	121,436	0	121,436
Student Intervention Services	19,963	0	19,963
Support Services:			
Pupils	262,395	6,872	269,267
Instructional Staff	295,676	107,844	403,520
Board of Education	20,938	0	20,938
Administration	418,099	17,661	435,760
Fiscal	141,304	3,328	144,632
Operation and Maintenance of Plant	533,068	15,844	548,912
Pupil Transportation	212,735	0	212,735
Central	33,250	608	33,858
Operation of Non-Instructional Services	0	217,010	217,010
Extracurricular Activities	92,844	64,507	157,351
Capital Outlay	2,760	0	2,760
Debt Service:			
Principal Retirement	0	40,000	40,000
Interest and Fiscal Charges	0	83,300	83,300
<i>Total Expenditures</i>	<u>4,850,189</u>	<u>799,646</u>	<u>5,649,835</u>
<i>Net Change in Fund Balances</i>	584,958	103,324	688,282
<i>Fund Balances Beginning of Year</i>	<u>1,494,045</u>	<u>424,470</u>	<u>1,918,515</u>
<i>Fund Balances End of Year</i>	<u>\$2,079,003</u>	<u>\$527,794</u>	<u>\$2,606,797</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, 2006*

Net Change in Fund Balances - Total Governmental Funds \$688,282

*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	16,486
Depreciation	<u>(269,399)</u>

Total (252,913)

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

Property Taxes	16,652
Intergovernmental	<u>7,864</u>

Total 24,516

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 40,000

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	167
Bond Accretion	<u>(16,465)</u>

Total (16,298)

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

Compensated Absences	(55,512)
----------------------	----------

Change in Net Assets of Governmental Activities \$428,075

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, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property Taxes	\$984,800	\$1,021,504	\$1,021,504	\$0
Income Tax	655,200	723,751	723,751	0
Intergovernmental	2,483,520	2,641,553	2,641,553	0
Interest	60,000	86,482	86,482	0
Tuition and Fees	461,002	520,898	520,898	0
Rentals	10,900	12,676	12,676	0
Contributions and Donations	3,500	1,250	1,250	0
Miscellaneous	15,000	22,324	22,324	0
<i>Total Revenues</i>	<u>4,673,922</u>	<u>5,030,438</u>	<u>5,030,438</u>	<u>0</u>
Expenditures				
Current:				
Instruction:				
Regular	2,209,610	2,229,427	2,210,478	18,949
Special	552,008	513,001	474,082	38,919
Vocational	121,866	126,010	119,225	6,785
Student Intervention Services	67,664	13,500	19,958	(6,458)
Support Services:				
Pupils	174,978	244,086	258,369	(14,283)
Instructional Staff	273,919	372,276	292,734	79,542
Board of Education	22,207	23,768	20,902	2,866
Administration	424,690	406,385	406,310	75
Fiscal	162,935	149,410	140,856	8,554
Operation and Maintenance of Plant	547,838	581,801	530,103	51,698
Pupil Transportation	209,968	232,514	213,155	19,359
Central	10,500	38,403	29,614	8,789
Extracurricular Activities	139,497	126,677	87,936	38,741
Capital Outlay	0	4,000	2,760	1,240
<i>Total Expenditures</i>	<u>4,917,680</u>	<u>5,061,258</u>	<u>4,806,482</u>	<u>254,776</u>
<i>Net Change in Fund Balance</i>	(243,758)	(30,820)	223,956	254,776
<i>Fund Balance Beginning of Year</i>	1,540,582	1,540,582	1,540,582	0
Prior Year Encumbrances Appropriated	19,616	19,616	19,616	0
<i>Fund Balance End of Year</i>	<u>\$1,316,440</u>	<u>\$1,529,378</u>	<u>\$1,784,154</u>	<u>\$254,776</u>

See accompanying notes to the basic financial statements

Danville Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$285	\$56,303
Liabilities		
Due to Students	0	\$56,303
Net Assets		
Held in Trust for Scholarships	\$285	

See accompanying notes to the basic financial statements

Danville Local School District
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2006

	Scholarship
Additions	
Contributions and Donations	\$200
Interest	2
	202
<i>Total Additions</i>	202
Deductions	
Scholarships Awarded	1,300
	(1,098)
<i>Change in Net Assets</i>	(1,098)
<i>Net Assets Beginning of Year</i>	1,383
<i>Net Assets End of Year</i>	\$285

See accompanying notes to the basic financial statements

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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 675 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 Metropolitan Educational Council Insurance Program. 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, 2006

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, 2006

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, 2006

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, 2006, but which were levied to finance fiscal year 2007 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 2006, investments in the pool 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, 2006.

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 2006 amounted to \$87,249 which includes \$12,352 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.

During fiscal year 2006, 50 shares of Park National stock were donated to the School District, which were held in the Local Grants Fund at year end. The stock is reported as an investment in the financial statements at its market value on June 30, 2006.

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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.

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 and Improvements	30 - 60 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.

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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.

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 \$529,146 of restricted net assets, none of which are 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.

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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

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 and Change in Accounting Estimate

For fiscal year 2006, the School District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries." GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries. The implementation of GASB Statement No. 42 did not affect the presentation of the financial statements of the School District.

During fiscal year 2006 the School District reconsidered the estimated useful lives of buildings and increased their estimates from 45 or 50 years to 60 years. The new estimates were applied prospectively.

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 4 - Fund Deficits

The following funds had deficit fund balances at June 30, 2006:

<u>Special Revenue Funds:</u>	<u>Deficit</u>
EMIS	\$19
Poverty Based Assistance	82
Title II-A	113

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, 2006

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	\$584,958
Net Adjustment for Revenue Accruals	(404,709)
Net Adjustment for Expenditure Accruals	46,078
Encumbrances	(2,371)
Budget Basis	<u><u>\$223,956</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, 2006

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.

Investments

As of June 30, 2006, the School District's internal investment pool had one investment, STAROhio. The School District's investment in STAROhio had a carrying and fair value of \$1,523,007 and an average days to maturity of 35 days.

The School District also held in the Local Grants Fund 50 shares of donated Park National Stock, which had a carrying and fair value of \$4,941.

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.

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 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, 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 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 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.

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. 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, 2006, are available to finance fiscal year 2006 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, 2006 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, 2006 was \$415,704 in the general fund, \$7,918 in the classroom facilities maintenance special revenue fund and \$47,704 in the bond retirement fund. 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.

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.

The assessed vales upon which the fiscal year 2006 taxes were collected are:

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$45,709,340	84.87 %	\$50,200,570	93.21 %
Public Utility Personal	2,244,880	4.17	2,233,720	4.15
Tangible Personal Property	1,388,942	2.58	1,422,158	2.64
Total	\$49,343,162	91.62 %	\$53,856,448	100.00 %
Tax rate per \$1,000 of assessed valuation	\$44.60		\$44.00	

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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, 2006, 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:

	<u>Amount</u>
Governmental Funds:	
Fuel Tax Refund	\$362
Food Service	\$11,841
Ohio Reads	\$8,795
Title VI-B	6,512
Title I	19,302
Drug Free	150
Title II-A TQA	3,283
Miscellaneous Federal Grants	<u>11,359</u>
Total	<u><u>\$61,604</u></u>

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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 Crawford, Delaware, Franklin, Knox, Marion, Morrow, Muskingum, Union and Wyandot 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 \$40,818 to TRECA during fiscal year 2006. 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 did not make any payments to the Career Center during fiscal year 2006. To obtain financial information, write to the Knox County Career Center, Tracy Elliott, 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, 2006

Note 11 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance 7/1/05	Additions	Deductions	Balance 6/30/06
Governmental Activities				
Capital Assets, not being depreciated:				
Land	\$105,035	\$0	\$0	\$105,035
Construction in Progress	0	2,500	0	2,500
Total Capital Assets, not being Depreciated	105,035	2,500	0	107,535
Capital Assets, being Depreciated				
Buildings and Improvements	10,366,216	0	0	10,366,216
Furniture, Fixtures and Equipment	1,127,678	13,986	(117,744)	1,023,920
Vehicles	548,582	0	(46,848)	501,734
Total Capital Assets, being Depreciated	12,042,476	13,986	(164,592)	11,891,870
Less Accumulated Depreciation:				
Buildings and Improvements	(1,560,302)	(172,226)	0	(1,732,528)
Furniture, Fixtures and Equipment	(875,968)	(74,806)	117,744	(833,030)
Vehicles	(447,423)	(22,367)	46,848	(422,942)
Total Accumulated Depreciation	(2,883,693)	(269,399) *	164,592	(2,988,500)
Total Capital Assets, being Depreciated, net	9,158,783	(255,413)	0	8,903,370
Governmental Activities Capital Assets, Net	\$9,263,818	(\$252,913)	\$0	\$9,010,905

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$136,376
Special	17,288
Vocational	2,763
Other	176
Support Services:	
Pupils	8,226
Instructional Staff	25,978
Administration	4,141
Fiscal	657
Operation and Maintenance of Plant	28,314
Pupil Transportation	25,573
Food Service Operations	17,969
Extracurricular Activities	1,938
Total Depreciation Expense	\$269,399

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 12 – Insurance Pool

The School District participates in the Metropolitan Educational Council Liability Fleet and Property Program, an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan's business and affairs are conducted by a seven member board consisting of member schools' superintendents and treasurers. Financial information can be obtained from Metropolitan Educational Council, 2100 City Gate Drive, Columbus, Ohio 43219

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 2006, 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 and aggregate limit and a \$5,000 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.

Selective Insurance Company holds the coverage for the blanket building and contents and boiler and machinery with a \$24,626,605 limit and a \$2,500 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, by calling (800) 878-5853 or by visiting the SERS website at sers.org.

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 obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 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

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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, 2006, 2005 and 2004 were \$58,014, \$55,302 and \$51,555 respectively; 40.6 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

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, by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

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, 2006, 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. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. 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, 2006

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$290,407, \$272,709 and \$274,079 respectively; 83.38 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$126 made by the School District and \$6,584 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. During fiscal year 2006, one member of the Board of Education had 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, 2006, 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 \$22,339 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) 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.

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, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the 2006 fiscal year, the School District contributed \$18,753 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, 2006

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, 2005 (the latest information available), were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

Note 16 - Other Employee Benefits

A. Compensated Absences

The criteria for determining vacation, personal and sick leave benefits are derived from 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 Anthem Blue Cross and Blue Shield. 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 2006 were as follows:

	Amount Outstanding 6/30/05	Additions	Deletions	Amount Outstanding 6/30/06	Amounts Due in One Year
Governmental Activities					
2000 Classroom Facilities Improvement					
\$1,610,000 4.85%-5.75% Serial Bonds	\$1,500,000	\$0	\$40,000	\$1,460,000	\$45,000
\$46,000 4.85%-5.75%					
Capital Appreciation Bonds	46,000	0	0	46,000	0
Accretion on Capital Appreciation Bonds	61,510	16,465	0	77,975	0
Compensated Absences	73,371	67,562	12,050	128,883	24,530
Total Governmental Activities	<u>\$1,680,881</u>	<u>\$84,027</u>	<u>\$52,050</u>	<u>\$1,712,858</u>	<u>\$69,530</u>

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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 \$16,465 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 \$3,495,604 with an unvoted debt margin of \$53,856 at June 30, 2006.

Principal and interest requirements to retire the classroom facilities improvement bonds outstanding at June 30, 2006 are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds			
	Serial		Capital Appreciation	
	Principal	Interest	Principal	Interest
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	70,000	69,688	0	0
2012-2016	90,000	336,663	46,000	279,000
2017-2021	600,000	232,875	0	0
2022-2024	490,000	43,126	0	0
Total	<u>\$1,460,000</u>	<u>\$991,415</u>	<u>\$46,000</u>	<u>\$279,000</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, 2006

	Textbooks	Capital Acquisition
Set-aside Reserve Balance as of June 30, 2005	(\$452)	(\$65,024)
Current Year Set-aside Requirement	96,562	96,562
Current Year Offsets	0	(15,844)
Qualifying Disbursements	(124,844)	(107,784)
Totals	(\$28,734)	(\$92,090)
Set-aside Balance Carried Forward to Future Fiscal Years	(\$28,734)	(\$65,024)
Set-aside Reserve Balance as of June 30, 2006	\$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, 2006.

B. Litigation

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

Note 20 – Subsequent Event

On November 9, 2006 the School district refunded \$1,180,000 of the outstanding 2000 bond issue with the proceeds from the refunding bonds, series 2006. The par value of the refunding bonds was \$1,175,000.



**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, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 8, 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.

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*.

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

December 8, 2006



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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
JANUARY 4, 2007**