



**Auditor of State
Betty Montgomery**

VILLAGE OF DANVILLE
KNOX COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Village Council:

We have audited the accompanying financial statements of the Village of Danville (the Village) as of and for the years ended December 31, 2002, and December 31, 2001. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village as of December 31, 2002, and December 31, 2001, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2003, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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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Village of Danville
Knox County
Independent Accountants' Report
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This report is intended solely for the information and use of management, the Village Council and other officials authorized to receive this report under § 117.26, Ohio Revised Code, 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

May 1, 2003

**VILLAGE OF DANVILLE
KNOX COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property Tax and Other Local Taxes	\$132,205	\$47,552	\$0	\$0	\$179,757
Special Assessments	0	0	27	0	27
Intergovernmental Receipts	25,309	95,986	0	33,517	154,812
Charges for Services	176	0	0	0	176
Fines, Licenses, and Permits	3,259	835	0	0	4,094
Earnings on Investments	9,495	1,213	0	0	10,708
Miscellaneous	8,461	10,226	0	0	18,687
Total Cash Receipts	<u>178,905</u>	<u>155,812</u>	<u>27</u>	<u>33,517</u>	<u>368,261</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	10,507	271,591	0	0	282,098
Public Health Services	650	0	0	0	650
Leisure Time Activities	7	11,159	0	0	11,166
Basic Utility Services	58,712	0	0	0	58,712
General Government	120,170	39,143	0	44,641	203,954
Debt Service:					
Principal Payments	0	0	1,534	0	1,534
Total Cash Disbursements	<u>190,046</u>	<u>321,893</u>	<u>1,534</u>	<u>44,641</u>	<u>558,114</u>
Total Receipts (Under) Disbursements	<u>(11,141)</u>	<u>(166,081)</u>	<u>(1,507)</u>	<u>(11,124)</u>	<u>(189,853)</u>
Other Financing Receipts and (Disbursements):					
Proceeds from Loans	0	0	0	21,750	21,750
Sale of Fixed Assets	0	525	0	0	525
Transfers-In	0	123,621	1,534	2,100	127,255
Transfers-Out	(113,600)	(12,826)	0	0	(126,426)
Other Financing Sources	0	892	0	0	892
Total Other Financing Receipts/(Disbursements)	<u>(113,600)</u>	<u>112,212</u>	<u>1,534</u>	<u>23,850</u>	<u>23,996</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(124,741)	(53,869)	27	12,726	(165,857)
Fund Cash Balances, January 1, 2002	224,252	154,864	404	6	379,526
Fund Cash Balances, December 31, 2002	<u><u>\$99,511</u></u>	<u><u>\$100,995</u></u>	<u><u>\$431</u></u>	<u><u>\$12,732</u></u>	<u><u>\$213,669</u></u>
Reserves for Encumbrances, December 31, 2002	<u><u>\$17,260</u></u>	<u><u>\$225</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$17,485</u></u>

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

**VILLAGE OF DANVILLE
KNOX COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2002**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$344,743
Miscellaneous	216
	<u>344,959</u>
Total Operating Cash Receipts	<u>344,959</u>
Operating Cash Disbursements:	
Personal Services	117,691
Contractual Services	65,677
Supplies and Materials	26,177
Capital Outlay	3,273
	<u>212,818</u>
Total Operating Cash Disbursements	<u>212,818</u>
Operating Income	<u>132,141</u>
Non-Operating Cash Disbursements:	
Debt Service	<u>114,832</u>
Excess of Receipts Over Disbursements Before Interfund Transfers	17,309
Transfers-In	119,135
Transfers-Out	<u>(119,964)</u>
Net Receipts Over Disbursements	16,480
Fund Cash Balances, January 1, 2002	<u>305,619</u>
Fund Cash Balances, December 31, 2002	<u><u>\$322,099</u></u>
Reserve for Encumbrances, December 31	<u><u>\$4,002</u></u>

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

**VILLAGE OF DANVILLE
KNOX COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Governmental Fund Types</u>				<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property Tax and Other Local Taxes	\$120,417	\$46,164	\$0	\$0	\$166,581
Special Assessments	0	0	541	0	541
Intergovernmental Receipts	34,229	89,475	0	0	123,704
Charges for Services	163	141,818	0	0	141,981
Fines, Licenses, and Permits	4,718	348	0	0	5,066
Earnings on Investments	17,935	7,327	0	0	25,262
Miscellaneous	3,326	373	0	0	3,699
Total Cash Receipts	180,788	285,505	541	0	466,834
Cash Disbursements:					
Current:					
Security of Persons and Property	7,496	223,201	0	0	230,697
Public Health Services	663	0	0	0	663
Leisure Time Activities	0	6,653	0	0	6,653
Community Environment	0	24,437	0	0	24,437
General Government	104,179	0	0	0	104,179
Debt Service:					
Principal Payments	0	0	44,874	0	44,874
Interest Payments	0	0	9,577	0	9,577
Capital Outlay	11,054	117,340	0	2,698	131,092
Total Cash Disbursements	123,392	371,631	54,451	2,698	552,172
Total Receipts Over/(Under) Disbursements	57,396	(86,126)	(53,910)	(2,698)	(85,338)
Other Financing Receipts and (Disbursements):					
Sale of Fixed Assets	0	1,503	0	0	1,503
Transfers-In	0	99,471	53,784	0	153,255
Transfers-Out	(81,938)	(70,489)	0	0	(152,427)
Other Sources	0	269	0	0	269
Total Other Financing Receipts/(Disbursements)	(81,938)	30,754	53,784	0	2,600
Excess of Cash Receipts and Other Financing Receipts (Under) Cash Disbursements and Other Financing Disbursements	(24,542)	(55,372)	(126)	(2,698)	(82,738)
Fund Cash Balances, January 1, 2001	248,794	210,236	530	2,704	462,264
Fund Cash Balances, December 31, 2001	\$224,252	\$154,864	\$404	\$6	\$379,526
Reserves for Encumbrances, December 31, 2001	\$2,764	\$2,807	\$0	\$0	\$5,571

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

**VILLAGE OF DANVILLE
KNOX COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2001**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$333,803
Operating Cash Disbursements:	
Personal Services	115,953
Contractual Services	70,044
Supplies and Materials	21,918
Capital Outlay	10,988
Total Operating Cash Disbursements	218,903
Operating Income	114,900
Non-Operating Cash Disbursements:	
Debt Service	111,519
Excess of Receipts Over Disbursements Before Interfund Transfers	3,381
Transfers-In	111,519
Transfers-Out	(112,347)
Net Receipts Over Disbursements	2,553
Fund Cash Balances, January 1, 2001	303,066
Fund Cash Balances, December 31, 2001	\$305,619
Reserve for Encumbrances, December 31, 2001	\$3,815

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

**VILLAGE OF DANVILLE
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Danville, Knox County, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides general governmental services, including water and sewer utilities, park operations (leisure time activities), and police services.

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

B. Basis of Accounting

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

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

C. Cash and Investments

The Village maintains an interest bearing checking account.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Fund

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

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

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

**VILLAGE OF DANVILLE
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

3. Debt Service Fund

This fund is used to accumulate resources for the payment of loan indebtedness. The Village had the following significant Debt Service Fund:

Richards Street Debt Fund (OPWC Loan Repayment) this fund is used to retire debt associated with the Richards Street waterline and street extension.

4. Capital Project Funds

This fund is used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Village had the following significant Capital Project Fund:

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

5. Enterprise Funds

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

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

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

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

**VILLAGE OF DANVILLE
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Village did not encumber all commitments required by Ohio law. The budgetary presentations have been adjusted to include material items that should have been encumbered.

A summary of 2002 and 2001 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

G. Accumulated Leave

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

2. EQUITY IN POOLED CASH

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

	2002	2001
Demand deposits	\$535,768	\$685,145

Deposits: Deposits are either insured by the Federal Depository Insurance Corporation, or collateralized by the financial institution's public entity deposit pool.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December was as follows:

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$410,851	\$178,905	(\$231,946)
Special Revenue	375,357	280,850	(94,507)
Debt Service	52,600	1,561	(51,039)
Capital Projects	2,700	57,367	54,667
Enterprise	767,239	464,094	(303,145)
Total	\$1,608,747	\$982,777	(\$625,970)

**VILLAGE OF DANVILLE
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$415,918	\$320,906	\$95,012
Special Revenue	410,117	334,944	75,173
Debt Service	1,937	1,534	403
Capital Projects	1,163,864	44,641	1,119,223
Enterprise	767,913	451,616	316,297
Total	<u>\$2,759,749</u>	<u>\$1,153,641</u>	<u>\$1,606,108</u>

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$407,454	\$180,788	(\$226,666)
Special Revenue	523,699	386,748	(136,951)
Debt Service	54,981	54,325	(656)
Capital Projects	2,704	0	(2,704)
Enterprise	756,535	445,322	(311,213)
Total	<u>\$1,745,373</u>	<u>\$1,067,183</u>	<u>(\$678,190)</u>

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$429,315	\$208,094	\$221,221
Special Revenue	571,600	444,927	126,673
Debt Service	54,451	54,451	0
Capital Projects	2,704	2,698	6
Enterprise	758,584	446,584	312,000
Total	<u>\$1,816,654</u>	<u>\$1,156,754</u>	<u>\$659,900</u>

Contrary to Ohio law, appropriations exceeded total certified estimated resources in the Police and Water Well Improvement Funds by \$32,135 and \$1,161,164, respectively in 2002 and in the General, Fire and Police Funds by \$21,861, \$15,141 and \$29,967, respectively in 2001.

Contrary to Ohio law, budgetary expenditures exceeded appropriations in the Police Fund by \$7,924 at December 31, 2001. In addition, the Police Fund had a deficit fund balance of \$7,419 at December 31, 2001.

**VILLAGE OF DANVILLE
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

4. PROPERTY TAX

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

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

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

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

5. LOCAL INCOME TAX

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

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

6. DEBT

Debt outstanding at December 31, 2002 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Richards Street/Water & Street Extention (OPWC Loan)	\$14,574	0%
OWDA (#2)	960,171	2.2%
OWDA (#3)	14,855	2%
Total	<u>\$989,600</u>	

The Ohio Public Works Commission (OPWC) Street Improvement loan is for the extension of a Village street. This loan is collateralized by water and sewer receipts.

The Ohio Water Development Authority (OWDA) Sewer construction loan (Loan #1) was for utility construction of the sewer plant originated in 1982. This loan was paid off in 2002. The OWDA Sewer upgrade construction loan (Loan #2) was for improvements mandated by the Environmental Protection Agency (EPA), to be completed for the Village sewer system. The OWDA Loan (Loan #3) issued in 2002 was approved up to \$72,138 for the Water Well Improvement Project. The Village has received \$21,750 to date on this loan and is making payments according to the amortization schedule based upon receiving the total amount approved. The scheduled payment may be adjusted to reflect any revisions in amounts actually borrowed. The loans are collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

**VILLAGE OF DANVILLE
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

6. DEBT (Continued)

Special Assessment bonds for the South Market Street extension were paid off in 2001.

Upon the formation of the Eastern Knox County Joint Fire District in 2001, installment loans for a fire rescue truck, pumper truck, and the emergency vehicle were conveyed to the Fire District.

Amortization of the above debt, including interest, is scheduled as follows:

	OPWC Loan	OWDA #2
Year ending December 31:		
2003	\$1,534	\$102,913
2004	1,534	102,913
2005	1,534	102,913
2006	1,534	102,913
2007	1,534	102,913
2008 – 2012	6,903	514,565
2013	0	51,457
Total	\$14,573	\$1,080,587

7. RETIREMENT SYSTEMS

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

Contribution rates are also prescribed by the Ohio Revised Code. For 2002 and 2001, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant and 24% of fire participant wages. For 2002 and 2001, PERS members contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% of participants' gross salaries for 2001 and 2002. The Village has paid all contributions required through December 31, 2002.

8. RISK MANAGEMENT

Risk Pool Membership

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

Casualty Coverage

PEP retains casualty risks up to \$250,000 per occurrence. Claims exceeding \$250,000 are reinsured with APEEP up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000, from the General Reinsurance Corporation.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-occurrence limit of \$2,000,000.

**VILLAGE OF DANVILLE
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

8. RISK MANAGEMENT (Continued)

Property Coverage

PEP retains property risks, including automobile physical damage up to \$100,000 on any specific loss. The Travelers Indemnity Company reinsures specific losses exceeding \$100,000. The Travelers Indemnity Company also provides aggregate excess coverage for property including automobile physical damage subject to an annual stop loss. When the stop loss is reached in any year, The Travelers Indemnity Company provides coverage in excess of \$10,000.

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

Financial Position

PEP's financial statements, which are the latest information available, (audited by other Accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31:

<u>Casualty Coverage</u>	<u>2001</u>	<u>2000</u>
Assets	19,358,458	\$17,112,129
Liabilities	<u>(8,827,588)</u>	<u>(7,715,035)</u>
Retained earnings	<u>\$10,530,870</u>	<u>\$9,397,094</u>
<u>Property Coverage</u>	<u>2001</u>	<u>2000</u>
Assets	1,890,323	\$1,575,614
Liabilities	<u>(469,100)</u>	<u>(281,561)</u>
Retained earnings	<u>\$1,421,223</u>	<u>\$1,294,053</u>

9. JOINTLY GOVERNED ORGANIZATION

The Eastern Knox County Joint Fire District (the District) is jointly governed organization pursuant to Ohio Revised Code Section 505.371. The District was formed in 2001 and consists of the following entities: Danville and Brinkhaven Villages, Brown, Butler, Harrison, Howard, Jefferson, and Union Townships. The District Board consists of a Trustee from each Township, a Council member from each Village and an at-Large member appointed by vote of the District Board. Revenues are generated from a 5 mill operating levy.

The assets and equipment of the Village Fire Department were transferred to the Eastern Knox County Joint Fire District upon its formation. The fund balance conveyed to the District was approximately \$120,000.

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**Auditor of State
Betty Montgomery**

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

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

To the Village Council:

We have audited the accompanying financial statements of the Village of Danville (the Village) as of and for the years ended December 31, 2002, and December 31, 2001, and have issued our report thereon dated May 1, 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 Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-001 through 2002-004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated May 1, 2003.

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

This report is intended solely for the information and use of management and the Village Council, 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

May 1, 2003

**VILLAGE OF DANVILLE
KNOX COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2002-001

Ohio Rev. Code Section 5705.41(D) states no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance by the issuance of a regular purchase order or certificate, a blanket certificate, or a super blanket certificate. Blanket certificates can be issued for an amount not exceeding \$5,000 against any specific line item account over a period not exceeding 3 months, and not extending beyond the end of the current fiscal year. A super blanket certificate may be issued for any amount from a specific line item appropriation account in a specific fund, for most recurring or reasonable predictable operating expenditures.

This section also provides two exceptions to the above requirements:

- A. If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was appropriated and free of any previous encumbrances, the Village may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate (a then and now certificate), if such expenditure is otherwise valid.

- B. If the amount involved is less than one thousand dollars (three thousand effective April 7, 2003), the fiscal officer may authorize it to be paid without the affirmation of the Village.

51% of the transactions tested were not certified by the fiscal officer at the time the commitment was incurred and neither of the exceptions provided for were used. Unless the exceptions noted above are used, prior certification is not only required by statute, but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village funds being over expended or exceeding budgetary spending limitations, we recommend that the Village Clerk/Treasurer certify that the funds are or will be available prior to obligation by Village personnel. When prior certification is not possible, then and now certification should be utilized.

FINDING NUMBER 2002-002

Ohio Rev. Code Section 5705.41(B) requires that no subdivision or taxing unit is to expend money unless it has been appropriated.

At December 31, 2001, object level expenditures plus outstanding encumbrances exceeded appropriations within the Special Revenue Police Fund (Security of Persons and Property) by \$7,924.

The Clerk/Treasurer should frequently compare actual expenditures plus outstanding encumbrances to appropriations to avoid potential overspending.

**VILLAGE OF DANVILLE
KNOX COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001
(Continued)**

FINDING NUMBER 2002-003

Ohio Rev. Code Section 5705.39 requires that total appropriations from each fund not exceed total estimated fund resources from each fund, as certified by the county budget commission. This section also requires the Village to obtain a County Auditor's certificate that total appropriations from each fund do not exceed the total official estimate or amended official estimate of resource when amending estimated resources.

During 2002 and 2001, total appropriations exceeded total certified estimated resources at year end as follows:

December 31, 2002

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
Water Well Improvement Fund	\$2,700	\$1,163,864	\$1,161,164
Police Fund	\$101,231	\$133,366	\$32,135

December 31, 2001

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
General Fund	\$407,454	\$429,315	\$21,861
Fire Fund	266,371	281,512	15,141
Police Fund	108,905	138,872	29,967

In addition, the Village did not always obtain certificates from the County Auditor that appropriations from each fund do not exceed the total Amended Official Estimate of Resources for certain appropriation and estimated resource amendments. Village Council should monitor appropriations versus estimated resources to help avoid overspending. In addition, the Clerk/Treasurer should obtain the required certificate from the County Auditor when amending appropriations and estimated resources.

FINDING NUMBER 2002-004

Ohio Rev. Code Section 5705.10 requires that monies paid into any fund be used only for the purposes for which such fund is established. At December 31, 2001, the Village had a negative cash fund balance within Special Revenue Police Fund of \$7,419.

A negative cash fund balance is an indication that revenues from other sources were used to pay obligations of this fund. Fund activity should be monitored to prevent future expenditures in excess of available resources. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund in accordance with the Ohio Rev. Code.



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VILLAGE OF DANVILLE

KNOX COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 17, 2003**