

**VILLAGE OF DANVILLE  
KNOX COUNTY**

**REGULAR AUDIT**

**FOR THE YEARS ENDED DECEMBER 31, 2006 - 2005**





Mary Taylor, CPA  
Auditor of State

Village Council  
Village of Danville  
512 S. Market Street  
P.O. Box W  
Danville, Ohio 43014

We have reviewed the *Independent Accountants' Report* of the Village of Danville, Knox County, prepared by Knox & Knox, for the audit period January 1, 2005 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Accountants' Report* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Accountants' Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Danville is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

April 16, 2008

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VILLAGE OF DANVILLE  
KNOX COUNTY

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# KNOX & KNOX

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Accountants and Consultants

## Independent Accountants' Report

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

To the Village Council:

We have audited the accompanying financial statements of the Village of Danville, Knox County, Ohio, (the Village) as of and for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2006 and 2005. In addition to the accompanying financial statements present for 2006 and 2005, the revisions require presenting entity wide statements. While the Village does not follow GAAP, generally accepted auditing standards require us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2006 and 2005 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2006 and 2005, its cash flows, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Danville, Knox County, as of December 31, 2006 and 2005, and its combined cash receipts and disbursements and cash flows for the years then ended on the basis of accounting described in Note 1.

The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2007, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we do not opine on the internal control over financial reporting or on compliance, that reports 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 *Governmental Auditing Standards*. You should read it in conjunction with this report in considering the results of our audit.

***Knox & Knox***

Orrville, Ohio  
August 17, 2007



VILLAGE OF DANVILLE  
KNOX COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2006

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
<b>CASH RECEIPTS:</b>					
Property Tax and Other Local Taxes	\$146,396	\$60,230			\$206,626
Intergovernmental Receipts	36,483	81,543		\$267,377	385,403
Special Assessments				90,066	90,066
Charges for Services	116				116
Fines, Licenses, and Permits	379				379
Earnings on Investments	9,144	4,886		287	14,317
Miscellaneous	5,596				5,596
<b>Total Cash Receipts</b>	<b>198,114</b>	<b>146,659</b>		<b>357,730</b>	<b>702,503</b>
<b>CASH DISBURSEMENTS:</b>					
Current:					
Security of Persons and Property	11,130	122,557			133,687
Public Health Services	595				595
Leisure Time Activities		18,713			18,713
Transportation		48,870			48,870
General Government	136,800				136,800
Debt Service:					
Principal Payments			\$89,352		89,352
Interest Payments			15,094		15,094
Capital Outlay		8,271		454,673	462,944
<b>Total Cash Disbursements</b>	<b>148,525</b>	<b>198,411</b>	<b>104,446</b>	<b>454,673</b>	<b>906,055</b>
<b>Total Receipts Over/(Under) Disbursements</b>	<b>49,589</b>	<b>(51,752)</b>	<b>(104,446)</b>	<b>(96,943)</b>	<b>(203,552)</b>
<b>OTHER FINANCING RECEIPTS/DISBURSEMENTS</b>					
Transfers-In		74,143	104,446		178,589
Transfers-Out	(74,143)				(74,143)
Advances-In				140,000	140,000
<b>Total Other Financing Receipts/(Disbursements)</b>	<b>(74,143)</b>	<b>74,143</b>	<b>104,446</b>	<b>140,000</b>	<b>244,446</b>
<b>Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements</b>	<b>(24,554)</b>	<b>22,391</b>		<b>43,057</b>	<b>40,894</b>
Fund Cash Balances, January 1	56,754	47,550	19,966	17,883	142,153
<b>FUND CASH BALANCES, DECEMBER 31</b>	<b>\$32,200</b>	<b>\$69,941</b>	<b>\$19,966</b>	<b>\$60,940</b>	<b>\$183,047</b>

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

VILLAGE OF DANVILLE  
KNOX COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES  
IN FUND CASH BALANCES - ENTERPRISE FUND TYPE  
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Enterprise Fund</u>
<b>OPERATING CASH RECEIPTS:</b>	
Charges for Services	\$353,758
Miscellaneous	<u>4,460</u>
Total Operating Cash Receipts	<u>358,218</u>
<b>OPERATING CASH DISBURSEMENTS:</b>	
Personal Services	91,889
Contractual Services	64,639
Supplies and Materials	21,795
Capital Outlay	<u>59,358</u>
Total Operating Cash Disbursements	<u>237,681</u>
Excess of Cash Receipts Under Disbursements Before Interfund Transfers and Advances	<u>120,537</u>
Advances-Out	(140,000)
Transfers-Out	<u>(104,446)</u>
Net Receipts Over/(Under) Disbursements	(123,909)
Fund Cash Balances, January 1	<u>250,861</u>
FUND CASH BALANCES, DECEMBER 31	<u><u>\$126,952</u></u>

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

VILLAGE OF DANVILLE  
KNOX COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND  
CASH BALANCES - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2005

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
<b>CASH RECEIPTS:</b>					
Property Tax and Other Local Taxes	\$133,927	\$55,921			\$189,848
Intergovernmental Receipts	46,251	84,348		\$173,138	303,737
Charges for Services	896				896
Fines, Licenses, and Permits	1,987				1,987
Earnings on Investments	5,501				5,501
Miscellaneous	5,479	13,251			18,730
<b>Total Cash Receipts</b>	<b>194,041</b>	<b>153,520</b>		<b>173,138</b>	<b>520,699</b>
<b>CASH DISBURSEMENTS:</b>					
Current:					
Security of Persons and Property	9,939	153,104			163,043
Public Health Services	618				618
Leisure Time Activities	173	9,773			9,946
Transportation		44,343			44,343
General Government	127,241				127,241
Debt Service					
Principal Payments			\$87,451		87,451
Interest Payments			16,995		16,995
Capital Outlay				179,684	179,684
<b>Total Cash Disbursements</b>	<b>137,971</b>	<b>207,220</b>	<b>104,446</b>	<b>179,684</b>	<b>629,321</b>
<b>Total Receipts Over/(Under) Disbursements</b>	<b>56,070</b>	<b>(53,700)</b>	<b>(104,446)</b>	<b>(6,546)</b>	<b>(108,622)</b>
<b>OTHER FINANCING RECEIPTS/DISBURSEMENTS</b>					
Other Uses			(8,084)		(8,084)
Transfers-In		67,157	132,065		199,222
Transfers-Out	(80,248)				(80,248)
<b>Total Other Financing Receipts/(Disbursements)</b>	<b>(80,248)</b>	<b>67,157</b>	<b>123,981</b>		<b>110,890</b>
<b>Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements</b>	<b>(24,178)</b>	<b>13,457</b>	<b>19,535</b>	<b>(6,546)</b>	<b>2,268</b>
Fund Cash Balances, January 1	80,932	34,093	431	24,429	139,885
<b>FUND CASH BALANCES, DECEMBER 31</b>	<b>\$56,754</b>	<b>\$47,550</b>	<b>\$19,966</b>	<b>\$17,883</b>	<b>\$142,153</b>

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

VILLAGE OF DANVILLE  
KNOX COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES  
IN FUND CASH BALANCES - ENTERPRISE FUND TYPE  
FOR THE YEAR ENDED DECEMBER 31, 2005

	Enterprise Fund
OPERATING CASH RECEIPTS:	
Charges for Services	\$340,746
Total Operating Cash Receipts	340,746
OPERATING CASH DISBURSEMENTS:	
Personal Services	106,958
Contractual Services	75,454
Supplies and Materials	20,994
Capital Outlay	30,076
Total Operating Cash Disbursements	233,482
Operating Income	107,264
Transfers-Out	(118,974)
Net Receipts Over/(Under) Disbursements	(11,710)
Fund Cash Balances, January 1	262,571
FUND CASH BALANCES, DECEMBER 31	\$250,861

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

VILLAGE OF DANVILLE  
KNOX COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

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

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

B. Basis of Accounting

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

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

The Village maintains an interest bearing checking and savings account.

D. Fund Accounting

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

1. General Fund

The General fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

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

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

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

VILLAGE OF DANVILLE  
KNOX COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Fund Accounting (continued)

3. Debt Service Fund

These funds are used to accumulate resources for the payment of bonds and note indebtedness. The Village has the following debt service fund:

*OWDA and OPWC Debt Fund* - This fund is used to retire the debt associated with the Richard Street Project and the Village sewer system.

4. Capital Projects Funds

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

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

5. Enterprise Fund

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

*Water Fund* - This fund receives charges for services from residents to cover the cost of providing this utility.

*Sewer Fund* - This fund receives charges for services from residents to cover the cost of providing this utility.

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the office, department, and division level, and appropriations may not exceed estimated resources. The Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

VILLAGE OF DANVILLE  
KNOX COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Budgetary Process (continued)

3. Encumbrances

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

A summary of 2006 and 2005 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payment for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2006	2005
Demand deposits	\$309,919	\$393,014

Deposits: Deposits are (1) insured by the Federal Depository Insurance Corporation or (2) collateralized by the financial institution's public entity deposit pool.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2006 and 2005 follows:

Fund Type	2006 Budgeted vs. Actual Receipts		
	Budgeted Receipts	Actual Receipts	Variance
General	\$196,095	\$ 198,114	\$2,019
Special Revenue	213,830	220,802	6,972
Debt Service	104,447	104,446	(1)
Capital Projects	1,117,959	357,730	(760,229)
Enterprise	362,675	358,218	(4,457)
Total	\$1,995,006	\$1,239,310	(\$755,696)

VILLAGE OF DANVILLE  
KNOX COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005

3. BUDGETARY ACTIVITY (continued)

2006 Budgeted vs Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$261,758	\$222,668	\$39,090
Special Revenue	249,576	198,491	51,085
Debt Service	120,110	104,446	15,664
Capital Projects	1,077,032	454,673	622,359
Enterprise	592,164	342,127	250,037
Total	\$2,300,640	\$1,322,405	\$978,235

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$159,780	\$194,041	\$34,261
Special Revenue	248,837	220,677	(28,160)
Debt Service	119,680	132,065	12,385
Capital Projects	1,028,099	173,138	(854,961)
Enterprise	319,200	340,746	21,546
Total	\$1,875,596	\$1,060,667	(\$814,929)

2005 Budgeted vs Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$220,848	\$218,219	\$2,629
Special Revenue	337,550	207,220	130,330
Debt Service	124,413	112,530	11,883
Capital Projects	1,026,716	179,684	847,032
Enterprise	626,778	352,456	274,322
Total	\$2,336,305	\$1,070,109	\$1,266,196

Contrary to Ohio law, appropriations exceeded estimated resources in the General (2006), Special Revenue (2005), Debt Service (2005), and Enterprise (2005) fund types.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments for first half is due December 31. The second half payment is due the following June 20.



VILLAGE OF DANVILLE  
KNOX COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005

4. PROPERTY TAX (continued)

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

Tangible personal property tax is assessed by the property owner, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

5. LOCAL INCOME TAX

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

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

6. DEBT

Debt outstanding at December 31, 2006 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
OPWC Loan - Richards Street	\$8,437	0.00%
OWDA (#2)	617,070	2.20%
Total	<u>\$625,507</u>	

The Ohio Public Works Commission (OPWC) street improvement loan is for the extension of a Village street and water lines.

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

In 2002 an OWDA loan was approved up to \$72,138 for a water well improvement project. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements on any future draw downs.

Amortization of the above debt, including interest, follows:

Year ending <u>December 31</u>	<u>OPWC Loan</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$1,534		\$1,534
2008	1,534		1,534
2009	1,534		1,534
2010	1,534		1,534
2011	1,534		1,534
2012	767		767
	<u>\$8,437</u>	<u>          </u>	<u>\$8,437</u>

VILLAGE OF DANVILLE  
KNOX COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005

6. DEBT (continued)

Year ending December 31	OWDA #2 Loan		
	Principal	Interest	Total
2007	\$89,720	\$13,193	\$102,913
2008	91,621	11,292	102,913
2009	93,522	9,391	102,913
2010	95,423	7,490	102,913
2011	97,324	5,589	102,913
2012-2013	149,460	4,910	154,370
	<u>\$617,070</u>	<u>\$51,865</u>	<u>\$668,935</u>

7. RETIREMENT SYSTEMS

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

Contributions rates are also prescribed by the Ohio Revised Code. OP&F participants contributed 10 % of their wages. The Village contributed an amount equal to 19.5% of police participant wages. OPERS members contributed 9.0% and 8.5% of their gross salaries, respectively. The Village contributed an amount equal to 13.7% (2006) and 13.55% (2005) of participants' gross salaries. The Village has paid all contributions required through December 31, 2006.

8. RISK MANAGEMENT

The Government is exposed to various risks of property and casualty losses, and injuries to employees.

The Government insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

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

Casualty Coverage

For an occurrence prior to January 1, 2006 PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

VILLAGE OF DANVILLE  
KNOX COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005

8. RISK MANAGEMENT (continued)

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (for claims prior to January 1, 2006) or \$3,000,000 (for claims after January 1, 2006) as noted above.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop-loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

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

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2006 and 2005.

<u>Casualty Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$30,997,868	\$29,719,675
Liabilities	(15,875,741)	(15,994,168)
Retained Earnings	<u>\$15,122,127</u>	<u>\$13,725,507</u>

<u>Property Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$5,125,326	\$4,443,332
Liabilities	(863,163)	(1,068,245)
Retained Earnings	<u>\$4,262,163</u>	<u>\$3,375,087</u>

VILLAGE OF DANVILLE  
KNOX COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005

8. RISK MANAGEMENT (continued)

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$14.4 million and \$14.3 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$14.4 million and \$14.3 million of unpaid claims to be billed to approximately 447 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. This payable includes the subsequent year's contribution due if the Government terminates participation, as described in the last paragraph below

Based on the discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they give written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

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# KNOX & KNOX

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Accountants and Consultants

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

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

To the Village Council:

We have audited the accompanying financial statements of the Village of Danville, Knox County, Ohio, (the Village) as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated August 17, 2007, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Village's internal control over financial reporting as basis for designing our audit procedures in order to express our opinions on the financial statements, but not to opine on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies that might be considered material weaknesses. However, we noted other matters that we reported to the Village in a separate letter dated August 17, 2007.

COMPLIANCE AND OTHER MATTERS

As part of reasonably assuring whether the Village's basic 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 one instance of noncompliance that we must report under *Government Auditing Standards*, and is shown in the accompanying schedule as Finding Number 2006-01.

We intend this report solely for the information and use of the audit committee, management and Village Council. We intend it for no one other than these specified parties.

*KNOX & KNOX*

Orrville, Ohio  
August 17, 2007

VILLAGE OF DANVILLE  
KNOX COUNTY

SCHEDULE OF FINDINGS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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

FINDING NUMBER 2006-01

Noncompliance Citation

Ohio Rev. Code Section 5705.39 requires that total appropriations from each fund shall not exceed the total of the estimated resources available for expenditures.

During 2006 and 2005, total appropriations exceeded total estimated resources at year end as follows:

	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
General (2006)	\$252,829	\$261,758	(\$8,929)
Special Revenue (2005)	329,769	337,550	(7,781)
Debt Service (2005)	120,111	124,413	(4,302)
Enterprise (2005)	581,771	626,778	(45,007)

Client Response: None



VILLAGE OF DANVILLE  
KNOX COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

Finding Number	Finding Summary	Fully Corrected	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding Is No Longer Valid; Explain:
2004-01	Ohio Revised Code 5705.39 requires appropriations not exceed estimated resources	No	Repeated as finding number 2006-01
2004-02	Ohio Revised Code Section 5705.10 Village had a negative cash balance in the Police Fund and the Water Well Replacement Fund	Yes	Finding is no longer valid
2004-03	Finding for adjustment	Yes	Finding is no longer valid





**Mary Taylor, CPA**  
Auditor of State

**VILLAGE OF DANVILLE**

**KNOX COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 29, 2008**