



**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY
SINGLE AUDIT
FOR THE YEAR ENDED JUNE 30, 2001**



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Board of Education
Danville Local School District
Knox County
413 South Market Street
Danville, Ohio 43014

We have audited the accompanying general-purpose financial statements of the Danville Local School District, Knox County, Ohio, (the District) as of and for the year ended June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund type 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 November 26, 2001 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the District taken as a whole. The accompanying schedule of federal awards receipts and expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

JIM PETRO
Auditor of State

November 26, 2001

Danville Local School District
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2001

	Governmental Fund Types				Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Agency	General Fixed Assets	General Long-Term Obligations	
Assets and Other Debits									
Assets									
Equity in Pooled Cash and Cash Equivalents	\$1,181,346	\$98,903	\$35,398	\$4,268,470	\$56,656	\$55,778	\$0	\$0	\$5,696,551
Receivables:									
Taxes	1,177,371	17,051	118,536	0	0	0	0	0	1,312,958
Accrued Interest	1,546	0	0	0	0	0	0	0	1,546
Intergovernmental Receivable	150	0	0	3,808,633	0	0	0	0	3,808,783
Prepaid Items	25,996	0	0	0	518	0	0	0	26,514
Inventory Held for Resale	0	0	0	0	4,355	0	0	0	4,355
Restricted Assets:									
Equity in Pooled Cash and Cash Equivalents	34,237	0	0	0	0	0	0	0	34,237
Fixed Assets (net, where applicable, of accumulated depreciation)	0	0	0	0	20,776	0	3,709,574	0	3,730,350
Other Debits									
Amount Available in Debt Service Fund for Retirement of General Obligation Debt	0	0	0	0	0	0	0	82,690	82,690
Amount to be Provided from General Government Resources	0	0	0	0	0	0	0	1,643,035	1,643,035
Total Assets and Other Debits	\$2,420,646	\$115,954	\$153,934	\$8,077,103	\$82,305	\$55,778	\$3,709,574	\$1,725,725	\$16,341,019

(continued)

Danville Local School District
Combined Balance Sheet
All Fund Types and Account Groups (continued)
 June 30, 2001

	Governmental Fund Types				Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Agency	General Fixed Assets	General Long-Term Obligations	
Liabilities, Fund Equity and Other Credits									
Liabilities									
Accounts Payable	\$5,698	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$5,698
Contracts Payable	0	0	0	199,505	0	0	0	0	199,505
Accrued Wages and Benefits	314,842	17,890	0	0	4,870	0	0	0	337,602
Compensated Absences Payable	7,840	0	0	0	3,406	0	0	37,428	48,674
Intergovernmental Payable	79,211	812	0	0	6,901	0	0	20,152	107,076
Deferred Revenue	561,011	10,248	71,244	3,784,526	3,086	0	0	0	4,430,115
Undistributed Monies	0	0	0	0	0	1,763	0	0	1,763
Due to Students	0	0	0	0	0	54,015	0	0	54,015
General Obligation Bonds Payable	0	0	0	0	0	0	0	1,668,145	1,668,145
Total Liabilities	968,602	28,950	71,244	3,984,031	18,263	55,778	0	1,725,725	6,852,593
Fund Equity and Other Credits									
Investment in General Fixed Assets	0	0	0	0	0	0	3,709,574	0	3,709,574
Retained Earnings:									
Unreserved	0	0	0	0	64,042	0	0	0	64,042
Fund Balance:									
Reserved for Encumbrances	51,790	10,588	0	763,220	0	0	0	0	825,598
Reserved for Property Taxes	336,196	6,803	47,292	0	0	0	0	0	390,291
Reserved for Bus Purchases	14,055	0	0	0	0	0	0	0	14,055
Reserved for Budget Stabilization	20,182	0	0	0	0	0	0	0	20,182
Unreserved, Undesignated	1,029,821	69,613	35,398	3,329,852	0	0	0	0	4,464,684
Total Fund Equity and Other Credits	1,452,044	87,004	82,690	4,093,072	64,042	0	3,709,574	0	9,488,426
Total Liabilities, Fund Equity and Other Credits	\$2,420,646	\$115,954	\$153,934	\$8,077,103	\$82,305	\$55,778	\$3,709,574	\$1,725,725	\$16,341,019

See accompanying notes to the general purpose financial statements

Danville Local School District
*Combined Statement of Revenues, Expenditures
and Changes in Fund Balances
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2001*

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Revenues					
Property and Other Local Taxes	\$797,515	\$16,529	\$107,595	\$0	\$921,639
Income Tax	785,046	0	0	0	785,046
Intergovernmental	2,402,269	400,203	269	2,779,052	5,581,793
Interest	87,339	1,949	0	134,289	223,577
Tuition and Fees	158,791	0	0	0	158,791
Extracurricular Activities	0	46,720	0	0	46,720
Contributions and Donations	1,525	250	0	0	1,775
Rentals	340	0	0	0	340
Miscellaneous	59,091	30,768	0	0	89,859
<i>Total Revenues</i>	<u>4,291,916</u>	<u>496,419</u>	<u>107,864</u>	<u>2,913,341</u>	<u>7,809,540</u>
Expenditures					
Current:					
Instruction:					
Regular	1,773,133	56,083	0	0	1,829,216
Special	506,796	162,732	0	0	669,528
Vocational	96,197	0	0	0	96,197
Support Services:					
Pupils	114,390	11,062	0	0	125,452
Instructional Staff	200,233	193,215	0	0	393,448
Board of Education	10,771	0	0	0	10,771
Administration	345,030	20,978	0	0	366,008
Fiscal	128,667	227	1,405	0	130,299
Operation and Maintenance of Plant	393,066	476	0	0	393,542
Pupil Transportation	206,532	0	0	0	206,532
Central	5,297	0	0	0	5,297
Extracurricular Activities	89,855	63,262	0	0	153,117
Capital Outlay	65,019	878	0	740,059	805,956
Debt Service:					
Interest and Fiscal Charges	751	0	124,169	0	124,920
<i>Total Expenditures</i>	<u>3,935,737</u>	<u>508,913</u>	<u>125,574</u>	<u>740,059</u>	<u>5,310,283</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	356,179	(12,494)	(17,710)	2,173,282	2,499,257
Other Financing Sources					
Proceeds of Bonds	0	0	100,400	1,656,000	1,756,400
Sale of Fixed Assets	500	0	0	0	500
<i>Total Other Financing Sources (Uses)</i>	<u>500</u>	<u>0</u>	<u>100,400</u>	<u>1,656,000</u>	<u>1,756,900</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures</i>	356,679	(12,494)	82,690	3,829,282	4,256,157
<i>Fund Balances Beginning of Year</i>	<u>1,095,365</u>	<u>99,498</u>	<u>0</u>	<u>263,790</u>	<u>1,458,653</u>
<i>Fund Balances End of Year</i>	<u>\$1,452,044</u>	<u>\$87,004</u>	<u>\$82,690</u>	<u>\$4,093,072</u>	<u>\$5,714,810</u>

See accompanying notes to the general purpose financial statements

Danville Local School District
*Combined Statement of Revenues, Expenditures
and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2001*

	General		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues			
Property and Other Local Taxes	\$799,756	\$799,756	\$0
Income Tax	795,849	795,849	0
Intergovernmental	2,402,079	2,402,269	190
Interest	86,636	87,274	638
Tuition and Fees	158,768	158,791	23
Extracurricular Activities	0	0	0
Contributions and Donations	1,525	1,525	0
Rentals	340	340	0
Miscellaneous	59,133	59,233	100
<i>Total Revenues</i>	<u>4,304,086</u>	<u>4,305,037</u>	<u>951</u>
Expenditures			
Current:			
Instruction:			
Regular	1,690,615	1,688,711	1,904
Special	505,863	505,378	485
Vocational	94,157	92,952	1,205
Other	57,389	56,707	682
Support Services:			
Pupils	129,308	115,428	13,880
Instructional Staff	254,923	209,627	45,296
Board of Education	11,507	10,771	736
Administration	356,288	345,271	11,017
Fiscal	133,873	131,344	2,529
Operation and Maintenance of Plant	397,725	391,022	6,703
Pupil Transportation	224,833	201,913	22,920
Central	7,063	5,297	1,766
Extracurricular Activities	114,607	114,126	481
Capital Outlay	76,675	76,633	42
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenditures</i>	<u>4,054,826</u>	<u>3,945,180</u>	<u>109,646</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>249,260</u>	<u>359,857</u>	<u>110,597</u>
Other Financing Sources (Uses)			
Proceeds of Bonds	0	0	0
Sale of Fixed Assets	500	500	0
Operating Transfers In	0	0	0
Operating Transfers Out	(31,769)	(31,769)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(31,269)</u>	<u>(31,269)</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	217,991	328,588	110,597
<i>Fund Balances Beginning of Year</i>	804,177	804,177	0
Prior Year Encumbrances Appropriated	25,330	25,330	0
<i>Fund Balances End of Year</i>	<u>\$1,047,498</u>	<u>\$1,158,095</u>	<u>\$110,597</u>

Special Revenue			Debt Service		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$9,726	\$9,726	\$0	\$60,303	\$60,303	\$0
0	0	0	0	0	0
400,203	400,203	0	269	269	0
1,949	1,949	0	0	0	0
0	0	0	0	0	0
46,720	46,720	0	0	0	0
250	250	0	0	0	0
0	0	0	0	0	0
34,129	34,222	93	0	0	0
<u>492,977</u>	<u>493,070</u>	<u>93</u>	<u>60,572</u>	<u>60,572</u>	<u>0</u>
65,304	65,304	0	0	0	0
180,763	162,272	18,491	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
12,258	11,062	1,196	0	0	0
206,902	197,368	9,534	0	0	0
0	0	0	0	0	0
31,844	21,184	10,660	0	0	0
500	227	273	3,759	1,405	2,354
569	476	93	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
80,032	63,262	16,770	0	0	0
878	878	0	0	0	0
0	0	0	31,018	31,018	0
0	0	0	124,920	124,920	0
<u>579,050</u>	<u>522,033</u>	<u>57,017</u>	<u>159,697</u>	<u>157,343</u>	<u>2,354</u>
<u>(86,073)</u>	<u>(28,963)</u>	<u>57,110</u>	<u>(99,125)</u>	<u>(96,771)</u>	<u>2,354</u>
0	0	0	100,400	100,400	0
0	0	0	0	0	0
0	0	0	31,769	31,769	0
0	0	0	0	0	0
<u>0</u>	<u>0</u>	<u>0</u>	<u>132,169</u>	<u>132,169</u>	<u>0</u>
(86,073)	(28,963)	57,110	33,044	35,398	2,354
105,903	105,903	0	0	0	0
11,375	11,375	0	0	0	0
<u>\$31,205</u>	<u>\$88,315</u>	<u>\$57,110</u>	<u>\$33,044</u>	<u>\$35,398</u>	<u>\$2,354</u>

(continued)

Danville Local School District
*Combined Statement of Revenues, Expenditures
and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual
All Governmental Fund Types (continued)
For the Fiscal Year Ended June 30, 2001*

	Capital Projects		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property and Other Local Taxes	\$0	\$0	\$0
Income Tax	0	0	0
Intergovernmental	2,847,110	2,754,945	(92,165)
Interest	135,390	134,289	(1,101)
Tuition and Fees	0	0	0
Extracurricular Activities	0	0	0
Contributions and Donations	0	0	0
Rentals	0	0	0
Miscellaneous	0	0	0
<i>Total Revenues</i>	<u>2,982,500</u>	<u>2,889,234</u>	<u>(93,266)</u>
Expenditures			
Current:			
Instruction:			
Regular	758	0	758
Special	0	0	0
Vocational	0	0	0
Other	0	0	0
Support Services:			
Pupils	0	0	0
Instructional Staff	35,500	34,906	594
Board of Education	0	0	0
Administration	0	0	0
Fiscal	0	0	0
Operation and Maintenance of Plant	4,257	4,257	0
Pupil Transportation	0	0	0
Central	0	0	0
Extracurricular Activities	0	0	0
Capital Outlay	1,537,374	1,491,227	46,147
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenditures</i>	<u>1,577,889</u>	<u>1,530,390</u>	<u>47,499</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,404,611</u>	<u>1,358,844</u>	<u>(45,767)</u>
Other Financing Sources (Uses)			
Proceeds of Bonds	1,656,000	1,656,000	0
Sale of Fixed Assets	0	0	0
Operating Transfers In	0	0	0
Operating Transfers Out	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>1,656,000</u>	<u>1,656,000</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Use</i>	<u>3,060,611</u>	<u>3,014,844</u>	<u>(45,767)</u>
<i>Fund Balances Beginning of Year</i>	290,901	290,901	0
Prior Year Encumbrances Appropriated	0	0	0
<i>Fund Balances End of Year</i>	<u>\$3,351,512</u>	<u>\$3,305,745</u>	<u>(\$45,767)</u>

See accompanying notes to the general purpose financial statements

Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)
\$869,785	\$869,785	\$0
795,849	795,849	0
5,649,661	5,557,686	(91,975)
223,975	223,512	(463)
158,768	158,791	23
46,720	46,720	0
1,775	1,775	0
340	340	0
93,262	93,455	193
<u>7,840,135</u>	<u>7,747,913</u>	<u>(92,222)</u>
1,756,677	1,754,015	2,662
686,626	667,650	18,976
94,157	92,952	1,205
57,389	56,707	682
141,566	126,490	15,076
497,325	441,901	55,424
11,507	10,771	736
388,132	366,455	21,677
138,132	132,976	5,156
402,551	395,755	6,796
224,833	201,913	22,920
7,063	5,297	1,766
194,639	177,388	17,251
1,614,927	1,568,738	46,189
31,018	31,018	0
124,920	124,920	0
<u>6,371,462</u>	<u>6,154,946</u>	<u>216,516</u>
<u>1,468,673</u>	<u>1,592,967</u>	<u>124,294</u>
1,756,400	1,756,400	0
500	500	0
31,769	31,769	0
(31,769)	(31,769)	0
<u>1,756,900</u>	<u>1,756,900</u>	<u>0</u>
3,225,573	3,349,867	124,294
1,200,981	1,200,981	0
36,705	36,705	0
<u>\$4,463,259</u>	<u>\$4,587,553</u>	<u>\$124,294</u>

Danville Local School District
*Combined Statement of Revenues,
Expenses and Changes in Retained Earnings
Proprietary Fund Type
For the Fiscal Year Ended June 30, 2001*

	<u>Enterprise</u>
Operating Revenues	
Sales	\$105,613
Other	300
	<u>105,913</u>
<i>Total Operating Revenues</i>	<u>105,913</u>
Operating Expenses	
Salaries and Wages	46,204
Fringe Benefits	17,908
Purchased Services	1,646
Materials and Supplies	18,744
Cost of Sales	78,980
Depreciation	3,618
	<u>167,100</u>
<i>Total Operating Expenses</i>	<u>167,100</u>
<i>Operating Loss</i>	<u>(61,187)</u>
Non-Operating Revenues	
Donated Commodities	19,253
Operating Grants	54,016
Interest	2,257
	<u>75,526</u>
<i>Total Non-Operating Revenues</i>	<u>75,526</u>
<i>Net Income</i>	14,339
<i>Retained Earnings Beginning of Year</i>	<u>49,703</u>
<i>Retained Earnings End of Year</i>	<u><u>\$64,042</u></u>

See accompanying notes to the general purpose financial statements

Danville Local School District
*Combined Statement of Revenues, Expenses
and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual
Proprietary Fund Type
For the Fiscal Year Ended June 30, 2001*

	Enterprise		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Sales	\$105,613	\$105,613	\$0
Operating Grants	54,016	54,016	0
Interest	2,257	2,257	0
Other	300	300	0
<i>Total Revenues</i>	<u>162,186</u>	<u>162,186</u>	<u>0</u>
Expenses			
Salaries and Wages	44,788	43,996	792
Fringe Benefits	19,422	19,010	412
Purchased Services	4,100	1,646	2,454
Materials and Supplies	89,212	77,923	11,289
Capital Outlay	10,288	2,000	8,288
<i>Total Expenses</i>	<u>167,810</u>	<u>144,575</u>	<u>23,235</u>
<i>Excess of Revenues Over (Under) Expenses</i>	(5,624)	17,611	23,235
<i>Fund Equity Beginning of Year</i>	<u>39,045</u>	<u>39,045</u>	<u>0</u>
<i>Fund Equity End of Year</i>	<u><u>\$33,421</u></u>	<u><u>\$56,656</u></u>	<u><u>\$23,235</u></u>

See accompanying notes to the general purpose financial statements

Danville Local School District
Combined Statement of Cash Flows
Proprietary Fund Type
For the Fiscal Year Ended June 30, 2001

	<u>Enterprise</u>
<i>Increase (Decrease) in Cash and Cash Equivalents</i>	
Cash Flows from Operating Activities	
Cash Received from Customers	\$105,613
Cash Received from Other Operating Sources	300
Cash Payments for Goods and Services	(79,569)
Cash Payments to Employees for Services	(43,996)
Cash Payments for Employee Benefits	(19,010)
	<u>(36,662)</u>
<i>Net Cash Used for Operating Activities</i>	(36,662)
Cash Flows from Noncapital Financing Activities	
Operating Grants Received	54,016
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	(2,000)
Cash Flows from Investing Activities	
Interest on Investments	2,257
	<u>2,257</u>
<i>Net Increase in Cash and Cash Equivalents</i>	17,611
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>39,045</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$56,656</u></u>
<i>Reconciliation of Operating Loss to Net Cash Used for Operating Activities</i>	
<i>Operating Loss</i>	<u>(\$61,187)</u>
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	3,618
Donated Commodities Used During Year	19,253
Decrease/(Increase) in Assets:	
Inventory Held for Resale	548
Prepaid Items	(53)
Increase/(Decrease) in Liabilities:	
Accrued Wages and Benefits	248
Compensated Absences Payable	2,076
Intergovernmental Payable	(1,165)
	<u>24,525</u>
<i>Total Adjustments</i>	<u>24,525</u>
<i>Net Cash Used for Operating Activities</i>	<u><u>(\$36,662)</u></u>

See accompanying notes to the general purpose financial statements

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

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 and/or federal agencies. This Board of Education controls the School District's three instructional facilities and one administrative building staffed by 26 noncertified and 58 certificated full-time teaching personnel who provide services to 664 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 following entities which perform activities within the School District boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for these entities nor are they fiscally dependent on the School District.

Parent Teacher Organization, Athletic Boosters and Band Boosters The School District is not involved in the budgeting or management, is not responsible for any debt and has no influence over the organizations.

The School District is associated with Tri-Rivers Educational Computer Association, a jointly governed organization. This organization is presented in Note 10 to the general purpose financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Danville Local 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 proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis Of Presentation - Fund Accounting

The School District uses funds and account groups to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

Governmental Fund Types:

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the School District's governmental fund types:

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 general fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds Special revenue funds are used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis Of Presentation - Fund Accounting (Continued)

Proprietary Fund Type:

Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The following is the School District's proprietary fund type:

Enterprise Funds Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. There are two types of fiduciary funds, trust and agency. The School District has no trust funds. The School District's agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term obligations related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group This account group is established to account for all fixed assets of the School District, other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group This account group is established to account for all long-term obligations of the School District except those accounted for in the proprietary funds.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for governmental and agency funds. The full accrual basis of accounting is followed for the proprietary funds.

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 60 days of year-end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the fiscal year in which the exchange or which the tax is imposed takes place and revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 7.) 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 fiscal 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 non-exchange transactions must also be available before it can be recognized.

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

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, 2001, but which were levied to finance fiscal year 2002 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

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.

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the object level within each function. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Advances in and out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

Tax Budget Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Knox County Budget Commission for rate determination.

Estimated Resources Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2001.

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process (Continued)

Appropriations Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriations or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, other than agency funds, consistent with statutory provisions.

Encumbrances As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Expenditures plus encumbrances may not legally exceed appropriations. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

Lapsing of Appropriations At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

D. Cash and Cash Equivalents

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

During fiscal year 2001, investments were limited to certificates of deposits and STAROhio.

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Cash Equivalents (Continued)

Nonparticipating investment contracts, including nonnegotiable certificates of deposit, are reported at cost. The School District has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 2001. 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, 2001.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2001 amounted to \$87,339, which includes \$39,440 assigned from other School District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents.

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2001, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

F. Inventory

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

G. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include amounts required by statute to be set-aside by the School District for the creation of a reserve for budget stabilization. See Note 20 for additional information regarding set-asides.

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the respective fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five hundred 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 capitalized. Interest incurred during the construction of general fixed assets is also not capitalized.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the proprietary fund types is computed using the straight-line method over an estimated useful life of ten years. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

I. Interfund Assets and Liabilities

Short-term interfund loans are classified as "interfund receivables/payables." Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "due from other funds" or "due to other funds" on the balance sheet.

J. Compensated Absences

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributed to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for 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.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Contributed Capital

Contributed capital represents resources from other funds, other governments and private sources provided to the enterprise funds that are not subject to repayment. These assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year end. The School District has no contributed capital.

L. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgements, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current expendable available financial resources. In general, amounts paid after sixty days are considered not to have been paid with current available financial resources. Capital leases are recognized as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

Under Ohio Law, a debt retirement fund may be created and used for the payment of loans. Generally accepted accounting principles requires the reporting of the liability in the funds that received the proceeds. To comply with GAAP reporting requirements, the School District's debt service fund has been split among the appropriate funds. Debt service fund resources used to pay both principal and interest have also been allocated accordingly.

M. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

N. 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, bus purchases, property taxes and budget stabilization.

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Fund Balance Reserves (Continued)

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures.

O. Estimates

The preparation of the 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. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

3. CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2001, the School District has implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" and GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues". At June 30, 2000, there was no effect on fund balance as a result of these implementations.

4. FUND DEFICITS

The following fund had a deficit fund balance at June 30, 2001:

	<u>Deficit Fund Balance</u>
Special Revenue Fund: Title VI-B	\$174

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

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

5. BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations and changes in fund balance/retained earnings 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 Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual, All Governmental Fund Types and the Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual, Proprietary Fund Type are 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/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosures in the proprietary fund types (GAAP basis).
4. For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
5. Principal payments on loans are on the operating statement (budget basis) rather than on the balance sheet (GAAP basis).
6. The School District repays short-term loans from the debt service fund (budget basis) as opposed to the fund that received the proceeds (GAAP basis). Debt service fund resources used to pay both principal and interest have been allocated accordingly.

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type:

Excess of Revenues and Other Financing Sources Over (Under) Expenditures All Governmental Fund Types				
	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	\$356,679	(\$12,494)	\$82,690	\$3,829,282
Net Adjustments for Revenue Accruals	13,121	(3,349)	(47,292)	(24,107)
Transfer for Debt Activity	(31,769)	0	31,769	0
Net Adjustments for Expenditure Accruals	47,294	(2,532)	0	172,394
Debt Service:				
Principal	0	0	(31,018)	0
Interest	751	0	(751)	0
Adjustment for Encumbrances	(57,488)	(10,588)	0	(962,725)
Budget Basis	\$328,588	(\$28,963)	\$35,398	\$3,014,844

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

5. BUDGETARY BASIS OF ACCOUNTING (Continued)

**Net Income/Excess of Revenues
Over (Under) Expenses
Proprietary Fund Type**

GAAP Basis	\$14,339
Net Adjustment for Expense Accruals	1,654
Capital Outlay	(2,000)
Depreciation Expense	<u>3,618</u>
Budget Basis	<u><u>\$17,611</u></u>

6. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the 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 of Education has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of 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.

Protection of School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal 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;

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAROhio);
7. Certain Banker's acceptance and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements."

Deposits At fiscal year end, the carrying amount of the School District's deposits was \$623,645 and the bank balance was \$788,656. \$100,000 of the bank balance was covered by federal depository insurance. \$688,656 was collateralized with securities held by the pledging financial institution's agent in the School District's name.

Investments The School District's investments are categorized below to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investment in STAROhio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. The School District's investment in STAROhio had a fair value of \$5,107,143 at June 30, 2001.

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$5,730,788	\$0
Investments which are part of a cash management pool	(5,107,143)	5,107,143
GASB Statement 3	\$623,645	\$5,107,143

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 located in the School District. Property tax revenue received during calendar 2001 for real and public utility property taxes represents collections of calendar 2000 taxes. Property tax payments received during calendar 2001 for tangible personal property (other than public utility property) is for calendar 2001 taxes.

Real property taxes are levied after April 1, 2001, on the assessed value as of January 1, 2001, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2001 public utility property taxes became a lien December 31, 2000, are levied after April 1, 2001 and are collected in 2001 with real property taxes.

2001 tangible personal property taxes are levied after April 1, 2000, on the value as of December 31, 2000. Collections are made in 2001. Tangible personal property assessments are twenty-five percent of true value.

The assessed values upon which the fiscal year 2001 taxes were collected are:

	2000 Second - Half Collections		2001 First - Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/ Residential and Other Real Estate	\$35,259,450	89.89 %	\$36,347,610	89.86 %
Public Utility Personal	2,693,540	6.87	2,822,790	6.98
Tangible Personal Property	1,272,000	3.24	1,279,770	3.16
Total Assessed Values	\$39,224,990	100.00 %	\$40,450,170	100.00 %
Tax rate per \$1,000 of assessed valuation	\$41.00		\$44.60	

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

7. PROPERTY TAXES (Continued)

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The School District receives property taxes from Knox and Holmes Counties. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2001, are available to finance fiscal year 2002 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, tangible personal property and public utility taxes which became measurable as of June 30, 2001 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 were levied to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue.

The amount available to the School District as an advance at June 30, 2001, was \$390,291. \$336,196 was available to the general fund, \$47,292 to the bond retirement fund and \$6,803 to the classroom facilities fund.

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, 1999, an additional one and one-half percent tax collection began. This tax levy is for five years. 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.

9. RECEIVABLES

Receivables at June 30, 2001, consisted of income and property taxes and intergovernmental grants. All receivables are considered collectible in full. A summary of the principal items of intergovernmental receivables follows:

<u>Intergovernmental Receivables</u>	<u>Amounts</u>
General Fund	<u>\$150</u>
Capital Projects Funds:	
Classroom Facilities - State Share	3,807,354
Vocational Educational Equipment	<u>1,279</u>
Total Capital Projects	<u>3,808,633</u>
Total Intergovernmental Receivable	<u><u>\$3,808,783</u></u>

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

10. JOINTLY GOVERNED ORGANIZATION

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

The legislative and advisory body is the assembly which is comprised of the superintendents of the participating schools. The degree of control exercised by any participating school district is limited to its representation on the assembly, which elects the board of directors, who exercises total control over the operation of TRECA including budgeting, appropriating, contracting and designating management. All revenues are generated from participating districts and State funding. Danville Local School District paid \$76,202 to TRECA during fiscal year 2001. 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.

11. FIXED ASSETS

A summary of the enterprise funds' fixed assets at June 30, 2001, follows:

Furniture and Equipment	\$67,364
Less: accumulated depreciation	<u>(46,588)</u>
Net Fixed Assets	<u><u>\$20,776</u></u>

A summary of the changes in general fixed assets during fiscal year 2001 follows:

	Balance 6/30/00	Additions	Deductions	Balance 6/30/01
Land and Improvements	\$45,473	\$48,325	\$0	\$93,798
Buildings and Improvements	1,665,255	42,002	0	1,707,257
Furniture and Equipment	851,513	55,628	0	907,141
Vehicles	524,951	0	34,930	490,021
Construction in Progress	0	511,357	0	511,357
Total General Fixed Assets	<u><u>\$3,087,192</u></u>	<u><u>\$168,367</u></u>	<u><u>\$34,930</u></u>	<u><u>\$3,709,574</u></u>

There was significant contractual commitments in progress at June 30, 2001. (See Note 21).

12. 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 2001, the School District contracted with Nationwide Insurance Company with a \$1,000,000 single occurrence limit and \$3,000,000 aggregate and no deductible. Vehicles are covered for property and general liability insurance. There is a \$1,000 deductible. Nationwide Insurance Company covers the boiler and machinery with a \$1,000 deductible and a \$4,000,000 limit.

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

12. RISK MANAGEMENT (Continued)

Professional liability is protected by Nationwide Insurance Company with a \$1,000,000 single occurrence limit and \$3,000,000 aggregate and no deductible. Vehicles are covered by Nationwide Insurance and hold a \$50 deductible for comprehensive and \$100 deductible for collision. Automobile liability has a \$1,000,000 combined single limit of liability. 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.

13. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per 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, 45 N. Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 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 2001, 4.2 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2000, 5.5 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$19,197, \$24,093 and \$31,374, respectively; 50.8 percent has been contributed for fiscal year 2001 and 100 percent for fiscal years 2000 and 1999. \$9,447 representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides basic retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

13. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

For the fiscal year ended June 30, 2001, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. For fiscal year 2000, the portion used to fund pension obligations was 6 percent. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$182,381, \$106,026 and \$96,331, respectively; 82.9 percent has been contributed for fiscal year 2001 and 100 percent for fiscal years 2000 and 1999. \$31,179 represents the unpaid contribution for fiscal year 2001 and is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2001, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid.

14. 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 on a pay-as-you-go basis.

All STRS benefit recipients and sponsored 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. Most benefit recipients pay a portion of the health care costs 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, 2001, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$86,391 for fiscal year 2001.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2000, (the latest information available) the balance in the Fund was \$3.419 billion. For the year ended June 30, 2000, net health care costs paid by STRS were \$283,137,000 and STRS had 99,011 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. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

14. POSTEMPLOYMENT BENEFITS (Continued)

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, 2001, employer contributions to fund health care benefits were 9.8 percent of covered payroll, an increase of 1.3 percent from fiscal year 2000. 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 2001, the minimum pay was established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2001 fiscal year equaled \$44,793.

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 the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2000 (the latest information available), were \$140,696,340 and the target level was \$211.0 million. At June 30, 2000, SERS had net assets available for payment of health care benefits of \$252.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

15. OTHER EMPLOYEE BENEFITS

A. *Compensated Absences*

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators, who are not on a twelve month contract, do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 195 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 160 days.

B. *Health and Life Insurance*

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

16. NOTE DEBT

The School District has paid off the outstanding notes as of June 30, 2001.

	Balance 6/30/00	Additions	Deletions	Balance 6/30/01
General Fund:				
Energy Conservation - 5.25%	\$31,018	\$0	(\$31,018)	\$0

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

17. LONG-TERM OBLIGATIONS

Changes in long-term obligations of the School District during fiscal year 2001, were as follows:

	Principal Outstanding 6/30/00	Additions	Deductions	Principal Outstanding 6/30/01
Classroom Facilities Improvement Bonds				
Series 2000 4.85 - 5.75%	\$0	\$1,656,000	\$0	\$1,656,000
Accretion of Capital Appreciation Bonds	0	12,145	0	12,145
Compensated Absences	38,886	0	1,458	37,428
Intergovernmental Payable	21,303	20,152	21,303	20,152
Total General Long-Term Obligations	\$60,189	\$1,688,297	\$22,761	\$1,725,725

On July 17, 2000, the School District issued \$1,656,000 in general obligation bonds for the purpose of building new classrooms. The bonds were issued at a premium of \$100,400. The bonds were issued for a twenty-four year period with final maturity during fiscal year 2024. The bonds include capital appreciation bonds that will mature in fiscal years 2012, 2013, 2014 and 2015. The 2000 General Obligation bonds include Capital Appreciation Bonds. This year the addition on these bonds include \$12,145, which represents the accretion of discounted interest remaining in 2001 on the capital appreciation bonds. The bonds will be retired out of the debt service fund.

Compensated absences will be paid from the fund from which the employee is paid. The intergovernmental payable represents contractually required pension contributions paid outside the available period and will be paid from the fund from which the employee is paid.

The School District's overall legal debt margin was \$2,019,913 with an unvoted debt margin of \$40,450 at June 30, 2001.

Principal and interest requirements to retire the classroom facilities improvement bonds outstanding at June 30, 2001, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2002	\$20,000	\$89,245	\$109,245
2003	25,000	88,147	113,147
2004	30,000	86,793	116,793
2005	35,000	85,175	120,175
2006	40,000	83,300	123,300
2007-2011	280,000	378,751	658,751
2012-2016	136,000	615,663	751,663
2017-2021	600,000	232,875	832,875
2022-2024	490,000	43,126	533,126
Total	\$1,656,000	\$1,703,075	\$3,359,075

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

18. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The School District maintains two enterprise funds to account for the operations of food service and uniform school supplies. The table below reflects in a summarized format the more significant financial data relating to the enterprise funds of the School District as of and for the fiscal year ended June 30, 2001.

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Total Enterprise Funds</u>
Operating Revenues	\$100,005	\$5,908	\$105,913
Depreciation	3,618	0	3,618
Operating Loss	(59,300)	(1,887)	(61,187)
Donated Commodities	19,253	0	19,253
Operating Grants	54,016	0	54,016
Interest	2,257	0	2,257
Net Income (Loss)	16,226	(1,887)	14,339
Fixed Assets Additions	2,000	0	2,000
Net Working Capital	42,616	4,056	46,672
Total Assets	78,249	4,056	82,305
Long-Term Compensated Absences Payable	3,406	0	3,406
Total Equity	59,986	4,056	64,042

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, 2001.

B. Litigation

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

20. 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 and 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. Disclosure of this information is required by State statute.

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

20. SET-ASIDES (Continued)

	Textbooks/ Instructional Materials Reserve	Capital Improvement s Reserve	Budget Stabilizatio n Reserve
Set-aside Reserved Balance as of June 30, 2000	\$0	\$0	\$43,266
Current Year Set-aside	82,709	82,709	0
Reduction Authorized by Legislative Revisions	0	0	(23,084)
Qualifying Disbursements	<u>(82,709)</u>	<u>(82,709)</u>	<u>0</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>\$0</u>	<u>\$0</u>	<u>\$20,182</u>
Set-Aside Reserved Balance as of June 30, 2001	<u>\$0</u>	<u>\$0</u>	<u>\$20,182</u>

The School District had qualifying disbursements and offsets during the fiscal year that reduced the textbook and capital improvements set-aside amounts to zero. The total reserve balance for the three set-asides at the end of the fiscal year was \$20,182. The general fund restricted cash balances is \$34,237 which also includes \$14,055 restricted for bus purchases.

21. CONTRACTUAL COMMITMENTS

At June 30, 2001, the following contractual commitments for the classroom facilities construction have been entered into. Only preliminary work has been completed at this time.

Project Contractors	Contract Description	Amount of Contract
Cement Products, Incorporated	Brick Work	\$33,969
Dirt Dawg Excavating	Site Work	291,534
Gilbane Building Company	Construction Manager	428,444
Steed Hammond Paul	Architect	<u>542,222</u>
Total		<u>\$1,296,169</u>

22. STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

1. A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

22. STATE SCHOOL FUNDING DECISION (Continued)

2. Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of November 26, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the School District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

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**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2001**

<u>Federal Grantor/ Pass Through Grantor Program Title</u>	<u>Pass Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Expenditures</u>	<u>Non-Cash Expenditures</u>
U.S. Department Of Agriculture						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster: National School Lunch Program	N/A	10.555	\$51,316	\$0	\$51,316	\$0
Food Distribution	N/A	10.550	<u>0</u>	<u>18,920</u>	<u>0</u>	<u>19,549</u>
Total U.S. Department of Agriculture - Child Nutrition Cluster			<u>51,316</u>	<u>18,920</u>	<u>51,316</u>	<u>19,549</u>
U.S. Department of Education						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1-S1-00 C1-S1-00C C1-S1-2001	84.010	0 0 <u>113,692</u>	0 0 <u>0</u>	17,895 2,953 <u>98,993</u>	0 0 <u>0</u>
Total Title I Grants to Local Educational Agencies			<u>113,692</u>	<u>0</u>	<u>119,841</u>	<u>0</u>
Innovative Education Program Strategies	C2-S1-00 C2-S1-2001	84.298	0 <u>3,262</u>	0 <u>0</u>	3,092 <u>0</u>	0 <u>0</u>
Total Innovative Education Program Strategies			<u>3,262</u>	<u>0</u>	<u>3,092</u>	<u>0</u>
Special Education Grants to States	6B-SF-00P 6B-SF-2000	84.027	0 <u>54,223</u>	0 <u>0</u>	4,188 <u>49,765</u>	0 <u>0</u>
Total Special Education Grants to States			<u>54,223</u>	<u>0</u>	<u>53,953</u>	<u>0</u>
Eisenhower Profeciency Development Grant	MS-S1-2001	84.281	<u>2,668</u>	<u>0</u>	<u>2,668</u>	<u>0</u>
Drug Free Schools Grant	DR-S1-2001	84.186	<u>2,734</u>	<u>0</u>	<u>1,607</u>	<u>0</u>
Classroom Reduction	CR-S1-00 CR-S1-2001	84.340	0 <u>13,787</u>	0 <u>0</u>	169 <u>13,787</u>	0 <u>0</u>
Total Classroom Reduction			<u>13,787</u>	<u>0</u>	<u>13,956</u>	<u>0</u>
Technology Literacy Challenge Fund	TF-43-2000	84.318	<u>150,000</u>	<u>0</u>	<u>147,647</u>	<u>0</u>
Total U.S. Department of Education			<u>340,366</u>	<u>0</u>	<u>342,764</u>	<u>0</u>
Totals			<u>\$391,682</u>	<u>\$18,920</u>	<u>\$394,080</u>	<u>\$19,549</u>

See accompanying notes to the Schedule of Federal Awards Receipts and Expenditures.

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The Schedule of Federal Awards Receipts and Expenditures (Schedule) is a summary of the activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2001, the District had food commodities valued at \$3,086 in inventory.



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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL
CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Board of Education
Danville Local School District
Knox County
413 South Market Street
Danville, Ohio 43014

We have audited the general-purpose financial statements of the Danville Local School District, Knox County, Ohio (the District), as of and for the year ended June 30, 2001, and have issued our report thereon dated November 26, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Danville Local School District
Knox County
Report of Independent Accountants on Compliance and on Internal
Control Required by *Government Auditing Standards*
Page 2

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

JIM PETRO
Auditor of State

November 26, 2001



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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education
Danville Local School District
Knox County
413 South Market Street
Danville, Ohio 43014

We have audited the compliance of the Danville Local School District, Knox County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

JIM PETRO
Auditor of State

November 26, 2001

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2001**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Technology Literacy Challenge Fund, CFDA # 84.318; Child Nutrition Cluster, CFDA #10.550, 10.555
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



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DANVILLE LOCAL SCHOOL DISTRICT

KNOX COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 20, 2001**