



Mary Taylor, CPA
Auditor of State

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Danville Local School District, Knox County, Ohio, (the District) as of and for the year ended June 30, 2007, 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 reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, the major fund, and the aggregate remaining fund information of Danville Local School District, Knox County, Ohio, as of June 30, 2007, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Mary Taylor, CPA
Auditor of State

December 21, 2007

Danville Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

The discussion and analysis of Danville Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the financial statements and notes to those respective statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key Financial Highlights for fiscal year 2007 are as follows:

- In total, net assets increased by \$690,482.
- Revenues for governmental activities totaled \$6,805,472 in 2007. Of this total, 78.5 percent consisted of general revenues while program revenues accounted for the balance of 21.5 percent.
- Program expenses totaled \$6,114,990. Instructional expenses made up 54.5 percent of this total while support services accounted for 37.7 percent. Other expenses rounded out the remaining 7.8 percent.
- Outstanding general obligation bonded debt decreased from \$1,506,000 to \$1,436,000 in 2007.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes pertaining to those statements. The statements are organized so the reader can understand the Danville Local School District as a financial whole, or complete operating entity.

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

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains all the funds used by the School District to provide programs and activities, the view of the School District as a whole considers all financial transactions and asks the question, "How did we do financially during 2007?" The *Statement of Net Assets* and *Statement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses, regardless of when cash is received or paid.

Danville Local School District
Management's Discussion and Analysis
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Unaudited

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors. Non-financial factors may include the School District's performance, demographic and socioeconomic factors and willingness of the community to support the School District. On the other hand, financial factors may include the School District's financial position, liquidity and solvency and fiscal capacity.

In the Statement of Net Assets and the Statement of Activities, the School District's activities are classified as governmental activities. All of the School District's programs and services are reported here including instruction, support services, operation and maintenance, pupil transportation, operation of food service and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's only major governmental fund is the general fund.

Governmental Funds

All of the School District's activities are reported as governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are 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 that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School 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 financial statements.

The School District as a Whole

You may recall that the *Statement of Net Assets* provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2007 compared to 2006:

Danville Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Table 1
Net Assets
Governmental Activities

	2007	2006
Assets		
Current and Other Assets	\$4,716,711	\$3,849,100
Capital Assets, Net	8,907,420	9,010,905
<i>Total Assets</i>	<u>13,624,131</u>	<u>12,860,005</u>
Liabilities		
Current Liabilities	1,253,534	1,190,793
Long-Term Liabilities:		
Due Within One Year	104,662	69,530
Due in More Than One Year	1,619,099	1,643,328
<i>Total Liabilities</i>	<u>2,977,295</u>	<u>2,903,651</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	7,625,311	7,504,905
Restricted for:		
Capital Projects	0	4,864
Debt Service	29,801	199,070
Other Purposes	418,098	325,212
Unrestricted	2,573,626	1,922,303
<i>Total Net Assets</i>	<u>\$10,646,836</u>	<u>\$9,956,354</u>

Total assets increased by \$764,126. The increase was largely caused by increases in equity in pooled cash and cash equivalents and taxes receivable and partially offset by a decrease in capital assets caused by the current year depreciation expense. Total liabilities increased by \$73,644, due primarily to an increase in deferred revenues, due to an increase in property taxes receivable and the fact that less property taxes revenue was available as an advance at year end compared to the prior year.

By comparing assets and liabilities, one can see the overall position of the School District has increased as evidenced by the increase in net assets of \$690,482.

The vast majority of revenue supporting all governmental activities is general revenue. General revenue totaled \$5,344,887 or 78.5 percent of the total revenue. The most significant portions of the general revenue are grants and entitlements, and local property and income tax. The remaining amount of revenue received was in the form of program revenues equaling \$1,460,585 or 21.5 percent of total revenue.

Table 2 shows the revenues, expenses and changes in net assets for fiscal years 2007 and 2006.

Danville Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Table 2
Changes in Net Assets
Governmental Activities

	2007	2006
Revenues		
Program Revenues:		
Charges for Services and Sales	\$808,771	\$707,228
Operating Grants and Contributions	651,814	699,349
Capital Grants and Contributions	0	10,142
Total Program Revenues	1,460,585	1,416,719
General Revenues:		
Property Taxes	1,161,650	1,419,510
Income Taxes	941,270	928,136
Grants and Entitlements	3,040,250	2,462,194
Investment Earnings	151,398	93,252
Miscellaneous	50,319	42,822
Total General Revenues	5,344,887	4,945,914
Total Revenues	6,805,472	6,362,633
Program Expenses		
Instruction:		
Regular	2,544,764	2,457,913
Special	681,536	664,051
Vocational	109,245	122,977
Student Intervention Services	0	20,139
Support Services:		
Pupils	251,707	282,662
Instructional Staff	485,520	431,070
Board of Education	25,030	20,938
Administration	439,831	444,333
Fiscal	148,358	148,097
Operation and Maintenance of Plant	624,126	574,582
Pupil Transportation	260,158	239,455
Central	65,601	34,453
Food Service Operations	277,420	236,270
Extracurricular Activities	135,328	158,020
Interest and Fiscal Charges	66,366	99,598
Total Program Expenses	6,114,990	5,934,558
Increase/Decrease in Net Assets	690,482	428,075
<i>Net Assets Beginning of Year</i>	<i>9,956,354</i>	<i>9,528,279</i>
<i>Net Assets End of Year</i>	<i>\$10,646,836</i>	<i>\$9,956,354</i>

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Property taxes decreased by \$257,860 due to the timing and amounts of property tax advances and collections at June 30, also due to the decrease in tangible personal property tax money. Grants and entitlements increased due to the State reimbursement for tangible personal property tax. The School District has an overall increase in expenses of \$180,432 with the largest increases in regular instruction, instructional staff, operation and maintenance of plant, and food services.

Governmental Activities

The School District has carefully planned its financial existence by forecasting its revenues and expenses over the next five years. Although the School District relies heavily upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating costs.

Approximately 54.5 percent of the School District's fiscal year 2007 expenses were for instructional services. Additional supporting services for pupils, staff, pupil transportation and business operations amounted to 37.7 percent. The remaining amount of program expenses, 7.8 percent, is to facilitate other obligations of the School District such as interest and fiscal charges, the food service program and numerous extracurricular activities.

The Statement of Activities shows the total net cost of program services. Table 3 shows the total cost of services for governmental activities and the net cost of those services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Governmental Activities

	Total Cost of Services 2007	Net Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2006
Governmental Activities:				
Instruction:				
Regular	\$2,544,764	\$1,860,168	\$2,457,913	\$1,849,345
Special	681,536	484,149	664,051	310,970
Vocational	109,245	109,245	122,977	102,250
Student Intervention Services	0	0	20,139	20,139
Support Services:				
Pupils	251,707	246,622	282,662	275,385
Instructional Staff	485,520	343,812	431,070	325,295
Board of Education	25,030	25,030	20,938	20,938
Administration	439,831	436,682	444,333	440,504
Fiscal	148,358	148,358	148,097	148,097
Operation and Maintenance of Plant	624,126	610,219	574,582	561,906
Pupil Transportation	260,158	260,158	239,455	236,513
Central	65,601	(6,835)	34,453	33,474
Food Service Operations	277,420	5,263	236,270	(674)
Extracurricular Activities	135,328	65,168	158,020	94,099
Interest and Fiscal Charges	66,366	66,366	99,598	99,598
Total	\$6,114,990	\$4,654,405	\$5,934,558	\$4,517,839

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As one can see, the reliance upon local tax revenues for governmental activities is crucial. Approximately 87.4 percent of expenses are supported by general revenues including local property and income taxes and grant and entitlements not restricted to specific programs. Program revenues provided for the remaining 12.6 percent of all governmental expenses.

School District's Funds

Information regarding the School District's major fund can be found on pages 14 - 18. The governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$6,804,050 and expenditures of \$6,088,806. The net change in fund balance for the year was most significant in the general fund, with an increase of \$694,260.

General Fund Budgeting Highlights

The School 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 fund to be budgeted is the main operating fund of the School District, the general fund.

During fiscal year 2007, the School District amended its general fund budget numerous times, but none were significant. The School District uses an operational unit budget process and has in place systems that are designed to tightly control expenditures but provide flexibility for program based decision and management.

For the General fund, the original and final budget basis estimated revenue totaled \$5,068,000 and \$5,790,703, respectively. Final budget basis appropriations totaled \$5,895,387 compared to the original estimate of \$5,537,935.

The general fund's unencumbered ending cash balance totaled \$1,863,756, which was well above the original budgeted amount of \$1,316,590, due primarily to actual revenues throughout the year exceeding the original estimates. Additionally actual expenditures were less than appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2007, the School District had \$8,907,420 invested in land, construction in process, buildings, furniture, fixtures and equipment, and vehicles. Table 4 shows fiscal 2007 values compared to 2006. More detailed information is presented in Note 10 to the basic financial statements.

Danville Local School District
Management's Discussion and Analysis
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Table 4
Capital Assets at June 30
Governmental Activities

	2007	2006
Land	\$147,525	\$105,035
Construction In Process	31,011	2,500
Buildings and Improvements	8,465,822	8,633,688
Furniture, Fixtures and Equipment	206,638	190,890
Vehicles	56,424	78,792
<i>Total Capital Assets</i>	\$8,907,420	\$9,010,905

All capital assets, except land and construction in process, are reported net of depreciation. As one can see, there was a decrease in capital assets during the fiscal year, mainly due to depreciation expense of \$260,814 for fiscal year 2007.

Debt

At June 30, 2007 the School District had \$1,436,000 of classroom facilities improvement bonds. Table 5 below summarizes the School District's bonds outstanding. More detailed information is presented in Note 16 to the basic financial statements.

Table 5
Outstanding Debt at Year End
Governmental Activities

	2007	2006
2000 Classroom Facilities		
Improvement Bonds	\$281,000	\$1,506,000
Accretion	96,655	77,975
2006 Refunded Classroom Facilities		
Improvement Bonds	1,155,000	0
	\$1,532,655	\$1,583,975

The bonds will be retired out of the debt service fund. In 2007, the School District refunded \$1,180,000 of the 2000 bonds. New bonds were issued in the amount of \$1,175,000. The 2000 general obligation bonds include serial bonds and capital appreciation bonds that will mature in fiscal years 2012, 2013, 2014 and 2015. The final amount of the capital appreciation bonds will be \$325,000.

The School District's overall legal debt margin was \$3,694,354 with an unvoted debt margin of \$55,069.

Danville Local School District
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Current Issues Affecting Financial Condition

The Danville Local School District's motto is *Excellence from All - Shaping Quality Graduates*. The District Continuous Improvement Plan (CIP) is based on the primary goal of *Increasing Achievement for All Students*. The District achieved the distinction of "Effective" status on the 2006-2007 Ohio State Report Card and Danville High School was rated as "Excellent."

The Danville Local School District Continuous Improvement Plan also includes the crucial goal of *Developing Adequate Support for Increasing Achievement*. Relative to accomplishing this end, the following activities are suggested:

1. Manage Available Funding to support achievement
2. Advocate for resources to support achievement
3. Align Available Resources to support achievement
4. Formulate & maintain plans for acquisition & rotation of technology, textbooks, & other resources

Assuring the School District's financial welfare is an extreme challenge. Effective internal controls and careful budgeting have created positive cash flow and placed the district on firm financial footing for the short term. Unfortunately, as is the case for a majority of Ohio's public school districts, the outlook over the longer term is far less hopeful. As the struggle to maintain solvency continues inside the district, major external forces persist to make the task of preparing our youth for the 21st century increasingly difficult to support. The major external factors include: inadequate funding, a broken foundation system of school support, the state's refusal to meet the order of the Ohio Supreme Court in the DeRolph decision, the recent superfluity of unfunded mandates from both Federal and State levels, and more.

Danville Local School District is forced to rely heavily on local taxpayers to support our programs. The School District's property tax rate is currently at the 20 mill floor. The taxpayers, in an incredible show of support for our children's future, have also shouldered the burden of a 2 percent school income tax. The effect of phantom revenue at just the top level of the State foundation cost the School District approximately \$154,257 in basic State aid for fiscal year 2007 alone. Yet, that is just the beginning of the story.

For fiscal year 2007 the State of Ohio set the foundation level at \$5,403 per student. The School District actually expended \$7,974 to educate each student in that year - up from \$7,343 in fiscal year 2006. Based on the State's formula, in fiscal year 2007, the School District received \$3,757 per student, or 47 percent, in State aid. That left \$4,217, or 53 percent, to be picked up by the local taxpayer! Property reappraisal, when coming in at a significantly higher percentage than the yearly increases in State basic aid reflect, further exacerbates the inadequacy of the State funding mechanism and further increases the burden on local taxpayers by widening the gulf between actual property tax receipts and the charge-off. Additionally, the School District is distressed by an increase in the number of economically disadvantaged students attending our schools. It is clear to see how the deleterious effects of the school funding mechanism, unfunded mandates, and a declining ability by local residents to assume the State's responsibility combine to create a downward spiral that must eventually lead to insolvency.

The Danville Elementary and Middle School building project was completed in 2003. Built through the Ohio School Facilities Commission, the 3.1 mill local share was approved by the voters and amounted to 20 percent of construction costs. The local share bonded indebtedness, originally \$1,656,000, was recently refinanced in order to save \$132,721 for the taxpayers for the life of the issue. A one-half mill levy was passed that helps offset maintenance costs.

Danville Local School District
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Currently the School District has begun a major renovation of High School Science facilities. Project costs are estimated to be nearly \$400,000. Funding for this project will come from the general fund and alumni contributions. Obviated by the need to upgrade science rooms, aging facilities at the School District's High School building are beginning to deteriorate and require additional expenditures to maintain. The modern systems included in the Elementary and Middle School Building are also expensive to operate and maintain in spite of their newness.

Other factors of concern in maintaining the fiscal integrity of the School District are numerous. CAFS reimbursement has ended, and the bus purchase allowance has been reduced by 60 percent over the last four years. School safety issues are forcing upgrade of security and response systems. No Child Left Behind legislation has forced long overdue changes in American public education, even as it has wrought perhaps the largest set of under-funded and unfunded mandates imaginable. The increased costs of harvesting and applying data, training existing staff and recruiting new teachers, retooling systems and classrooms, among others has greatly taxed financial resources.

Open enrollment accounts for nearly 10 percent of School District General Fund revenue. Unfortunately, this too is a mixed blessing since the State's formula for reimbursing the educating district is based on the foundation amount – some \$2,571 less than the actual cost of educating the average student in fiscal year 2007. On a more positive note, interest on investments has increased over 62 percent since fiscal year 2006 as rates of return increased as well as the balance for investment.

Basically, the financial outlook is not good. Continued vigilance inside the School District along with the historically strong support of our local citizens can only offset the governmental indifference for the near term. Without some form of relief on the part of the State and Federal governments it is difficult if not impossible to see the situation improving.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Mary Payne, Treasurer, at Danville Local School District, 405 S. Market St., P.O. Box 30, Danville, Ohio 43014, or email at payne_m@treca.org.

Danville Local School District

Statement of Net Assets

June 30, 2007

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$2,988,249
Accrued Interest Receivable	2,740
Accounts Receivable	2,477
Intergovernmental Receivable	73,828
Inventory Held for Resale	8,852
Materials and Supplies Inventory	1,757
Income Taxes Receivable	375,373
Property Taxes Receivable	1,222,212
Deferred Charges	41,223
Nondepreciable Capital Assets	178,536
Depreciable Capital Assets, Net	<u>8,728,884</u>
<i>Total Assets</i>	<u>13,624,131</u>
Liabilities	
Accrued Wages Payable	390,084
Intergovernmental Payable	120,467
Deferred Revenue	736,770
Accrued Interest Payable	6,213
Long-Term Liabilities:	
Due Within One Year	104,662
Due In More Than One Year	<u>1,619,099</u>
<i>Total Liabilities</i>	<u>2,977,295</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	7,625,311
Restricted for:	
Debt Service	29,801
Food Service Operations	153,031
Public School Support	52,400
Classroom Facilities Maintenance	78,739
Student Activities	29,521
Other Purposes	104,407
Unrestricted	<u>2,573,626</u>
<i>Total Net Assets</i>	<u><u>\$10,646,836</u></u>

See accompanying notes to the basic financial statements

Danville Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$2,544,764	\$611,985	\$72,611	(\$1,860,168)
Special	681,536	0	197,387	(484,149)
Vocational	109,245	0	0	(109,245)
Support Services:				
Pupils	251,707	0	5,085	(246,622)
Instructional Staff	485,520	0	141,708	(343,812)
Board of Education	25,030	0	0	(25,030)
Administration	439,831	0	3,149	(436,682)
Fiscal	148,358	0	0	(148,358)
Operation and Maintenance of Plant	624,126	13,907	0	(610,219)
Pupil Transportation	260,158	0	0	(260,158)
Central	65,601	0	72,436	6,835
Food Service Operations	277,420	112,719	159,438	(5,263)
Extracurricular Activities	135,328	70,160	0	(65,168)
Interest and Fiscal Charges	66,366	0	0	(66,366)
<i>Totals</i>	<u>\$6,114,990</u>	<u>\$808,771</u>	<u>\$651,814</u>	<u>(4,654,405)</u>
General Revenues				
Income Taxes Levied for				
				941,270
Property Taxes Levied for:				
				1,053,828
				90,231
				17,591
				3,040,250
				151,398
				50,319
<i>Total General Revenues</i>				<u>5,344,887</u>
				690,482
<i>Net Assets Beginning of Year</i>				<u>9,956,354</u>
<i>Net Assets End of Year</i>				<u>\$10,646,836</u>

See accompanying notes to the basic financial statements

Danville Local School District

Balance Sheet

Governmental Funds

June 30, 2007

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,431,454	\$556,795	\$2,988,249
Inventory Held for Resale	0	8,852	8,852
Materials and Supplies Inventory	0	1,757	1,757
Accrued Interest Receivable	2,740	0	2,740
Accounts Receivable	2,045	432	2,477
Intergovernmental Receivable	9,881	63,947	73,828
Income Taxes Receivable	375,373	0	375,373
Property Taxes Receivable	1,088,355	133,857	1,222,212
<i>Total Assets</i>	<u>\$3,909,848</u>	<u>\$765,640</u>	<u>\$4,675,488</u>
 Liabilities and Fund Balances			
Liabilities			
Accrued Wages Payable	354,697	35,387	390,084
Intergovernmental Payable	112,517	7,950	120,467
Deferred Revenue	669,371	127,189	796,560
<i>Total Liabilities</i>	<u>1,136,585</u>	<u>170,526</u>	<u>1,307,111</u>
 Fund Balances			
Reserved for Encumbrances	567,698	15,254	582,952
Reserved for Property Taxes	418,984	28,658	447,642
Unreserved, Undesignated			
Reported in:			
General Fund	1,786,581	0	1,786,581
Special Revenue Funds	0	377,103	377,103
Debt Service Fund	0	174,099	174,099
<i>Total Fund Balances</i>	<u>2,773,263</u>	<u>595,114</u>	<u>3,368,377</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$3,909,848</u>	<u>\$765,640</u>	<u>\$4,675,488</u>

See accompanying notes to the basic financial statements

Danville Local School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2007*

Total Governmental Funds Balances	\$3,368,377
 <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	8,907,420
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Property Taxes	37,800
Grants	21,990
Total	59,790
Bond issuance costs will be amortized over the life of the bonds on the statement of net assets.	41,223
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(6,213)
Long-term liabilities, including bonds payable and compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(1,390,000)
Capital Appreciation Bonds	(142,655)
Bond Premium	(163,753)
Refunding	112,668
Compensated Absences	(140,021)
Total	(1,723,761)
<i>Net Assets of Governmental Activities</i>	\$10,646,836

See accompanying notes to the basic financial statements

Danville Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2007

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Property Taxes	\$1,064,929	\$109,425	\$1,174,354
Income Tax	941,270	0	941,270
Intergovernmental	3,009,096	603,360	3,612,456
Interest	142,299	9,099	151,398
Tuition and Fees	607,635	4,350	611,985
Extracurricular Activities	0	70,160	70,160
Contributions and Donations	3,073	62,409	65,482
Customer Sales and Services	0	112,719	112,719
Rentals	13,907	0	13,907
Miscellaneous	26,557	23,762	50,319
<i>Total Revenues</i>	<u>5,808,766</u>	<u>995,284</u>	<u>6,804,050</u>
Expenditures			
Current:			
Instruction:			
Regular	2,324,276	112,602	2,436,878
Special	476,281	187,169	663,450
Vocational	107,324	0	107,324
Support Services:			
Pupils	238,287	6,140	244,427
Instructional Staff	360,953	115,396	476,349
Board of Education	25,030	0	25,030
Administration	421,923	18,764	440,687
Fiscal	144,743	2,872	147,615
Operation and Maintenance of Plant	584,601	23,637	608,238
Pupil Transportation	235,199	0	235,199
Central	55,187	10,301	65,488
Operation of Non-Instructional Services	0	264,896	264,896
Extracurricular Activities	105,676	77,718	183,394
Capital Outlay	35,026	0	35,026
Debt Service:			
Principal Retirement	0	65,000	65,000
Interest and Fiscal Charges	0	48,380	48,380
Issuance Costs	0	41,425	41,425
<i>Total Expenditures</i>	<u>5,114,506</u>	<u>974,300</u>	<u>6,088,806</u>
<i>Excess of Revenues Over Expenditures</i>	694,260	20,984	715,244
Other Financing Sources (Uses)			
Refunding Bonds Issued	0	1,175,000	1,175,000
Premium on Refunding Bonds Issued	0	164,556	164,556
Payment to Refunded Bond Escrow Agent	0	(1,293,220)	(1,293,220)
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>46,336</u>	<u>46,336</u>
<i>Net Change in Fund Balances</i>	694,260	67,320	761,580
<i>Fund Balances Beginning of Year</i>	<u>2,079,003</u>	<u>527,794</u>	<u>2,606,797</u>
<i>Fund Balances End of Year</i>	<u>\$2,773,263</u>	<u>\$595,114</u>	<u>\$3,368,377</u>

See accompanying notes to the basic financial statements

Danville Local School District
*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, 2007*

Net Change in Fund Balances - Total Governmental Funds \$761,580

*Amounts reported for governmental activities in the
statement of activities are different because*

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. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Outlay	157,329	
Depreciation	(260,814)	
Total		(103,485)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property Taxes	(12,704)	
Intergovernmental	14,126	
Total		1,422

Other financing sources in the governmental funds that increase long-term liabilities such as bonds issued in the statement of net assets are not reported as revenues in the statement of activities.

Bonds Issued	(1,175,000)	
Premium on Bonds	(164,556)	
Total		(1,339,556)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Bond Principal	65,000	
Payment to Refunded Bond Escrow Agent	1,293,220	
Total		1,358,220

In the statement of activities, interest is accrued on outstanding bonds, bond issuance costs and bond premium are amortized over the term of the bonds whereas in governmental funds, an expenditures is reported when bonds are issued.

Bond Issuance Costs	41,425	
Accrued Interest on Bonds	645	
Bond Accretion	(18,680)	
Amortization of Premium on Bonds	803	
Amortization of Loss on Refunding	(552)	
Amortization of Issuance Costs	(202)	
Total		23,439

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.

Compensated Absences		(11,138)

Change in Net Assets of Governmental Activities \$690,482

See accompanying notes to the basic financial statements

Danville Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Property Taxes	\$996,700	\$1,061,649	\$1,061,649	\$0
Income Tax	798,200	909,059	909,059	0
Intergovernmental	2,650,000	3,028,569	2,999,215	(29,354)
Interest	86,500	142,299	142,299	0
Tuition and Fees	500,100	605,590	605,590	0
Contributions and Donations	900	3,073	3,073	0
Rentals	12,200	13,907	13,907	0
Miscellaneous	23,400	26,557	26,557	0
<i>Total Revenues</i>	<u>5,068,000</u>	<u>5,790,703</u>	<u>5,761,349</u>	<u>(29,354)</u>
Expenditures				
Current:				
Instruction:				
Regular	2,342,862	2,361,449	2,309,924	51,525
Special	611,815	510,815	481,994	28,821
Vocational	132,435	132,435	110,925	21,510
Support Services:				
Pupils	270,480	261,480	247,168	14,312
Instructional Staff	306,504	386,541	357,897	28,644
Board of Education	27,698	27,698	24,760	2,938
Administration	458,467	444,901	435,722	9,179
Fiscal	148,158	148,158	144,397	3,761
Operation and Maintenance of Plant	642,541	606,301	585,009	21,292
Pupil Transportation	393,860	397,602	379,025	18,577
Central	57,720	57,720	52,102	5,618
Extracurricular Activities	145,395	203,395	197,298	6,097
Capital Outlay	0	356,892	357,897	(1,005)
<i>Total Expenditures</i>	<u>5,537,935</u>	<u>5,895,387</u>	<u>5,684,118</u>	<u>211,269</u>
<i>Net Change in Fund Balance</i>	(469,935)	(104,684)	77,231	181,915
<i>Fund Balance Beginning of Year</i>	1,784,154	1,784,154	1,784,154	0
Prior Year Encumbrances Appropriated	<u>2,371</u>	<u>2,371</u>	<u>2,371</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$1,316,590</u></u>	<u><u>\$1,681,841</u></u>	<u><u>\$1,863,756</u></u>	<u><u>\$181,915</u></u>

See accompanying notes to the basic financial statements

Danville Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$289	\$58,304
Liabilities		
Due to Students	0	\$58,304
Net Assets		
Held in Trust for Scholarships	\$289	

See accompanying notes to the basic financial statements

Danville Local School District
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2007

	<u>Scholarship</u>
Additions	
Contributions and Donations	\$200
Interest	<u>4</u>
<i>Total Additions</i>	204
Deductions	
Scholarships Awarded	<u>200</u>
<i>Change in Net Assets</i>	4
<i>Net Assets Beginning of Year</i>	<u>285</u>
<i>Net Assets End of Year</i>	<u><u>\$289</u></u>

See accompanying notes to the basic financial statements

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 1 - Description of the School District and Reporting Entity

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

The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State statute and federal guidelines. This Board of Education controls the School District's two instructional facilities and one administrative building staffed by 26 noncertified and 60 certificated full-time teaching personnel who provide services to 730 students and other community members.

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards and agencies that are not legally separate from the School District. For Danville Local School District, this includes general operations, food service, preschool and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes for the organization. The School District has no component units.

The School District participates in two jointly governed organizations and one insurance pool. These organizations are the Tri-Rivers Educational Computer Association, Knox County Career Center, and the Schools of Ohio Risk Sharing Authority. These organizations are presented in Notes 9 and 11 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type. However, the School District has only governmental activities; therefore no business-type activities are presented.

The statement of net assets presents the financial condition of the governmental activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. 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 charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The School 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. The School District reports its activities in two categories of funds: governmental 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 is the School District's major governmental fund:

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

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

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 School District under a trust agreement for individuals, private organizations, or other governments and are therefore not

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

available to support the School District's own programs. The School District's only trust fund is a private purpose trust fund which accounts for accounts for a program that provides college scholarship assistance to students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts for student activities.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

Fund Financial Statements 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 (e.g., revenues and other financing sources) and uses (e.g., 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 accounted for on a flow of economic resources measurement focus.

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. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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 School District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, income 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 income taxes is recognized in the period the income is earned. 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 year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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, income taxes, interest, tuition, grants, 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, 2007, but which were levied to finance fiscal year 2008 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 measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Cash and Cash Equivalents

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

During fiscal year 2007, investments in the pool were limited to certificates of deposits and STAR Ohio.

Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2007.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$142,299 which includes \$19,111 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents.

F. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expensed/expended when used. Inventories consist of donated and purchased food held for resale and supplies held for consumption.

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

G. Capital Assets

All capital assets of the School District are classified as general capital assets. These assets generally 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. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land and construction in progress 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:

Description	Governmental Activities Estimated Lives
Buildings and Improvements	30 - 60 years
Furniture, Fixtures and Equipment	5 - 15 years
Vehicles	10 years

H. Bond Issuance Costs

On the government-wide financial statements, bond issuance costs are deferred and amortized over the term of the applicable bonds using the effective interest method. Within the governmental fund statements, bond issuance costs are expended when incurred.

I. Bond Premium

On government-wide financial statement, bond premiums are deferred and amortized over the term of the bonds using the effective interest method. Bond premiums are presented as an increase of the face amount of the bonds payable. On the governmental fund statements, bond premiums are receipted in the year the bonds are issued.

J. Gain/Loss on Refunding

On the government-wide financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt, the gain/loss on refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old or new debt, which ever is shorter.

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

K. 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 of the statement of net assets.

L. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for all accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

On the governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employee who has accumulated unpaid leave is paid.

M. 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, and compensated absences 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 governmental fund financial statements when due.

N. Interfund Activity

Internal events that are allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities.

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 financial statements.

N. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances and property taxes.

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

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists 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 enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$447,899 of restricted net assets, none of which are restricted by enabling legislation. Net assets restricted for other purposes include resources restricted for various state and federal grants, uniform school supplies and summer school.

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

P. 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.

Q. Estimates

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

R. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The treasurer has been authorized to allocate Board appropriations to the function and object level within each fund.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that was in effect at the time the final appropriations were passed by the Board of Education.

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

Note 3 - Fund Deficits

The following funds had deficit fund balances at June 30, 2007:

<u>Special Revenue Funds:</u>	<u>Deficit</u>
EMIS	\$13
Poverty Based Assistance	4,484
Miscellaneous Federal Grants	28

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

Note 4 - Budgetary Basis of Accounting

While the School District is 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, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual 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 GAAP basis are:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis for the general fund.

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Net Change in Fund Balance

GAAP Basis	\$694,260
Net Adjustment for Revenue Accruals	(47,417)
Net Adjustment for Expenditure Accruals	(1,914)
Encumbrances	(567,698)
Budget Basis	<u>\$77,231</u>

Note 5 - Deposits and Investments

Monies held by the School District are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the School District treasury. Active monies must be maintained either as cash in the School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim 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 held by the School District can 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 obligation or security 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;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAROhio); and,
8. Commercial paper and bankers' acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

Investments

As of June 30, 2007, the School District's internal investment pool had one investment, STAROhio. The School District's investment in STAROhio had a carrying and fair value of \$2,279,622 and an average days to maturity of 33 days.

Credit Risk STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that would further limit its investment choices.

Note 6 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, 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 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible property is currently assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2007 (other than public utility property) represents collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008 and

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Knox and Holmes Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes are available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2007 was \$418,984 in the general fund, \$5,159 in the classroom facilities maintenance special revenue fund and \$23,499 in the bond retirement fund. The amount available as an advance at June 30, 2006, was \$415,704 in the general fund, \$7,918 in the classroom facilities maintenance special revenue fund and \$47,704 in the bond retirement 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 2007 taxes were collected are:

	2006 Second- Half Collections		2007 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$50,200,570	93.21 %	\$51,368,480	93.28 %
Public Utility Personal	2,233,720	4.15	2,293,550	4.16
Tangible Personal Property	1,422,158	2.64	1,407,469	2.56
Total	\$53,856,448	100.00 %	\$55,069,499	100.00 %
Tax rate per \$1,000 of assessed valuation	\$44.00		\$43.76	

Note 7 - Income Tax

The School District levies a voted tax of one half percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1990, and is a continuing tax. On January 1, 2005, an additional one and one-half percent tax collection began. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund.

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 8 - Receivables

Receivables at June 30, 2007, consisted of taxes, accounts (rent and student fees), tuition and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables, except for delinquent property taxes are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Funds:	
CAFS Reimbursement	\$9,881
Food Service	15,634
Miscellaneous State Grants	22,093
Title VI-B	9,278
Title I	12,020
Drug Free	418
Title II-A TQA	3,554
Miscellaneous Federal Grants	<u>950</u>
Total	<u><u>\$73,828</u></u>

Note 9 - Jointly Governed Organizations

A. Tri-Rivers Educational Computer Association

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

The legislative and advisory body is the assembly which is comprised of the superintendents of the participating schools. The degree of control exercised by any participating school district is limited to its representation on the assembly, which elects the board of directors, who exercises total control over the operation of TRECA including budgeting, appropriating, contracting and designating management. All revenues are generated from participating districts and State funding. Danville Local School District paid \$71,481 to TRECA during fiscal year 2007. The Tri-Rivers Joint Vocational School is the fiscal agent of TRECA. Financial information can be obtained by writing to TRECA, 2222 Marion-Mt. Gilead Road, Marion, Ohio 43302.

B. Knox County Career Center

The Knox County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school districts'

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

elected boards, which possesses its own budgeting and taxing authority. The School District did not make any payments to the Career Center during fiscal year 2007. To obtain financial information, write to the Knox County Career Center, Tracy Elliott, who serves as Treasurer, at 306 Martinsburg Road, Mount Vernon, Ohio 43050.

Note 10 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance 7/1/06	Additions	Deductions	Balance 6/30/07
Governmental Activities				
Capital Assets, not being depreciated:				
Land	\$105,035	\$42,490	\$0	\$147,525
Construction in Progress	2,500	28,511	0	31,011
Total Capital Assets, not being Depreciated	<u>107,535</u>	<u>71,001</u>	<u>0</u>	<u>178,536</u>
Capital Assets, being Depreciated				
Buildings and Improvements	10,366,216	4,550	0	10,370,766
Furniture, Fixtures and Equipment	1,023,920	81,778	(38,454)	1,067,244
Vehicles	501,734	0	(19,326)	482,408
Total Capital Assets, being Depreciated	<u>11,891,870</u>	<u>86,328</u>	<u>(57,780)</u>	<u>11,920,418</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(1,732,528)	(172,416)	0	(1,904,944)
Furniture, Fixtures and Equipment	(833,030)	(66,030)	38,454	(860,606)
Vehicles	(422,942)	(22,368)	19,326	(425,984)
Total Accumulated Depreciation	<u>(2,988,500)</u>	<u>(260,814)</u> *	<u>57,780</u>	<u>(3,191,534)</u>
Total Capital Assets, being Depreciated, net	<u>8,903,370</u>	<u>(174,486)</u>	<u>0</u>	<u>8,728,884</u>
Governmental Activities Capital Assets, Net	<u>\$9,010,905</u>	<u>(\$103,485)</u>	<u>\$0</u>	<u>\$8,907,420</u>

* Depreciation expense was charged to governmental functions as follows:

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Instruction:	
Regular	\$129,511
Special	17,465
Vocational	2,994
Other	176
Support Services:	
Pupils	8,055
Instructional Staff	23,076
Administration	4,602
Fiscal	363
Operation and Maintenance of Plant	27,376
Pupil Transportation	25,573
Food Service Operations	18,834
Extracurricular Activities	2,789
Total Depreciation Expense	<u>\$260,814</u>

Note 11 – Insurance Pool

The School District participates in the Schools of Ohio Risk Sharing Authority, an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan's business and affairs are conducted by a nine member board consisting of member schools' superintendents and treasurers. Financial information can be obtained from Schools of Ohio Risk Sharing Authority, Inc. 8050 North High Street, Suite 160, Columbus, Ohio, 43235-6483.

Note 12 - Risk Management

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2007, the School District contracted with Schools of Ohio Risk Sharing Authority for general liability coverage with a \$1,000,000 single occurrence limit and \$3,000,000 aggregate and no deductible. Professional liability is protected at the level of \$1,000,000 for single occurrence and aggregate limit and a \$5,000 deductible. Vehicles have a \$1,000 deductible for both comprehensive and collision and are covered for property and automobile liability insurance in the amount of \$1,000,000. An additional excess liability policy of \$3,000,000 is also included.

Schools of Ohio Risk Sharing Authority holds the coverage for the blanket building and contents and boiler and machinery with a \$23,948,712 limit and a \$1,000 deductible. Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in coverage from the prior year.

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

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 13 - Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension 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 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 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 a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were \$63,502, \$58,014 and \$55,302 respectively; 38.49 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

B. State Teachers Retirement System

The School 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, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

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

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$309,031 \$290,407 and \$272,709 respectively; 83.14 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were \$923 made by the School District and \$7,724 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. During fiscal year 2007, no members of the Board of Education had elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 14 - Postemployment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS Ohio), and to retired non-certificated 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.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$23,772 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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 health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. 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 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$19,740.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care at June 30, 2006, (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive benefits.

Note 15 - Other Employee Benefits

A. Compensated Absences

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

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

B. Health and Life Insurance

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

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 16 - Long-Term Obligations

Changes in long-term obligations of the School District during fiscal year 2007 were as follows:

	Amount Outstanding 6/30/06	Additions	Deletions	Amount Outstanding 6/30/07	Amounts Due in One Year
Governmental Activities					
2000 Classroom Facilities Improvement					
\$1,610,000 4.85%-5.75% Serial Bonds	\$1,460,000	\$0	\$1,225,000	\$235,000	\$50,000
\$46,000 4.85%-5.75%					
Capital Appreciation Bonds	46,000	0	0	46,000	0
Accretion on Capital Appreciation Bonds	77,975	18,680	0	96,655	0
2006 Classroom Facilities Improvement					
\$1,175,000 5.25%-5.50% Serial Bonds		\$1,175,000	\$20,000	\$1,155,000	\$5,000
Unamortized Premium	0	164,556	(803)	163,753	0
Unamortized Loss on Refunding	0	(113,220)	552	(112,668)	0
Compensated Absences	128,883	13,488	2,350	140,021	49,662
Total Governmental Activities	\$1,712,858	\$1,258,504	\$1,247,099	\$1,723,761	\$104,662

The bonds will be retired out of the debt service fund. The 2000 general obligation bonds include serial bonds and capital appreciation bonds that will mature in fiscal years 2012, 2013, 2014 and 2015. The addition was \$18,680 which represents the annual accretion of discounted interest. The final amount of the capital appreciation bonds will be \$325,000.

In November 2006, the School District issued general obligation refunding bonds having an original face value of \$1,175,000 to refund \$1,180,000 of the 2000 issuance. The bonds were issued at a \$164,556 premium and issuance costs were \$41,425.

The refunding bonds were issued to defease the 2000 classroom facilities general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements. On June 30, 2007, \$1,180,000 of bonds outstanding were considered defeased.

The School District decreased its total debt service payments by \$132,721 as a result of the advance refunding. The School District incurred an economic gain (difference between the present values of the old and new debt service payments) of \$83,848.

Compensated absences will be paid from the general fund and food service, Title VI-B, Title I and Title II special revenue funds.

The School District's overall legal debt margin was \$3,694,354 with an unvoted debt margin of \$55,069 at June 30, 2007.

Principal and interest requirements to retire the classroom facilities improvement bonds outstanding at June 30, 2007 are as follows:

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Fiscal Year Ending June 30,	General Obligation Bonds			
	Serial		Capital Appreciation	
	Principal	Interest	Principal	Interest
2008	\$55,000	\$73,140	\$0	\$0
2009	60,000	70,174	0	0
2010	65,000	66,923	0	0
2011	75,000	63,250	0	0
2012	5,000	61,138	13,260	61,740
2013-2017	195,000	292,488	32,740	217,260
2018-2022	620,000	171,531	0	0
2023-2027	315,000	16,667	0	0
Total	\$1,390,000	\$815,311	\$46,000	\$279,000

Note 17 - Set-Asides

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

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

	Textbooks	Capital Acquisition
Set-aside Reserve Balance as of June 30, 2006	(\$28,734)	\$0
Current Year Set-aside Requirement	100,189	100,189
Current Year Offsets	0	(23,637)
Qualifying Disbursements	(142,059)	(143,244)
Totals	(\$70,604)	(\$66,692)
Set-aside Balance Carried Forward to Future Fiscal Years	(\$70,604)	\$0
Set-aside Reserve Balance as of June 30, 2007	\$0	\$0

The School District had qualifying disbursements and offsets during the fiscal year that reduced the textbook set-aside amount below zero. This extra amount may be used to reduce the set-aside requirements of future fiscal years. Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement for future years. This negative balance is therefore not presented as being carried forward to future years.

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 18 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2007.

B. Litigation

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



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Danville Local School District, Knox County, Ohio, (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 21, 2007. 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 the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

December 21, 2007



Mary Taylor, CPA
Auditor of State

DANVILLE LOCAL SCHOOL DISTRICT

KNOX COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 6, 2008**