

**DANBURY LOCAL
SCHOOL DISTRICT**

OTTAWA COUNTY, OHIO

**BASIC FINANCIAL STATEMENTS
(AUDITED)**

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2006***

SHANE E. BAUMGARDNER, TREASURER



Mary Taylor, CPA
Auditor of State

Board of Education
Danbury Local School District
9451 E. Harbor Road
Lakeside-Marblehead, Ohio 43440

We have reviewed the *Independent Auditor's Report* of the Danbury Local School District, Ottawa County, prepared by Julian and Grube, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 30, 2007

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**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditor's Report

Board of Education
Danbury Local School District
9451 E. Harbor Road
Lakeside-Marblehead, OH 43440

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Danbury Local School District, Ottawa County, (the "District"), as of and for the fiscal year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to 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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Danbury Local School District, Ottawa County, as of June 30, 2006, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3B, the District had a prior period adjustment to restate net assets at July 1, 2005 due to errors in accumulated depreciation reported at June 30, 2005. Also, as disclosed in Note 3C, fund balances for the General Fund and Debt Service Fund have been restated at June 30, 2005 to properly reflect taxes receivable.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2007, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independent Auditor's Report
Danbury Local School District
Page Two

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
March 19, 2007

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The management's discussion and analysis of the Danbury Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities increased \$211,127 which represents a 2.65% increase from 2005 (as restated – see Note 3.B to the financial statements).
- General revenues accounted for \$7,904,235 in revenue or 91.51% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$732,925 or 8.49% of total revenues of \$8,637,160.
- The District had \$8,426,033 in expenses related to governmental activities; \$732,925 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$7,904,235 were adequate to provide for these programs.
- The District's major governmental funds were the general fund and Debt Service fund. The general fund had \$7,878,612 in revenues and other financing sources and \$7,548,122 in expenditures and other financing uses. During fiscal year 2006, the general fund's fund balance increased \$330,490 from a restated balance of \$1,676,289 to \$2,006,779.
- The Debt Service fund's fund balance decreased \$2,788,295, from a restated balance of \$3,359,925 to \$571,630, which consists of \$313,340 in revenues and \$3,101,635 in expenditures.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, governmental funds reported as major funds are the general fund and debt service fund.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and debt service fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-47 of this report.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2006 and 2005. Certain amounts for 2005 have been restated as described in Note 3.B and 3.C to the financial statements.

	Net Assets	
	Governmental Activities 2006	Restated Governmental Activities 2005
<u>Assets</u>		
Current and other assets	\$ 8,490,175	\$ 12,292,270
Capital assets, net	<u>5,925,139</u>	<u>6,072,733</u>
Total assets	<u>14,415,314</u>	<u>18,365,003</u>
<u>Liabilities</u>		
Current liabilities	5,759,800	6,914,443
Long-term liabilities	<u>463,594</u>	<u>3,469,767</u>
Total liabilities	<u>6,223,394</u>	<u>10,384,210</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	5,910,885	3,062,733
Restricted	616,334	3,435,002
Unrestricted	<u>1,664,701</u>	<u>1,483,058</u>
Total net assets	<u>\$ 8,191,920</u>	<u>\$ 7,980,793</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$8,191,920. Of this total, \$1,664,701 is unrestricted in use.

At year-end, capital assets represented 41.10% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of related debt, to acquire the assets at June 30, 2006, were \$5,910,885. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

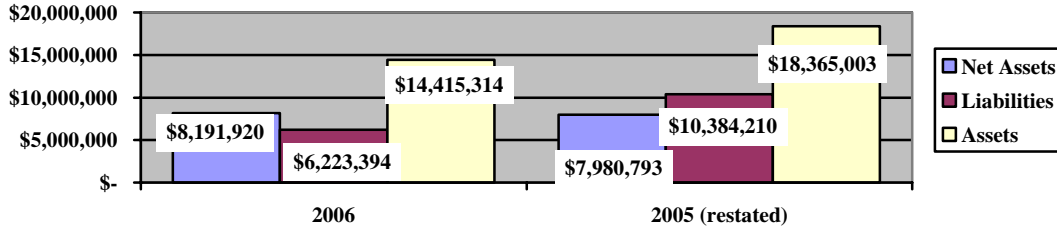
A portion of the District's net assets, \$616,334, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,664,701 may be used to meet the District's ongoing obligations to the students and creditors.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2006 and 2005.

Governmental Activities



The table below shows the change in net assets for fiscal years 2006 and 2005.

Change in Net Assets

	Governmental Activities 2006	Restated Governmental Activities 2005
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 430,394	\$ 403,090
Operating grants and contributions	302,531	301,281
General revenues:		
Property taxes	6,111,934	6,858,960
Grants and entitlements	1,542,656	1,575,273
Investment earnings	158,199	105,953
Other	91,446	17,418
Total revenues	<u>8,637,160</u>	<u>9,261,975</u>

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Change in Net Assets

	Governmental Activities <u>2006</u>	Restated Governmental Activities <u>2005</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 3,768,800	\$ 3,592,281
Special	663,535	651,419
Adult/continuing	45,771	47,782
Other	-	7,232
Support services:		
Pupil	367,606	355,569
Instructional staff	402,345	393,802
Board of education	49,642	77,294
Administration	739,666	734,975
Fiscal	345,146	344,793
Operations and maintenance	1,065,104	1,127,081
Pupil transportation	331,895	317,152
Central	9,387	12,897
Operations of non-instructional services	8,021	9,328
Extracurricular activities	303,517	188,033
Food service operations	254,066	213,212
Interest and fiscal charges	<u>71,532</u>	<u>171,946</u>
Total expenses	<u>8,426,033</u>	<u>8,244,796</u>
Change in net assets	211,127	1,017,179
Net assets at beginning of year	7,980,793	6,755,610
Prior period adjustment (see Note 3.B.)	<u>-</u>	<u>208,004</u>
Net assets at end of year	<u>\$ 8,191,920</u>	<u>\$ 7,980,793</u>

Governmental Activities

Net assets of the District's governmental activities increased \$211,127. Total governmental expenses of \$8,426,033 were offset by program revenues of \$732,925 and general revenues of \$7,904,235. Program revenues supported 8.70% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 88.62% of total governmental revenue.

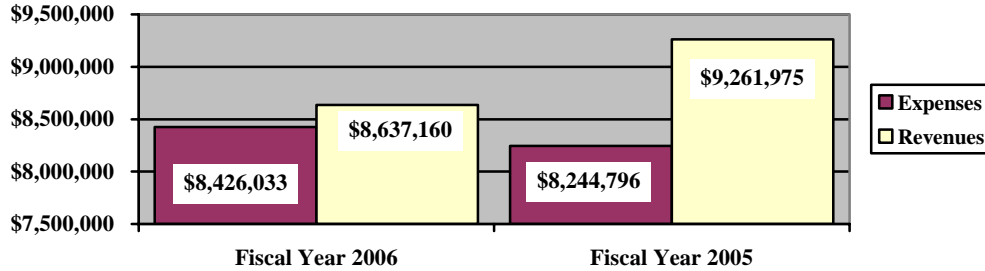
The largest expense of the District is for instructional programs. Instruction expenses totaled \$4,478,106 or 53.15% of total governmental expenses for fiscal 2006.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2006 and 2005.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

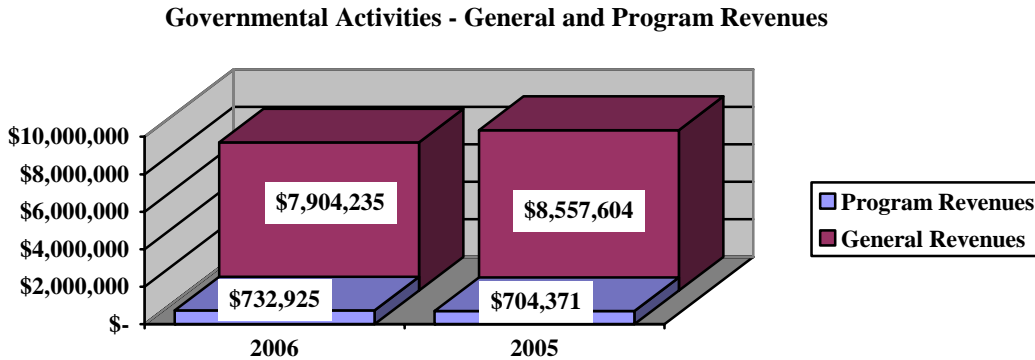
	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Program expenses				
Instruction:				
Regular	\$ 3,768,800	\$ 3,592,756	\$ 3,592,281	\$ 3,457,042
Special	663,535	633,402	651,419	609,956
Adult/continuing	45,771	33,889	47,782	36,690
Other	-	-	7,232	7,232
Support services:				
Pupil	367,606	295,905	355,569	288,328
Instructional staff	402,345	273,888	393,802	264,104
Board of education	49,642	49,642	77,294	77,294
Administration	739,666	739,666	734,975	731,525
Fiscal	345,146	345,146	344,793	344,793
Operations and maintenance	1,065,104	1,065,104	1,127,081	1,127,081
Pupil transportation	331,895	331,895	317,152	317,152
Central	9,387	4,387	12,897	7,897
Operations of non-instructional services	8,021	8,021	9,328	9,328
Extracurricular activities	303,517	213,844	188,033	74,441
Food service operations	254,066	34,031	213,212	15,616
Interest and fiscal charges	71,532	71,532	171,946	171,946
Total expenses	<u>\$ 8,426,033</u>	<u>\$ 7,693,108</u>	<u>\$ 8,244,796</u>	<u>\$ 7,540,425</u>

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The dependence upon tax and other general revenues for governmental activities is apparent, 95.13% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 91.30%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2006 and 2005.



The District's Funds

The District's governmental funds reported a combined fund balance of \$2,611,601, which is lower than last year's restated balance of \$5,082,369. Fund balances at June 30, 2005 have been restated as described in Note 3.C to the financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance June 30, 2006	Restated Fund Balance June 30, 2005	Increase (Decrease)	Percentage Change
General	\$ 2,006,779	\$ 1,676,289	\$ 330,490	19.72%
Debt Service	571,630	3,359,925	(2,788,295)	-82.99%
Other Governmental	33,192	46,155	(12,963)	-28.09%
Total	<u>\$ 2,611,601</u>	<u>\$ 5,082,369</u>	<u>\$ (2,470,768)</u>	<u>-48.61%</u>

General Fund

The District's general fund balance increased \$330,490. The increase in fund balance can be attributed to increasing tax revenue and earnings on investments and decreasing expenditures in the area of facilities acquisition and construction. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	2006 <u>Amount</u>	Restated 2005 <u>Amount</u>	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Taxes	\$ 6,004,982	\$ 5,924,157	\$ 80,825	1.36%
Earnings on investments	158,199	105,953	52,246	49.31%
Intergovernmental	1,492,076	1,476,851	15,225	1.03%
Other revenues	<u>204,820</u>	<u>133,667</u>	<u>71,153</u>	53.23%
 Total	 <u>\$ 7,860,077</u>	 <u>\$ 7,640,628</u>	 <u>\$ 219,449</u>	 2.87%
<u>Expenditures</u>				
Instruction	\$ 4,110,814	\$ 3,882,773	\$ 228,041	5.87%
Support services	3,005,776	2,980,171	25,605	0.86%
Non-instructional services	10,281	9,328	953	10.22%
Extracurricular activities	167,935	154,733	13,202	8.53%
Facilities acquisition and construction	169,573	297,327	(127,754)	-42.97%
Capital outlay	18,535	-	18,535	100.00%
Debt service	<u>5,208</u>	<u>-</u>	<u>5,208</u>	100.00%
 Total	 <u>\$ 7,488,122</u>	 <u>\$ 7,324,332</u>	 <u>\$ 163,790</u>	 2.24%

The increase in earnings on investments can be attributed to increases of interest rates by the Federal Reserve. Capital outlay and debt service increased as the result of the District entering into a capital lease transaction for a vehicle in fiscal year 2006.

Debt Service Fund

The Debt Service fund had \$313,340 in revenues and \$3,101,635 in expenditures. The Debt Service fund's fund balance decreased from a restated fund balance of \$3,359,925 to \$571,630, due to the increase in principal retirement as a result of paying off the general obligation bonds in fiscal year 2006.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal 2006, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$7,480,000 and final budgeted revenues and other financing sources were \$7,795,236. Actual revenues and other financing sources for fiscal 2006 was \$7,805,415. This represents a \$10,179 increase over final budgeted revenues. The increase is primarily due to a conservative original resources budget.

General fund original appropriations (appropriated expenditures including other financing uses) totaled \$7,950,622 and final appropriations (appropriated expenditures including other financing uses) totaled \$8,245,463. The actual budget basis expenditures for fiscal year 2006 totaled \$7,873,804 which is \$371,659 below the final budget appropriations.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Capital Assets and Debt Administration

Capital Assets

Capital assets have been restated as of June 30, 2005 as described in Note 8.A. At the end of fiscal 2006, the District had \$5,925,139 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2006 balances compared to 2005:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2006	Restated 2005
Land	\$ 148,136	\$ 148,136
Land improvements	470,003	505,779
Building and improvements	4,404,427	4,446,629
Furniture and equipment	687,763	793,710
Vehicles	214,810	178,479
Total	\$ 5,925,139	\$ 6,072,733

The overall decrease in capital assets of \$147,594 is due to depreciation expense of \$451,066 exceeding capital outlay of \$303,472 in the fiscal year.

Debt Administration

At June 30, 2006, the District had \$14,254 in capital lease obligations outstanding. Of this total, \$6,021 is due within one year and \$8,233 is due within greater than one year. See Note 9 to the basic financial statements for additional information. The following table summarizes the bonds and notes outstanding.

Outstanding Debt, at Year End

	Governmental Activities 2006	Governmental Activities 2005
School improvement bonds	\$ -	\$ 3,010,000
Capital lease obligation	14,254	-
Total	\$ 14,254	\$ 3,010,000

During fiscal year 2006 the District retired the school improvement bonds. At June 30, 2006, the District's overall legal debt margin was \$28,164,519, and an unvoted debt margin of \$306,588.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Current Financial Related Activities

The District is heavily dependant on general property tax (real estate) and is currently at the 20-mil floor. Strong property valuations have adequately supported the budgetary needs of the District to this point and new construction is strong. Low collection rate due to high tax payment delinquencies is an ongoing historical concern. At this time the District has 1 significant tax exemption pending.

Personal tangible property tax receipts are reduced as mandated by the passage of House Bill 66 by the State legislature.

Unrestricted grants-in-aid (State foundation payments) includes the amount of \$110,599 for utility deregulation "hold harmless" payments that partially expired in fiscal year 2006 and will expire completely in fiscal year 2007. The District remains on the same "guarantee" funding level it has been held to since fiscal year 1998.

Property tax allocation (homestead and rollback) receipts have grown accordingly with general real property tax receipts.

All other revenue (mainly manufactured home tax receipts) has slightly declined due to the removal of trailers located near the shoreline property being replaced by new construction.

Enrollment for the District is currently stagnant. Much of the new construction is not designed for family dwellings but instead vacation homes. Development of the interior of the peninsula is somewhat restricted while the quarry operations are still active.

The District is the single largest full-time employer within the District, and pays a competitive wage. Staffing levels may need to be reduced through attrition considering stagnant enrollment.

Purchased services costs have risen, especially in the areas of special needs contracted services and transportation.

The District supplies and material expenditures reflect an increased need for technology supplies expenditures and regularly scheduled textbook adoptions.

The District is proactive in maintaining the communities' investments in the school's building, grounds and infrastructure while taking a measured approach with capital outlay for equipment and improvements.

Improved efficiency in the food service operations and work on a fee schedule for community education and community use will lessen the amount of transfers to these funds.

The District's bond retirement issue has seen higher than expected collection rates and receipts that allowed the District to pay off the bonded debt obligation almost 10 years prior to the scheduled maturity.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Shane E. Baumgardner, Treasurer, Danbury Local School District, 9451 E. Harbor Road, Lakeside, Ohio 43440.

**BASIC
FINANCIAL STATEMENTS**

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents . . .	\$ 2,395,008
Receivables:	
Taxes	6,065,850
Accounts	3,991
Intergovernmental	7,661
Prepayments	15,331
Materials and supplies inventory	2,334
Capital assets:	
Land	148,136
Depreciable capital assets, net	5,777,003
Capital assets, net	5,925,139
 Total assets.	 14,415,314
 Liabilities:	
Accounts payable.	90,567
Accrued wages and benefits	543,894
Pension obligation payable.	191,017
Intergovernmental payable	21,766
Deferred revenue	4,912,556
Long-term liabilities:	
Due within one year.	24,430
Due in more than one year	439,164
Total long-term liabilities	463,594
Total liabilities	6,223,394
 Net Assets:	
Invested in capital assets, net of related debt.	5,910,885
Restricted for:	
Debt service.	571,630
State funded programs.	5,980
Federally funded programs.	25,441
Student activities.	13,283
Unrestricted.	1,664,701
Total net assets	\$ 8,191,920

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 3,768,800	\$ 174,067	\$ 1,977	\$ (3,592,756)
Special	663,535	-	30,133	(633,402)
Adult/continuing	45,771	11,882	-	(33,889)
Support services:				
Pupil	367,606	-	71,701	(295,905)
Instructional staff	402,345	-	128,457	(273,888)
Board of education	49,642	-	-	(49,642)
Administration	739,666	-	-	(739,666)
Fiscal	345,146	-	-	(345,146)
Operations and maintenance	1,065,104	-	-	(1,065,104)
Pupil transportation	331,895	-	-	(331,895)
Central	9,387	-	5,000	(4,387)
Operation of non-instructional services	8,021	-	-	(8,021)
Extracurricular activities	303,517	89,619	54	(213,844)
Food service operations	254,066	154,826	65,209	(34,031)
Interest and fiscal charges	71,532	-	-	(71,532)
Total governmental activities	\$ 8,426,033	\$ 430,394	\$ 302,531	(7,693,108)

General Revenues:

Property taxes levied for:	
General purposes	5,878,928
Debt service	233,006
Grants and entitlements not restricted	
to specific programs	1,542,656
Investment earnings	158,199
Miscellaneous	91,446
Total general revenues	\$ 7,904,235
Change in net assets	211,127
Net assets, beginning (restated)	7,980,793
Net assets, end of year	\$ 8,191,920

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 1,759,598	\$ 571,630	\$ 63,780	\$ 2,395,008
Receivables:				
Taxes.	6,065,850	-	-	6,065,850
Accounts	1,386	-	2,605	3,991
Intergovernmental.	-	-	7,661	7,661
Prepayments	15,331	-	-	15,331
Materials and supplies inventory.	-	-	2,334	2,334
Total assets	<u>\$ 7,842,165</u>	<u>\$ 571,630</u>	<u>\$ 76,380</u>	<u>\$ 8,490,175</u>
Liabilities:				
Accounts payable	\$ 88,690	\$ -	\$ 1,877	\$ 90,567
Accrued wages and benefits	513,264	-	30,630	543,894
Pension obligation payable.	181,507	-	9,510	191,017
Intergovernmental payable.	20,595	-	1,171	21,766
Deferred revenue.	5,031,330	-	-	5,031,330
Total liabilities	<u>5,835,386</u>	<u>-</u>	<u>43,188</u>	<u>5,878,574</u>
Fund Balances:				
Reserved for encumbrances	171,010	-	5,585	176,595
Reserved for materials and supplies inventory.	-	-	2,334	2,334
Reserved for prepayments	15,331	-	-	15,331
Reserved for debt service.	-	571,630	-	571,630
Reserved for property tax unavailable for appropriation	1,034,520	-	-	1,034,520
Unreserved, undesignated, reported in:				
General fund	785,918	-	-	785,918
Special revenue funds.	-	-	25,273	25,273
Total fund balances	<u>2,006,779</u>	<u>571,630</u>	<u>33,192</u>	<u>2,611,601</u>
Total liabilities and fund balances	<u>\$ 7,842,165</u>	<u>\$ 571,630</u>	<u>\$ 76,380</u>	<u>\$ 8,490,175</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2006

Total governmental fund balances		\$ 2,611,601
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		5,925,139
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.		118,774
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	\$ 449,340	
Capital lease obligation	<u>14,254</u>	
Total		<u>(463,594)</u>
Net assets of governmental activities		<u><u>\$ 8,191,920</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 6,004,982	\$ 262,760	\$ -	\$ 6,267,742
Tuition.	140,115	-	11,882	151,997
Charges for services.	-	-	154,826	154,826
Earnings on investments.	158,199	-	-	158,199
Extracurricular.	5,284	-	89,510	94,794
Classroom materials and fees	325	-	28,343	28,668
Other local revenues	59,096	-	32,350	91,446
Intergovernmental - Intermediate.	-	-	109	109
Intergovernmental - State.	1,492,076	50,580	37,085	1,579,741
Intergovernmental - Federal	-	-	265,446	265,446
Total revenues	<u>7,860,077</u>	<u>313,340</u>	<u>619,551</u>	<u>8,792,968</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,480,089	-	31,152	3,511,241
Special.	630,725	-	30,134	660,859
Adult/continuing.	-	-	45,771	45,771
Support services:				
Pupil.	285,795	-	81,219	367,014
Instructional staff	264,701	-	122,930	387,631
Board of education	49,642	-	-	49,642
Administration.	725,480	-	5,617	731,097
Fiscal	335,370	7,455	-	342,825
Operations and maintenance.	994,806	-	-	994,806
Pupil transportation	346,863	-	-	346,863
Central.	3,119	-	6,268	9,387
Operation of non-instructional services	10,281	-	-	10,281
Extracurricular activities.	167,935	-	120,434	288,369
Facilities acquisition and construction	169,573	-	-	169,573
Capital outlay	18,535	-	-	18,535
Food service operations.	-	-	248,989	248,989
Debt service:				
Principal retirement	4,281	3,010,000	-	3,014,281
Interest and fiscal charges	927	84,180	-	85,107
Total expenditures	<u>7,488,122</u>	<u>3,101,635</u>	<u>692,514</u>	<u>11,282,271</u>
Excess of revenues under expenditures	<u>371,955</u>	<u>(2,788,295)</u>	<u>(72,963)</u>	<u>(2,489,303)</u>
Other financing sources (uses):				
Capital lease transactions.	18,535	-	-	18,535
Transfers in	-	-	60,000	60,000
Transfers out.	(60,000)	-	-	(60,000)
Total other financing sources (uses)	<u>(41,465)</u>	<u>-</u>	<u>60,000</u>	<u>18,535</u>
Net change in fund balances	330,490	(2,788,295)	(12,963)	(2,470,768)
Fund balances at beginning of year (restated)				
	<u>1,676,289</u>	<u>3,359,925</u>	<u>46,155</u>	<u>5,082,369</u>
Fund balances at end of year.	<u>\$ 2,006,779</u>	<u>\$ 571,630</u>	<u>\$ 33,192</u>	<u>\$ 2,611,601</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds	\$	(2,470,768)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. Depreciation expense exceeds capital outlays in the current period accordingly.</p>		
Capital asset additions	\$ 303,472	
Current year depreciation	<u>(451,066)</u>	(147,594)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(155,808)
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		3,014,281
The inception of capital lease transactions are recorded as an other financing source in the funds, however, in the statement of activities they are not reported as revenue as they increase liabilities on the statement of net assets.		(18,535)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		13,575
Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		<u>(24,024)</u>
Change in net assets of governmental activities	\$	<u>211,127</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 5,699,136	\$ 5,947,075	\$ 5,947,075	\$ -
Tuition	134,273	139,872	140,115	243
Earnings on investments	151,604	148,341	158,199	9,858
Extracurricular	5,064	5,226	5,284	58
Classroom materials and fees	311	325	325	-
Other local revenues	56,654	59,099	59,119	20
Intergovernmental - State	1,431,326	1,493,595	1,493,595	-
Total revenues	<u>7,478,368</u>	<u>7,793,533</u>	<u>7,803,712</u>	<u>10,179</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,529,729	3,434,420	3,495,625	(61,205)
Special	634,842	616,950	628,708	(11,758)
Support services:				
Pupil	285,793	308,727	283,032	25,695
Instructional staff	263,474	263,046	260,928	2,118
Board of education	57,354	84,915	56,800	28,115
Administration	714,853	738,013	707,946	30,067
Fiscal	337,748	336,030	334,485	1,545
Operations and maintenance	1,076,522	966,513	1,066,121	(99,608)
Pupil transportation	428,860	382,903	424,716	(41,813)
Central	4,634	7,495	4,589	2,906
Operation of non-instructional services	9,837	9,608	9,742	(134)
Extracurricular activities	168,697	165,552	167,067	(1,515)
Facilities acquisition and construction	377,150	856,101	373,506	482,595
Total expenditures	<u>7,889,493</u>	<u>8,170,273</u>	<u>7,813,265</u>	<u>357,008</u>
Excess of revenues over (under) expenditures	<u>(411,125)</u>	<u>(376,740)</u>	<u>(9,553)</u>	<u>367,187</u>
Other financing sources (uses):				
Refund of prior year refund	1,632	1,703	1,703	-
Transfers out	(60,585)	(75,190)	(60,000)	15,190
Advances out	(544)	-	(539)	(539)
Total other financing sources (uses)	<u>(59,497)</u>	<u>(73,487)</u>	<u>(58,836)</u>	<u>14,651</u>
Net change in fund balance	(470,622)	(450,227)	(68,389)	381,838
Fund balance at beginning of year	1,242,138	1,242,138	1,242,138	-
Prior year encumbrances appropriated	265,299	265,299	265,299	-
Fund balance at end of year	<u>\$ 1,036,815</u>	<u>\$ 1,057,210</u>	<u>\$ 1,439,048</u>	<u>\$ 381,838</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 39,148	\$ 36,575
Investments	74,875	-
Receivables:		
Accounts	<u>539</u>	<u>250</u>
Total assets	<u>114,562</u>	<u>\$ 36,825</u>
Liabilities:		
Accounts payable.	-	\$ 325
Due to students	-	<u>36,500</u>
Total liabilities	<u>-</u>	<u>\$ 36,825</u>
Net Assets:		
Held in trust for scholarships	<u>114,562</u>	
Total net assets	<u>\$ 114,562</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 2,432
Gifts and contributions.	13,559
Total additions.	15,991
Deductions:	
Scholarships awarded	17,428
Change in net assets	(1,437)
Net assets at beginning of year	115,999
Net assets at end of year	\$ 114,562

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Danbury Local School District (the "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 District is organized in accordance with Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws, there is no authority for a school district to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms.

The District currently operates 1 elementary school, 1 middle school and 1 comprehensive high school. The District employs 34 non-certified and 55 certified (including administrative) full-time and part-time employees to provide services to approximately 616 students in grades K through 12 and various community groups. The District ranks 583rd of the 615 public school districts in Ohio and is the fourth largest of the seven districts in Ottawa County.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (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 District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39 "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

JOINTLY GOVERNED ORGANIZATIONS

EHOVE Career Center (the "Center")

The Center is a separate body politic and corporate, established by the Ohio Revised Code (ORC) to provide vocational and special education needs of the students. The Center accepts non-tuition students from the District as a member school; however, it is considered a separate political subdivision and is not considered to be part of the District.

Northern Ohio Educational Computer Association (NOECA)

NOECA is a joint venture among 38 school districts. The joint venture was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports NOECA based upon a per pupil charge, dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last 12 months financial contributions. NOECA is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, as amended by GASB Statement No. 39, the District does not have an equity interest in NOECA as the residual interest in the net resources of a joint venture upon dissolution is not equivalent to an equity interest. During fiscal year 2006 the District paid \$24,529 for services to NOECA. Financial information can be obtained from Betty J. Schwiefert, Treasurer for the Erie-Huron-Ottawa County Educational Service Center, who serves as fiscal agent, at 2900 S. Columbus Avenue, Sandusky, Ohio 44870-5569.

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program. See Note 12.B. for more information on this group purchasing pool.

The San-Ott School Employees Welfare Benefit Association (the "Association")

The District participates in a shared risk pool, with participants from Sandusky and Ottawa counties. The Association is governed by an assembly which consists of one representative from each participant (usually the superintendent or designee). The assembly exercises control over the operation of the consortium. All consortium revenues are generated from charges for services. Financial information can be obtained by writing to San-Ott Consortium, Jay Valasek, Treasurer of Vanguard-Sentinel Vocational Schools, at 1306 Cedar Street, Fremont, Ohio 43420.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources and payment of general obligation bond and principal and interest from governmental resources when the government is obligated in some manner for payment. It is also used to account for the accumulation of resources and payment of general obligation bonds.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; (b) food service operations; and (c) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUND

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

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

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 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 District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange 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: 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, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental revenue.

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds (except Agency funds). The specific timetable for fiscal year 2006 is as follows:

1. Prior to January 15 of the preceding year, 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 expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Ottawa County Budget Commission for tax rate determination.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

3. 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 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 a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2006.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Although State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original, appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2006; however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at fiscal year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2006, investments were limited to the State Treasury Asset Reserve (STAR Ohio) and treasury bonds. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The District has invested funds in STAR Ohio during fiscal 2006. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2006.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund and the private-purpose trust funds. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$158,199, which includes \$89,476 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at fiscal year-end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,000. 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. The District does not possess infrastructure.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	5 - 20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the statement of net assets. The District had no interfund receivables or payables at June 30, 2006.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2006, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees at least 50 years of age with 10 years of service or any age with at least 20 years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2006, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees are paid. The District had none at June 30, 2006. Compensated absences are primarily paid from the General Fund.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

L. Fund Balance Reserves

The 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, materials and supplies inventory, prepayments, debt service and property tax revenue unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

O. Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

P. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2006.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries" GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Restatement of Net Assets

Net assets of the governmental activities have been restated due to errors in the amount of accumulated depreciation reported at June 30, 2005. The adjustment for accumulated depreciation had the following effect on net assets as previously reported:

	<u>Governmental Activities</u>
Net assets, June 30, 2005	\$ 7,772,789
Adjustment for accumulated depreciation	208,004
Restated net assets, June 30, 2005	\$ 7,980,793

C. Restatement of Fund Balances

Fund balances of the general fund and debt service fund have been restated to correct the amount of property taxes available for advance at June 30, 2005. The adjustment for property tax revenue had the following effect on fund balances as previously reported at June 30, 2005:

	<u>General</u>	<u>Debt Service</u>
Fund balance, June 30, 2005	\$ 1,086,080	\$ 3,950,134
Adjustment for property tax revenue	590,209	(590,209)
Restated fund balance, June 30, 2005	\$ 1,676,289	\$ 3,359,925

D. Deficit Fund Balances

Fund balances at June 30, 2006 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
Food Service Operations	\$ 10,231
Adult Education	3,430
Summer Intervention	7
Title VI-B	10,760
Title I	64

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the 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 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 moneys 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 passbook accounts.

Interim monies to 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 (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Protection of 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.

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 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.

A. Cash on Hand

At year-end, the District had \$1,670 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

B. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all District deposits was \$1,291,404. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$1,097,082 of the District's bank balance of \$1,365,908 was exposed to custodial risk as discussed below, while \$268,826 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

C. Investments

As of June 30, 2006, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
Treasury Bonds and Notes	\$ 74,875	\$ 74,875
STAR Ohio	<u>1,177,657</u>	<u>1,177,657</u>
	<u>\$ 1,252,532</u>	<u>\$ 1,252,532</u>

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The District's investments, except for STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio and AAAM money market rating.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Treasury Bonds and Notes	\$ 74,875	5.98%
STAR Ohio	<u>1,177,657</u>	<u>94.02%</u>
	<u>\$ 1,252,532</u>	<u>100.00%</u>

D. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 1,291,404
Investments	1,252,532
Cash on hand	<u>1,670</u>
Total	<u>\$ 2,545,606</u>

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 2,395,008
Private-purpose trust activities	114,023
Agency funds	<u>36,575</u>
Total	<u>\$ 2,545,606</u>

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:	
General Fund	\$ 60,000

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the 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 District. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of January 1, 2005. In prior years, tangible personal property assessments were twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Tangible personal property tax is being phased out - the assessment percentage for property, including inventory, is 18.75% for 2006. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008, and zero for 2009. This year, the June 2006 tangible personal property tax settlement was not received until July of 2006.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 6 - PROPERTY TAXES - (Continued)

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Ottawa County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes 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 fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006 was \$1,034,520 in the general fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2005 was \$976,614 in the general fund and \$115,329 in the debt service fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

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

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 284,738,430	95.13	\$ 294,884,830	96.18
Public Utility Personal	7,627,698	2.55	6,769,520	2.21
Tangible Personal Property	<u>6,958,690</u>	<u>2.32</u>	<u>4,933,310</u>	<u>1.61</u>
Total	<u>\$ 299,324,818</u>	<u>100.00</u>	<u>\$ 306,587,660</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation :	\$ 43.40		\$ 47.35	

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Property taxes	\$ 6,065,850
Accounts	3,991
Intergovernmental	<u>7,661</u>
 Total	 <u>\$ 6,077,502</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

NOTE 8 - CAPITAL ASSETS

- A. The capital asset balances of the government activities have been restated to correct for errors and omissions in the amount previously reported as accumulated depreciation at June 30, 2005 (see Note 3.B.).

	<u>Balance</u> <u>06/30/05</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>06/30/05</u>
Governmental Activities			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 148,136	\$ -	\$ 148,136
Total capital assets, not being depreciated	<u>148,136</u>	<u>-</u>	<u>148,136</u>
<i>Capital assets, being depreciated:</i>			
Land improvements	747,795	-	747,795
Buildings and improvement	6,903,064	-	6,903,064
Furniture and equipment	1,916,133	-	1,916,133
Vehicles	486,347	-	486,347
Total capital assets, being depreciated	<u>10,053,339</u>	<u>-</u>	<u>10,053,339</u>
<i>Less: accumulated depreciation</i>	<u>(4,336,746)</u>	<u>208,004</u>	<u>(4,128,742)</u>
Governmental activities capital assets, net	<u>\$ 5,864,729</u>	<u>\$ 208,004</u>	<u>\$ 6,072,733</u>

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 8 - CAPITAL ASSETS - (Continued)

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

	Restated Balance <u>06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/06</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 148,136	\$ -	\$ -	\$ 148,136
Total capital assets, not being depreciated	<u>148,136</u>	<u>-</u>	<u>-</u>	<u>148,136</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	747,795	-	-	747,795
Buildings and improvements	6,903,064	124,140	-	7,027,204
Furniture and equipment	1,916,133	99,697	-	2,015,830
Vehicles	<u>486,347</u>	<u>79,635</u>	<u>(46,323)</u>	<u>519,659</u>
Total capital assets, being depreciated	<u>10,053,339</u>	<u>303,472</u>	<u>(46,323)</u>	<u>10,310,488</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(242,016)	(35,776)	-	(277,792)
Buildings and improvements	(2,456,435)	(166,342)	-	(2,622,777)
Furniture and equipment	(1,122,423)	(205,644)	-	(1,328,067)
Vehicles	<u>(307,868)</u>	<u>(43,304)</u>	<u>46,323</u>	<u>(304,849)</u>
Total accumulated depreciation	<u>(4,128,742)</u>	<u>(451,066)</u>	<u>46,323</u>	<u>(4,533,485)</u>
Governmental activities capital assets, net	<u>\$ 6,072,733</u>	<u>\$ (147,594)</u>	<u>\$ -</u>	<u>\$ 5,925,139</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular \$ 317,471

Support Services:

Pupil	2,149
Instructional staff	14,516
Administration	7,264
Fiscal	1,832
Operations and maintenance	29,858
Pupil transportation	44,906
Extracurricular activities	29,344
Food service operations	<u>3,726</u>
Total depreciation expense	<u>\$ 451,066</u>

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

During the current fiscal year, the District entered into a capitalized lease for a vehicle. This lease agreement meets the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of a vehicle have been capitalized in the amount of \$18,535. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2006 was \$1,158, leaving a current book value of \$17,377. A corresponding liability was recorded in the government-wide financial statements. Principal payments in the 2006 fiscal year totaled \$4,281 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2006:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2007	\$ 6,944
2008	6,943
2009	<u>1,736</u>
Total minimum lease payments	15,623
Less amount representing interest	<u>(1,369)</u>
Total	<u>\$ 14,254</u>

NOTE 10 - LONG-TERM OBLIGATIONS

A. During fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/06</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
Compensated absences	\$ 459,767	\$ 50,000	\$ (60,427)	\$ 449,340	\$ 18,409
Capital lease obligation	-	18,535	(4,281)	14,254	6,021
School improvement bonds	<u>3,010,000</u>	<u>-</u>	<u>(3,010,000)</u>	<u>-</u>	<u>-</u>
Total long-term obligations, governmental activities	<u>\$ 3,469,767</u>	<u>\$ 68,535</u>	<u>\$ (3,074,708)</u>	<u>\$ 463,594</u>	<u>\$ 24,430</u>

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

School Improvement Bonds - On July 1, 1993, the District issued \$4,415,000 in general obligation bonds at an interest rate of 5.48% to provide funds for acquisition and construction of equipment and facilities. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the statement of net assets. During fiscal year 2006, the District paid these bonds in full using monies accumulated in the Debt Service fund derived from a 3.1 mill bonded debt tax levy. These bonds were scheduled to mature on December 1, 2016; however, the remaining balance of \$3,010,000 was retired in fiscal year 2006. The principal and interest relating to this pay-off are recorded as expenditures in the Debt Service fund.

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2006 are a voted debt margin of \$28,164,519 and an unvoted debt margin of \$306,588.

NOTE 11 - COMPENSATED ABSENCES

The criteria for determining vacation and sick leave components are derived from negotiated agreements and state laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators 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 up to a maximum of 220 days for all personnel. Upon retirement, payment is made for one-fourth of the accrued, but unused, sick leave balance to a maximum of 55 days for all employees.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents, boiler/machinery and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are 100% coinsured. The following is a description of the District's insurance coverage:

<u>Coverage</u>	<u>Limits of Insurer</u>	<u>Coverage</u>	<u>Deductible</u>
General liability:	Ohio School Plan		
Each occurrence		\$ 1,000,000	\$ 0
Aggregate		3,000,000	0
Errors and Omissions			
Each occurrence		1,000,000	2,500
Aggregate		2,000,000	
Employee Practices			
Each occurrence		1,000,000	2,500
Aggregate		2,000,000	
Property	Ohio School Plan	16,232,896	5,000
Fleet: Nationwide/ Comprehensive	Ohio School Plan	1,000,000	1,000
Collision		1,000,000	1,000
Umbrella liability:	Ohio School Plan		
Each Accident		1,000,000	
Aggregate		1,000,000	

Settled claims have not exceeded this coverage in any of the past three years and there has not been a significant reduction in coverage from the prior year.

B. OSBA Group Workers' Compensation Rating Plan

For fiscal year 2006, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The Sheakley Group provides administrative, cost control and actuarial services to the Plan.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 12 - RISK MANAGEMENT - (Continued)

C. Group Health Insurance

The District has joined together with other school districts in the area to form the San-Ott School Employees Welfare Benefit Association (the "Association"), whose purpose is to provide health coverage and benefits to and for the eligible employees of Association members and their dependents. The District pays premiums to the Association based upon the benefits structure selected. The Association Trust Agreement provides that the Association will be self-sustaining through member premiums and will reinsure through commercial companies for specific claims in excess of \$100,000 and aggregate claims in excess of 120% of expected claims.

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2006, 2005, and 2004 were \$115,615, \$96,737, and \$94,835; 46.29 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 13 - PENSION PLANS - (Continued)

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

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation 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 District's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$450,187, \$430,651 and \$519,236; 82.35 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$479 made by the District and \$456 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/ STRS. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 14 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$34,630 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282.743 million and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$36,238 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006, were \$158.751 million. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million, which is about 221 percent of next years projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 59,492 participants currently receiving health care benefits.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ (68,389)
Net adjustment for revenue accruals	56,365
Net adjustment for expenditure accruals	4,593
Net adjustment for other sources/uses	17,371
Adjustment for encumbrances	<u>320,550</u>
GAAP basis	<u>\$ 330,490</u>

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 16 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

NOTE 17 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2006, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2005	\$ (463,368)	\$ 22,900
Current year set-aside requirement	85,444	85,444
Qualifying disbursements	<u>(155,374)</u>	<u>(251,825)</u>
Total	<u>\$ (533,298)</u>	<u>\$ (143,481)</u>
Cash balance carried forward to FY 2007	<u>\$ (533,298)</u>	<u>\$ -</u>

Although the District had qualifying disbursements during the year that reduced the set-aside amounts below zero for the capital acquisition reserve, this extra amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year. The amount of qualifying disbursement exceeding the set-aside requirement in the textbooks reserve may be carried forward to reduce the set-aside requirement for future years.



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**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

Board of Education
Danbury Local School District
9451 E. Harbor Road
Lakeside-Marblehead, OH 43440

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Danbury Local School District, Ottawa County, as of and for the fiscal year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 19, 2007. As disclosed in Note 3B, the District had a prior period adjustment to restate net assets at July 1, 2005 due to errors in the amount of accumulated depreciation reported at June 30, 2005. Also, as disclosed in Note 3C, fund balances for the General Fund and Debt Service Fund have been restated at June 30, 2005 to properly reflect taxes receivable. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Danbury Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts 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 certain matters involving the internal control over financial reporting that we have reported to the management of Danbury Local School District in a separate letter dated March 19, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Danbury Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we reported to the management of the Danbury Local School District in a separate letter dated March 19, 2007.

This report is intended solely for the information and use of the management, Board of Education of Danbury Local School District, Ottawa County, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
March 19, 2007



Mary Taylor, CPA
Auditor of State

DANBURY LOCAL SCHOOL DISTRICT
OTTAWA 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
MAY 10, 2007