



**Auditor of State
Betty Montgomery**

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Danville Local School District, Knox County, Ohio, (the District) as of and for the year ended June 30, 2003, 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 Danville Local School District, as of June 30, 2003, 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 12, 2003, 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.

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The accompanying schedule of federal awards receipts and expenditures is presented for 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. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

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Betty Montgomery
Auditor of State

November 12, 2003

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Danville Local School District
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2003

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits				
Assets				
Equity in Pooled Cash and Cash Equivalents	\$1,154,034	\$147,876	\$75,978	\$113,336
Receivables:				
Taxes	1,159,964	0	132,590	17,781
Accounts	1,479	555	0	0
Accrued Interest	848	0	0	0
Intergovernmental Receivable	0	26,649	0	0
Prepaid Items	34,459	0	0	0
Inventory Held for Resale	0	0	0	0
Materials and Supplies Inventory	0	0	0	0
Fixed Assets (net, where applicable, of accumulated depreciation)	0	0	0	0
Other Debits				
Amount Available in Debt Service Fund for Retirement of General Obligation Debt	0	0	0	0
Amount to be Provided from General Government Resources	0	0	0	0
Total Assets and Other Debits	<u>\$2,350,784</u>	<u>\$175,080</u>	<u>\$208,568</u>	<u>\$131,117</u>
Liabilities, Fund Equity and Other Credits				
Liabilities				
Accounts Payable	\$17,590	\$1,038	\$0	\$209
Accrued Wages and Benefits	280,250	22,191	0	0
Compensated Absences Payable	20,653	0	0	0
Intergovernmental Payable	72,064	781	0	0
Deferred Revenue	768,419	26,649	108,728	17,781
Undistributed Monies		0	0	0
Due to Students	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
Total Liabilities	<u>1,158,976</u>	<u>50,659</u>	<u>108,728</u>	<u>17,990</u>
Fund Equity and Other Credits				
Investment in General Fixed Assets	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balance:				
Reserved for Encumbrances	7,219	10,567	0	34,958
Reserved for Property Taxes	159,152	0	23,862	0
Unreserved, Undesignated	1,025,437	113,854	75,978	78,169
Total Fund Equity and Other Credits	<u>1,191,808</u>	<u>124,421</u>	<u>99,840</u>	<u>113,127</u>
 Total Liabilities, Fund Equity and Other Credits	 <u>\$2,350,784</u>	 <u>\$175,080</u>	 <u>\$208,568</u>	 <u>\$131,117</u>

See accompanying notes to the general purpose financial statements

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Agency			
\$78,514	\$41,407	\$0	\$0	\$1,611,145
0	0	0	0	1,310,335
0	0	0	0	2,034
0	0	0	0	848
0	0	0	0	26,649
662	0	0	0	35,121
5,576	0	0	0	5,576
964	0	0	0	964
33,935	0	12,316,609	0	12,350,544
0	0	0	99,840	99,840
0	0	0	1,635,445	1,635,445
<u>\$119,651</u>	<u>\$41,407</u>	<u>\$12,316,609</u>	<u>\$1,735,285</u>	<u>\$17,078,501</u>
\$0	\$0	\$0	\$0	\$18,837
4,081	0	0	0	306,522
1,881	0	0	48,401	70,935
6,780	0	0	41,887	121,512
3,114	0	0	0	924,691
0	1,780	0	0	1,780
0	39,627	0	0	39,627
0	0	0	1,644,997	1,644,997
<u>15,856</u>	<u>41,407</u>	<u>0</u>	<u>1,735,285</u>	<u>3,128,901</u>
0	0	12,316,609	0	12,316,609
103,795	0	0	0	103,795
0	0	0	0	52,744
0	0	0	0	183,014
0	0	0	0	1,293,438
<u>103,795</u>	<u>0</u>	<u>12,316,609</u>	<u>0</u>	<u>13,949,600</u>
<u>\$119,651</u>	<u>\$41,407</u>	<u>\$12,316,609</u>	<u>\$1,735,285</u>	<u>\$17,078,501</u>

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, 2003*

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Revenues					
Property and Other Local Taxes	\$709,162	\$10,887	\$97,680	\$0	\$817,729
Income Tax	688,998	0	0	0	688,998
Intergovernmental	2,697,130	303,775	15,560	476,433	3,492,898
Interest	29,893	578	0	8,840	39,311
Tuition and Fees	233,006	0	0	0	233,006
Extracurricular Activities	0	65,225	0	0	65,225
Contributions and Donations	1,934	9,570	0	0	11,504
Rentals	505	0	0	0	505
Miscellaneous	24,132	28,803	0	0	52,935
Total Revenues	4,384,760	418,838	113,240	485,273	5,402,111
Expenditures					
Current:					
Instruction:					
Regular	1,839,452	92,595	0	0	1,932,047
Special	494,376	173,621	0	0	667,997
Vocational	105,146	0	0	0	105,146
Support Services:					
Pupils	174,510	6,017	0	0	180,527
Instructional Staff	414,966	64,940	0	0	479,906
Board of Education	14,339	0	0	0	14,339
Administration	397,366	20,930	0	0	418,296
Fiscal	144,348	399	2,633	0	147,380
Operation and Maintenance of Plant	489,924	15,978	0	0	505,902
Pupil Transportation	191,595	0	0	0	191,595
Central	7,052	0	0	0	7,052
Extracurricular Activities	92,545	65,787	0	0	158,332
Capital Outlay	18,761	0	0	1,781,886	1,800,647
Debt Service:					
Principal Retirement	0	0	25,000	0	25,000
Interest and Fiscal Charges	0	0	88,147	0	88,147
Total Expenditures	4,384,380	440,267	115,780	1,781,886	6,722,313
Excess of Revenues Over (Under) Expenditures	380	(21,429)	(2,540)	(1,296,613)	(1,320,202)
Other Financing Sources					
Operating Transfers In	0	0	0	55,848	55,848
Operating Transfers Out	(55,848)	0	0	0	(55,848)
Total Other Financing Sources (Uses)	(55,848)	0	0	55,848	0
Excess of Revenues and Other Financing Sources Under Expenditures and Other Financing Uses	(55,468)	(21,429)	(2,540)	(1,240,765)	(1,320,202)
Fund Balances Beginning of Year	1,247,276	145,850	102,380	1,353,892	2,849,398
Fund Balances End of Year	\$1,191,808	\$124,421	\$99,840	\$113,127	\$1,529,196

See accompanying notes to the general purpose financial statements

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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, 2003*

	General		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues			
Property and Other Local Taxes	\$872,362	\$872,362	\$0
Income Tax	726,137	726,137	0
Intergovernmental	2,697,130	2,697,130	0
Interest	28,868	29,765	897
Tuition and Fees	233,032	233,006	(26)
Extracurricular Activities	0	0	0
Contributions and Donations	1,817	1,934	117
Rentals	505	505	0
Miscellaneous	49,304	49,323	19
<i>Total Revenues</i>	<u>4,609,155</u>	<u>4,610,162</u>	<u>1,007</u>
Expenditures			
Current:			
Instruction:			
Regular	1,904,807	1,896,549	8,258
Special	535,728	437,216	98,512
Vocational	111,324	106,058	5,266
Other	76,292	73,113	3,179
Support Services:			
Pupils	175,310	175,310	0
Instructional Staff	481,915	427,753	54,162
Board of Education	15,574	14,322	1,252
Administration	406,938	397,761	9,177
Fiscal	149,654	146,378	3,276
Operation and Maintenance of Plant	540,533	495,664	44,869
Pupil Transportation	205,264	200,738	4,526
Central	7,100	7,052	48
Extracurricular Activities	111,494	93,292	18,202
Capital Outlay	9,864	9,656	208
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenditures</i>	<u>4,731,797</u>	<u>4,480,862</u>	<u>250,935</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(122,642)</u>	<u>129,300</u>	<u>251,942</u>
Other Financing Sources (Uses)			
Operating Transfers In	0	0	0
Operating Transfers Out	(55,848)	(55,848)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(55,848)</u>	<u>(55,848)</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(178,490)</u>	<u>73,452</u>	<u>251,942</u>
<i>Fund Balances (Deficit) Beginning of Year</i>	1,046,130	1,046,130	0
Prior Year Encumbrances Appropriated	9,642	9,642	0
<i>Fund Balances End of Year</i>	<u>\$877,282</u>	<u>\$1,129,224</u>	<u>\$251,942</u>

Special Revenue			Debt Service		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$18,449	\$18,449	\$0	\$121,684	\$121,684	\$0
0	0	0	0	0	0
360,945	334,296	(26,649)	15,560	15,560	0
578	578	0	0	0	0
0	0	0	0	0	0
64,600	64,670	70	0	0	0
9,570	9,570	0	0	0	0
0	0	0	0	0	0
28,803	28,803	0	0	0	0
<u>482,945</u>	<u>456,366</u>	<u>(26,579)</u>	<u>137,244</u>	<u>137,244</u>	<u>0</u>
98,454	94,797	3,657	0	0	0
202,437	178,041	24,396	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
7,407	6,017	1,390	0	0	0
69,301	64,542	4,759	0	0	0
0	0	0	0	0	0
29,400	20,930	8,470	0	0	0
500	399	101	3,000	2,633	367
19,800	15,978	3,822	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
75,142	65,767	9,375	0	0	0
0	0	0	0	0	0
0	0	0	25,000	25,000	0
0	0	0	88,147	88,147	0
<u>502,441</u>	<u>446,471</u>	<u>55,970</u>	<u>116,147</u>	<u>115,780</u>	<u>367</u>
<u>(19,496)</u>	<u>9,895</u>	<u>29,391</u>	<u>21,097</u>	<u>21,464</u>	<u>367</u>
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
(19,496)	9,895	29,391	21,097	21,464	367
110,184	110,184	0	54,514	54,514	0
16,192	16,192	0	0	0	0
<u>\$106,880</u>	<u>\$136,271</u>	<u>\$29,391</u>	<u>\$75,611</u>	<u>\$75,978</u>	<u>\$367</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, 2003*

	Capital Projects		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property and Other Local Taxes	\$0	\$0	\$0
Income Tax	0	0	0
Intergovernmental	476,433	476,433	0
Interest	8,691	8,840	149
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>485,124</u>	<u>485,273</u>	<u>149</u>
Expenditures			
Current:			
Instruction:			
Regular	0	0	0
Special	0	0	0
Vocational	0	0	0
Other	0	0	0
Support Services:			
Pupils	238,392	238,392	0
Instructional Staff	11,500	11,500	0
Board of Education	0	0	0
Administration	0	0	0
Fiscal	0	0	0
Operation and Maintenance of Plant	39,932	26,670	13,262
Pupil Transportation	0	0	0
Central	0	0	0
Extracurricular Activities	0	0	0
Capital Outlay	2,072,103	2,059,121	12,982
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenditures</i>	<u>2,361,927</u>	<u>2,335,683</u>	<u>26,244</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(1,876,803)</u>	<u>(1,850,410)</u>	<u>26,393</u>
Other Financing Sources (Uses)			
Operating Transfers In	55,848	55,848	0
Operating Transfers Out	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>55,848</u>	<u>55,848</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(1,820,955)</u>	<u>(1,794,562)</u>	<u>26,393</u>
<i>Fund Balances (Deficit) Beginning of Year</i>	(39,057)	(39,057)	0
Prior Year Encumbrances Appropriated	<u>1,911,786</u>	<u>1,911,786</u>	<u>0</u>
<i>Fund Balances End of Year</i>	<u>\$51,774</u>	<u>\$78,167</u>	<u>\$26,393</u>

See accompanying notes to the general purpose financial statements

Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)
\$1,012,495	\$1,012,495	\$0
726,137	726,137	0
3,550,068	3,523,419	(26,649)
38,137	39,183	1,046
233,032	233,006	(26)
64,600	64,670	70
11,387	11,504	117
505	505	0
78,107	78,126	19
<u>5,714,468</u>	<u>5,689,045</u>	<u>(25,423)</u>
2,003,261	1,991,346	11,915
738,165	615,257	122,908
111,324	106,058	5,266
76,292	73,113	3,179
421,109	419,719	1,390
562,716	503,795	58,921
15,574	14,322	1,252
436,338	418,691	17,647
153,154	149,410	3,744
600,265	538,312	61,953
205,264	200,738	4,526
7,100	7,052	48
186,636	159,059	27,577
2,081,967	2,068,777	13,190
25,000	25,000	0
<u>88,147</u>	<u>88,147</u>	<u>0</u>
<u>7,712,312</u>	<u>7,378,796</u>	<u>333,516</u>
<u>(1,997,844)</u>	<u>(1,689,751)</u>	<u>308,093</u>
55,848	55,848	0
<u>(55,848)</u>	<u>(55,848)</u>	<u>0</u>
<u>0</u>	<u>0</u>	<u>0</u>
(1,997,844)	(1,689,751)	308,093
1,171,771	1,171,771	0
<u>1,937,620</u>	<u>1,937,620</u>	<u>0</u>
<u>\$1,111,547</u>	<u>\$1,419,640</u>	<u>\$308,093</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, 2003*

	Enterprise
<i>Operating Revenues</i>	
Sales	\$110,349
Other	76
	110,425
 <i>Operating Expenses</i>	
Salaries and Wages	47,595
Fringe Benefits	23,689
Purchased Services	2,644
Materials and Supplies	16,483
Cost of Sales	99,606
Depreciation	4,985
	195,002
 <i>Operating Loss</i>	 (84,577)
 <i>Non-Operating Revenues</i>	
Donated Commodities	21,467
Operating Grants	77,409
Interest	864
	99,740
 <i>Net Income</i>	 15,163
 <i>Retained Earnings Beginning of Year</i>	 88,632
 <i>Retained Earnings End of Year</i>	 \$103,795

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, 2003*

	Enterprise		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues			
Sales	\$110,329	\$110,349	\$20
Operating Grants	77,409	77,409	0
Interest	864	864	0
Other	30	76	46
<i>Total Revenues</i>	<u>188,632</u>	<u>188,698</u>	<u>66</u>
Expenses			
Salaries and Wages	46,627	47,994	(1,367)
Fringe Benefits	20,598	20,443	155
Purchased Services	3,950	2,644	1,306
Materials and Supplies	106,156	92,383	13,773
Capital Outlay	10,768	9,018	1,750
<i>Total Expenses</i>	<u>188,099</u>	<u>172,482</u>	<u>15,617</u>
<i>Excess of Revenues Over Expenses</i>	533	16,216	15,683
<i>Fund Equity Beginning of Year</i>	59,830	59,830	0
Prior Year Encumbrances Appropriated	<u>2,468</u>	<u>2,468</u>	<u>0</u>
<i>Fund Equity End of Year</i>	<u><u>\$62,831</u></u>	<u><u>\$78,514</u></u>	<u><u>\$15,683</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, 2003

	Enterprise
<i>Increase (Decrease) in Cash and Cash Equivalents</i>	
Cash Flows from Operating Activities	
Cash Received from Customers	\$110,349
Cash Received from Other Operating Sources	76
Cash Payments for Goods and Services	(95,027)
Cash Payments to Employees for Services	(47,994)
Cash Payments for Employee Benefits	(20,443)
<i>Net Cash Used for Operating Activities</i>	(53,039)
Cash Flows from Noncapital Financing Activities	
Operating Grants Received	77,409
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	(9,018)
Cash Flows from Investing Activities	
Interest on Investments	864
<i>Net Increase in Cash and Cash Equivalents</i>	16,216
<i>Cash and Cash Equivalents Beginning of Year</i>	62,298
<i>Cash and Cash Equivalents End of Year</i>	\$78,514
<i>Reconciliation of Operating Loss to Net Cash Used for Operating Activities</i>	
<i>Operating Loss</i>	(\$84,577)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	4,985
Donated Commodities Used During Year	21,467
Decrease/(Increase) in Assets:	
Materials and Supplies Inventory	23
Inventory Held for Resale	2,217
Prepaid Items	(53)
Increase/(Decrease) in Liabilities:	
Accrued Wages and Benefits	(1,138)
Compensated Absences Payable	183
Intergovernmental Payable	3,854
<i>Total Adjustments</i>	31,538
<i>Net Cash Used for Operating Activities</i>	(\$53,039)

Non-Cash Non Capital Financing Activities:
Federal donated commodities in the amount of \$21,467 were recorded as revenue when received.

See accompanying notes to the general purpose financial statements

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 1 - Description of the School District and Reporting Entity

Danville Local School District is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State and/or federal agencies. This Board of Education controls the School District's two instructional facilities and one administrative building staffed by 28 noncertified and 60 certificated full-time teaching personnel who provide services to 672 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 participates in the Tri-Rivers Educational Computer Association, a jointly governed organization. This organization is presented in Note 9 to the general purpose financial statements.

Note 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
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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).

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

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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.

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 (i.e., revenues) and decreases (i.e., 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 the governmental and agency funds. The full accrual basis of accounting is followed for the proprietary funds.

Revenue Recognition Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of 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 6) 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

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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 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, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On the governmental fund financial statement, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expense/Expenditure On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

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 fund level. 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

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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 as the final budgeted amounts reflect the amounts in the final amended certificate in effect when the final appropriations were passed.

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 at the legal level of control must be approved by the Board of Education. The Treasurer maintains budgetary information at the object level and has the authority to allocate appropriations at the function and object level without resolution 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, and do not exceed the certificate of estimated resources that was in effect at the time the final appropriation were passed. 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 2003, investments were limited to certificates of deposits and STAROhio.

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 2003. 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, 2003.

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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 2003 amounted to \$29,893, which includes \$1,116 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, 2003, 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. The School District had no restricted assets at June 30, 2003.

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.

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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

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.

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 judgments, 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.

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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 and property taxes.

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

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.

Note 3 - Fund Deficits

The following funds had deficit fund balances at June 30, 2003:

<u>Special Revenue Funds:</u>	<u>Deficit</u>
EMIS	\$20
DPIA	27
Title I	374
Title II	147
Miscellaneous Federal Grants	33

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

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 4 - 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) 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 that:

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).

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

Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types

	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	(\$55,468)	(\$21,429)	(\$2,540)	(\$1,240,765)
Net Adjustments for Revenue Accruals	225,402	37,528	24,004	0
Net Adjustments for Expenditure Accrual	(71,672)	5,401	0	(518,628)
Adjustment for Encumbrances	(24,810)	(11,605)	0	(35,169)
Budget Basis	\$73,452	\$9,895	\$21,464	(\$1,794,562)

Net Income/Excess of Revenues Over Expenses
Proprietary Fund Type

	Enterprise
GAAP Basis	\$15,163
Net Adjustments for Expense Accrual	5,086
Capital Outlay	(9,018)
Depreciation Expense	4,985
Budget Basis	\$16,216

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 5 - 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 five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Protection of the 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. Pooled collateral must equal 105 percent of market value.

Interim monies may be deposited or 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;
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;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and,

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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, 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 \$658,591 and the bank balance was \$839,459. Of the bank balance:

1. \$200,000 of the bank balance was covered by depository insurance; and
2. \$639,459 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Investments Investments are categorized 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 \$952,554 at June 30, 2003.

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 No. 9	\$1,611,145	\$0
Investments of the Cash Management Pool:		
STAROhio	(952,554)	952,554
GASB Statement No. 3	\$658,591	\$952,554

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 6 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible property is currently assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Knox and Holmes Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes are available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2003 was \$159,152 in the general fund and \$23,862 in the bond retirement fund. The amount available as an advance at June 30, 2002, was \$322,352 in the general fund, \$47,866 in the bond retirement fund and \$7,562 in the classroom facilities fund.

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second- Half Collections		2003 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$37,574,770	91.63 %	\$43,176,060	92.19 %
Public Utility Personal	2,123,060	5.18	2,192,030	4.68
Tangible Personal Property	1,309,906	3.19	1,464,506	3.13
Total	\$41,007,736	100.00 %	\$46,832,596	100.00 %
Tax rate per \$1,000 of assessed valuation	\$44.60		\$44.60	

Note 7 - 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.

Note 8 - Receivables

Receivables at June 30, 2003, consisted of income and property taxes, accounts and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Special Revenue Funds:	
Title VI-B	\$21,000
REAP Grant	5,649
Total	\$26,649

Note 9 - 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.

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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 \$85,022 to TRECA during fiscal year 2003. 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.

Note 10 - Fixed Assets

A summary of the enterprise funds' fixed assets at June 30, 2003, follows:

Furniture and Equipment	\$81,029
Less: Accumulated Depreciation	<u>(47,094)</u>
Net Fixed Assets	<u><u>\$33,935</u></u>

A summary of the changes in general fixed assets during fiscal year 2003 follows:

	Balance 6/30/2002	Additions	Deductions	Balance 6/30/2003
Land and Improvements	\$106,009	\$0	\$0	\$106,009
Buildings and Improvements	1,715,296	8,632,059	0	10,347,355
Furniture and Equipment	1,050,236	264,427	0	1,314,663
Vehicles	548,582	0	0	548,582
Construction in Progress	7,139,151	1,651,213	8,790,364	0
Total General Fixed Assets	<u>\$10,559,274</u>	<u>\$10,547,699</u>	<u>\$8,790,364</u>	<u>\$12,316,609</u>

Note 11 - 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 2003, the School District contracted with the Ohio School Plan for general liability coverage with a \$1,000,000 single occurrence limit and \$3,000,000 aggregate and no deductible. Professional liability is protected at the level of \$1,000,000 for single occurrence limit and \$3,000,000 aggregate and no deductible. Vehicles have a \$1,000 deductible for both comprehensive and collision and are covered for property and general liability insurance in the amount of \$1,000,000 with a \$1,000 deductible.

Selective Insurance Company of South Carolina holds the coverage for the blanket building and contents, boiler and machinery with a \$21,386,500 limit and a \$1,000 deductible. Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in coverage from the prior year.

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

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 12 - Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension system. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 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 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 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, 2003, 2002, and 2001 were \$46,584, \$27,410, and \$19,197, respectively; 53.91 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001 respectively. \$21,468 representing the unpaid contribution for fiscal year 2003 is recorded as a liability within the enterprise 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 Ohio), a cost-sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614)227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$273,468, \$196,485, and \$182,381 respectively; 83.78 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$32 made by the School District and \$3,257 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2003, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 13 - 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 health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For fiscal year 2002, 4.5 percent was the amount used. For the School District this amount equaled \$21,036 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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.

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, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. 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 2003, the minimum pay has been established as \$12,400. For the School District, the amount to fund health care benefits, including surcharge, during the 2003 fiscal year equaled \$33,241.

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, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Note 14 - Other Employee Benefits

A. Compensated Absences

The criteria for determining vacation, personal and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated to a maximum of 195 days. Upon retirement, payment is made for one-fourth of total sick leave accumulation; up to a maximum accumulation of 160 days. An employee receiving such payment must meet the retirement provisions set by STRS or SERS.

B. Health and Life Insurance

The School District provided health insurance to most employees through United Health Care. The School District provides life insurance 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.

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 15 - Long-Term Obligations

Changes in long-term obligations of the School District during fiscal year 2003 were as follows:

	Principal Outstanding 06/30/02	Additions	Deductions	Principal Outstanding 06/30/03
Classroom Facilities Improvement Bonds				
Series 2000 4.85 - 5.75%	\$1,636,000	\$0	\$25,000	\$1,611,000
Accretion of Capital Appreciation Bonds	22,469	11,528	0	33,997
Compensated Absences	56,411	18,486	26,496	48,401
Intergovernmental Payable	33,419	41,887	33,419	41,887
	<u>\$1,748,299</u>	<u>\$71,901</u>	<u>\$84,915</u>	<u>\$1,735,285</u>
Total General Long-Term Obligations	<u>\$1,748,299</u>	<u>\$71,901</u>	<u>\$84,915</u>	<u>\$1,735,285</u>

The bonds will be retired out of the debt service fund. The 2000 general obligation bonds include capital appreciation bonds that will mature in fiscal years 2012, 2013, 2014 and 2015. This year the addition of \$11,528 on these bonds represents the accretion of discounted interest for the fiscal year 2003.

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 \$2,679,912 with an unvoted debt margin of \$46,833 at June 30, 2003.

Principal and interest requirements to retire the classroom facilities improvement bonds outstanding at June 30, 2003 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2004	\$30,000	\$86,793	\$116,793
2005	35,000	85,175	120,175
2006	40,000	83,300	123,300
2007	45,000	81,164	126,164
2008	50,000	78,753	128,753
2009-2013	210,405	484,129	694,534
2014-2018	320,595	463,931	784,526
2019-2023	710,000	157,550	867,550
2024	170,000	4,888	174,888
	<u>\$1,611,000</u>	<u>\$1,525,683</u>	<u>\$3,136,683</u>
Total	<u>\$1,611,000</u>	<u>\$1,525,683</u>	<u>\$3,136,683</u>

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 16 - 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, 2003.

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Total Enterprise Funds</u>
Operating Revenues	\$106,271	\$4,154	\$110,425
Depreciation	4,985	0	4,985
Operating Income (Loss)	(86,480)	1,903	(84,577)
Donated Commodities	21,467	0	21,467
Operating Grants	77,409	0	77,409
Interest	864	0	864
Net Income	13,260	1,903	15,163
Fixed Asset Additions	9,018	0	9,018
Net Working Capital	69,686	5,169	74,855
Total Assets	114,482	5,169	119,651
Long-Term Compensated Absences Payable	1,881	0	1,881
Total Equity	98,626	5,169	103,795

Note 17 - 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, 2003.

B. Litigation

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

Note 18 - Set-Asides

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

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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

	Textbooks	Capital Acquisition
Set-aside Reserve Balance as of June 30, 2002	\$0	\$0
Current Year Set-aside Requirement	87,663	87,663
Qualifying Disbursements	(87,663)	(87,663)
Totals	\$0	\$0
Set-aside Balance Carried Forward to Future Fiscal Years	\$0	\$0
Set-aside Reserve Balance as of June 30, 2003	\$0	\$0

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

Note 19 – State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State’s school funding plan. The decision reaffirmed earlier decisions that Ohio’s current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed “...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...”

The School District is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

Note 20 – Subsequent Event

The District's 1.5 percent income tax renewal levy failed at the November 4, 2003 election and will end as of December 31, 2003. This levy generated approximately \$550,000 of revenue in the General Fund during fiscal year 2003. The Board intends on placing a levy on the ballot for the March 2004 election.

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
<i>Child Nutrition Cluster:</i>						
Food Donation	N/A	10.550	\$0	\$21,467	\$0	\$21,467
School Breakfast Program	05PU-2003	10.553	7,048	0	7,048	0
National School Lunch Program	LLP4-2003	10.555	<u>66,909</u>	<u>0</u>	<u>66,909</u>	<u>0</u>
Total U.S. Department of Agriculture - Child Nutrition Cluster			73,957	21,467	73,957	21,467
U.S. DEPARTMENT OF EDUCATION						
<i>Received Direct from the U.S. Department of Education:</i>						
Rural Education	S358A021013	84.358	18,725	0	18,725	0
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Education Agencies	C1S1-2002/2003	84.010	100,629	0	98,927	0
Special Education Grants to States	6BSF-2002/2003	84.027	86,871	0	78,138	0
Safe and Drug-Free Schools and Communities State Grants	DRS1-2002/2003	84.186	3,369	0	4,385	0
Eisenhower Professional Development State Grants	MSS1-2002	84.281	37	0	352	0
Innovative Education Program Strategies	C2S1-2003	84.298	4,115	0	7,165	0
Education Technology State Grants	TJS1-2003	84.318	2,755	0	2,445	0
Assistive Technology Infusion Project	ATS2-2002	84.352	3,975	0	3,975	0
Improving Teacher Quality State Grants	TRS1-2003	84.367	<u>31,639</u>	<u>0</u>	<u>28,037</u>	<u>0</u>
Total U.S. Department of Education			<u>252,115</u>	<u>0</u>	<u>242,149</u>	<u>0</u>
Total			<u>\$326,072</u>	<u>\$21,467</u>	<u>\$316,106</u>	<u>\$21,467</u>

The accompanying notes to this schedule are an integral part of this schedule.

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2003**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B--CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

We have audited the general-purpose financial statements of the Danville Local School District, Knox County, Ohio, (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated November 12, 2003. 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 the District's general-purpose 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 general-purpose 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 general-purpose 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.

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

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.

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

Betty Montgomery
Auditor of State

November 12, 2003



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

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 its major federal programs for the year ended June 30, 2003. 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, 2003.

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.

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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.



Betty Montgomery
Auditor of State

November 12, 2003

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2003**

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):	Child Nutrition Cluster – CFDA 10.550, 10.553 and 10.555, Title I – CFDA 84.010
(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



**Auditor of State
Betty Montgomery**

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DANVILLE LOCAL SCHOOL DISTRICT

KNOX COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 4, 2003**