



**Auditor of State
Betty Montgomery**

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

Danbury Local School District
Ottawa County
9451 East Harbor Road
Lakeside-Marblehead, Ohio 43440-1300

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Danbury Local School District, Ottawa County, (the District), as of and for the year ended June 30, 2004, 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, each major fund, and the aggregate remaining fund information of the Danbury Local School District, Ottawa County, Ohio, as of June 30, 2004, 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.

As described in Note 3, during the year ended June 30, 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

As discussed in Note 8, the District changed its capital assets threshold policy during fiscal year 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2005, 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

May 26, 2005

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

The management's discussion and analysis of the Danbury Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities increased \$652,215 which represents a 10.69 percent increase from 2003.
- General revenues accounted for \$8,023,293 in revenue or 92.48 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$652,109 or 7.52 percent of total revenues of \$8,675,402.
- The District had \$8,023,187 in expenses related to governmental activities; \$652,109 of these expenses was offset by program specific charges for services, grants, or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$8,023,293 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$7,133,855 in revenues and \$6,939,974 in expenditures and other financing uses. During fiscal year 2004, the general fund's fund balance increased \$193,881 from \$1,289,206 to \$1,483,087.
- The debt service fund's fund balance increased \$538,325, from \$2,260,930 to \$2,799,255, which consists of \$900,330 in revenues and \$362,005 in expenditures.

Using these Basic Financial Statements

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

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

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the 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. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These activities are

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the District's net assets for 2004.

<u>Net Assets</u>	
	<u>Governmental Activities 2004</u>
Assets	
Current and other assets	\$ 9,972,292
Capital assets, net	<u>5,861,399</u>
<i>Total assets</i>	<u>15,833,691</u>
Liabilities	
Current liabilities	5,493,302
Long-term liabilities	<u>3,584,779</u>
<i>Total liabilities</i>	<u>9,078,081</u>
Net Assets	
Invested in capital assets, net of related debt	2,676,399
Restricted	2,969,608
Unrestricted	<u>1,109,603</u>
<i>Total net assets</i>	<u>\$ 6,755,610</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$6,755,610. Of this total, \$1,109,610 is unrestricted in use.

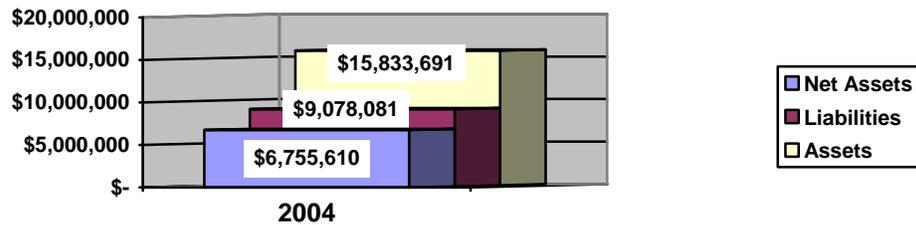
At year-end, capital assets represented 37.02 percent of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Net assets invested in capital assets, net of related debt to acquire the assets at June 30, 2004, were \$2,676,399. These net assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

A portion of the District's net assets, \$2,969,608 represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,109,603 may be used to meet the District's ongoing obligations to the students and creditors.

Governmental Activities



The table below shows the change in net assets for fiscal year 2004. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets	Governmental Activities 2004
Revenues	
Program revenues:	
Charges for services and sales	\$ 401,113
Operating grants and contributions	250,996
General revenues:	
Property taxes	6,462,192
Grants and entitlements	1,492,305
Investment earnings	46,300
Other	22,496
<i>Total revenues</i>	8,675,402
Expenses	
Program expenses:	
Instruction:	
Regular	3,845,820
Special	570,997
Adult/continuing	6,323
Other	8,199

(Continued)

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Change in Net Assets (Continued)	Governmental Activities 2004
Support services:	
Pupil	331,153
Instructional staff	357,561
Board of education	86,256
Administration	612,451
Fiscal	312,946
Operations and maintenance	914,518
Pupil transportation	269,836
Central	7,780
Operations of non-instructional services	7,856
Extracurricular activities	245,324
Food service operations	265,800
Interest and fiscal charges	180,367
<i>Total expenses</i>	<u>8,023,187</u>
<i>Increase in net assets</i>	<u>\$ 652,215</u>

Governmental Activities

Net assets of the District's governmental activities increased by \$652,215. The largest increases were in cash and cash equivalents due to an overall increase in fund balances and taxes receivable due to an increase in tax valuation.

Total governmental expenses of \$8,023,187 were offset by program revenues of \$652,109 and general revenues of \$8,023,293. Program revenues supported 8.12 percent of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 91.69 percent of total governmental revenue.

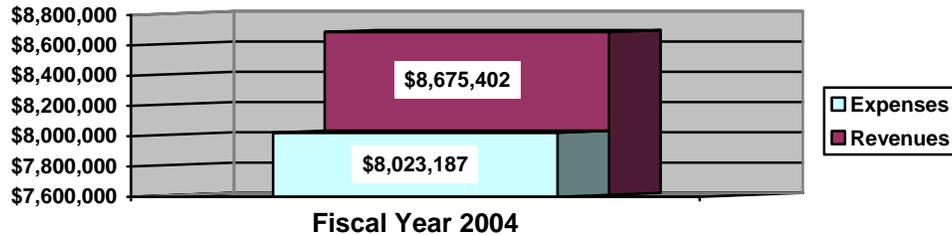
The largest expense of the District is for instructional programs. Instruction expenses totaled \$4,431,339 or 55.23 percent of total governmental expenses for fiscal 2004.

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2004.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2003 have not been presented since they are not available.

Governmental Activities		
	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses		
Instruction:		
Regular	\$ 3,845,820	\$ 3,750,132
Special	570,997	531,375
Adult/continuing	6,323	6,323
Other	8,199	6,926
Support services:		
Pupil	331,153	256,584
Instructional staff	357,561	273,877
Board of education	86,256	86,256
Administration	612,451	610,229
Fiscal	312,946	312,946
Operations and maintenance	914,518	914,518
Pupil transportation	269,836	269,836
Central	7,780	2,780
Operations of non-instructional services	7,856	7,856
Extracurricular activities	245,324	105,243
Food service operations	265,800	55,830
Interest and fiscal charges	180,367	180,367
Total expenses	\$ 8,023,187	\$ 7,371,078

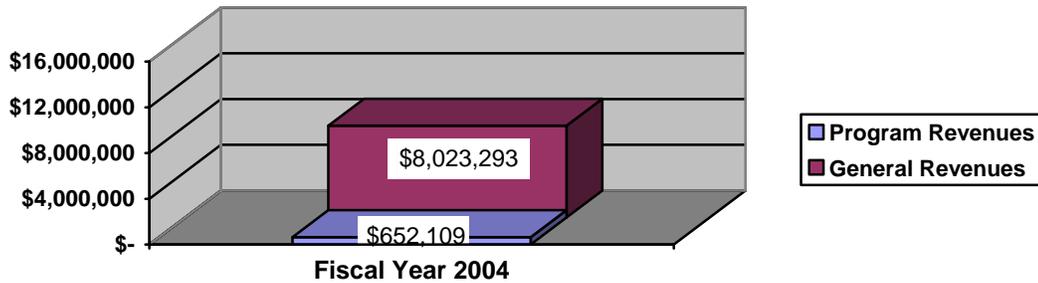
The dependence upon tax and other general revenues for governmental activities is apparent, 96.92 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 91.87 percent. The District's taxpayers, as a whole, are by far the primary support for District's students.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

The graph below presents the District's governmental activities revenue for fiscal year 2004.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$4,352,112, which is greater than last year's total of \$3,599,802. The June 30, 2003 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance June 30, 2004	Restated Fund Balance June 30, 2003	Increase (Decrease)	Percentage Change
General	\$ 1,483,087	\$ 1,289,206	\$ 193,881	15.04%
Debt Service	2,799,255	2,260,930	538,325	23.81%
Other Governmental	69,771	49,666	20,105	40.48%
<i>Total</i>	<u>\$ 4,352,113</u>	<u>\$ 3,599,802</u>	<u>\$ 752,311</u>	20.90%

General Fund

The District's general fund balance increased by \$193,881 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A. to the basic financial statements). The increase in fund balance can be attributed to several items related to increasing revenues. Revenues exceed expenditures for fiscal year 2004 by \$263,881. Despite on March 3, 2004 the Governor of the State of Ohio issuing an executive order to reduce funding to school districts to help offset the state's fiscal year deficit the District was able to increase its general fund balance. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

	2004 Amount	2003 Amount	Increase (Decrease)	Percentage Change
Revenues				
Taxes	\$ 5,594,414	\$ 4,701,744	\$ 892,670	18.99%
Earnings on investments	46,300	62,190	(15,890)	(25.55)%
Intergovernmental	1,402,681	1,317,529	85,152	6.46%
Other revenues	90,460	132,947	(42,487)	(31.96)%
<i>Total</i>	<u>\$ 7,133,855</u>	<u>\$ 6,214,410</u>	<u>\$ 919,445</u>	14.80%
Expenditures				
Instruction	4,015,048	3,609,383	405,665	11.24%
Support services	2,661,525	2,428,851	232,674	9.58%
Non-instructional services	7,756	5,882	1,874	31.86%
Extracurricular activities	146,511	151,331	(4,820)	(3.19)%
Facilities acquisition and construction	39,134	485,092	(445,958)	91.93%
<i>Total</i>	<u>\$ 6,869,974</u>	<u>\$ 6,680,539</u>	<u>\$ 189,435</u>	2.84%

The increase in taxes is due to the increased assessed values documented in Note 6 in the notes to the financials. The decrease in earnings on investments can be attributed to reductions of interest rates by the Federal Reserve. The increases in instruction, support services, and non-instructional services are primarily due to increases in wages and costs of employee benefits. The decrease in facilities acquisition is due to fewer projects in fiscal year 2004.

Debt Service Fund

The debt service fund had \$900,330 in revenues and \$362,005 in expenditures. The debt service fund balance increased from \$2,260,930 to \$2,799,255, due to the increase in tax revenue which is attributed to the increase in assessed values.

General Fund Budgeting Highlights

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

During the course of fiscal 2004, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$6,349,356 and final budgeted revenues and other financing sources were \$6,851,588. Actual revenues and other financing sources for fiscal 2004 was \$6,856,520. This represents a \$4,932 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) totaled \$7,620,100 and the final appropriations totaled \$7,632,766. The actual budget basis expenditures for fiscal year 2004 totaled \$7,239,724 which is \$393,042 below the final budget appropriations.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$5,861,399 invested in land, and improvements, buildings and improvements, furniture and equipment and vehicles. See Note 8 to the basic financial statements for additional information. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

Capital Assets at June 30 (Net of Depreciation)		
	Governmental Activities	
	2004	2003
Land	\$ 148,136	\$ 148,136
Land improvements	409,910	447,260
Building and improvements	4,396,454	4,543,118
Furniture and equipment	818,766	969,812
Vehicles	88,133	118,465
<i>Total</i>	\$ 5,861,399	\$ 6,226,791

The overall decrease in capital assets of \$365,392 is due to depreciation expense of \$424,962 exceeding capital outlay of \$59,570 in the fiscal year.

Debt Administration

At June 30, 2004, the District had \$3,185,000 in school improvement bonds. Of this total, \$175,000 is due within one year and \$3,010,000 is due within greater than one year. See Note 9.A. to the basic financial statements for additional information. The following table summarizes the bonds outstanding.

Outstanding Debt, at Year End		
	Governmental Activities	Governmental Activities
	2004	2003
School improvement bonds	\$ 3,185,000	\$ 3,350,000

At June 30, 2004, the District's overall legal debt margin was \$26,049,784, and an unvoted debt margin of \$293,728.

Current Financial Related Activities

The District is heavily dependant on General Property Tax (Real Estate) and currently at the 20-mil floor. Strong property valuations have adequately supported the budgetary needs of the District to this point and new construction is strong. Low collection rate due to high tax payment delinquencies is an ongoing historical concern. At this time the District has 2 significant tax exemptions pending, one for \$111,693.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Personal Tangible Property taxes represent about 5 percent of the total revenue and are supported mainly by the inventories of Lafarge North America, Biro Manufacturing, Lakeside Marine, and public utilities.

Unrestricted Grants-in-Aid (State Foundation payments) includes the amount of \$110,599 for utility deregulation "hold harmless" payments that will expire partially in Fiscal Year 2006 and completely in Fiscal Year 2007. The district remains on the same "Guarantee" funding level it has been held to since fiscal year 1998.

Property tax allocation (Homestead and Rollback) receipts have grown accordingly with General Real Property Tax receipts.

All Other Revenue (mainly Manufactured Home Tax receipts) have slightly declined due to the removal of trailers located near the shoreline property being replaced by new construction.

Enrollment for the District is currently stagnant. Much of the new construction is not designed for family dwellings but instead vacation homes. Development of the interior of the peninsula is somewhat restricted while the quarry operations are still active. Enrollment could spike if efforts are successful to develop more subsidized multi-family dwelling complexes within the District. The impact of the potential expenditures necessary to meet the needs of this development would significantly alter the future financial outlook of this District.

The school is the single largest full- time employer within the District, pays a competitive wage and is currently in negotiations with both bargaining units. Staffing levels may need to be reduced through attrition considering stagnant enrollment.

The District is actively negotiating plan redesign and cost sharing measures with its employees in order to effectively manage the double-digit percentage increases attributable to health care costs.

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

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

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

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

The District's Bond Retirement Issue has seen higher than expected collection rates and receipts that will allow the District to pay off the obligation almost 10 years early in fiscal year 2006.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

Contacting the District's Financial Management

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

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**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2004**

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$ 4,057,879
Receivables:	
Taxes	5,872,395
Accounts	15,059
Intergovernmental	8,407
Accrued interest	1,025
Prepayments	16,228
Materials and supplies inventory	1,299
Capital assets:	
Land	148,136
Depreciable capital assets, net	5,713,263
<i>Capital assets, net</i>	<u>5,861,399</u>
<i>Total assets</i>	<u>15,833,691</u>
 Liabilities:	
Accounts payable	9,922
Accrued wages and benefits	495,886
Pension obligation payable	168,251
Intergovernmental payable	22,755
Deferred revenue	4,782,124
Accrued interest payable	14,364
Long-term liabilities:	
Due within one year	223,308
Due in more than one year	3,361,471
<i>Total liabilities</i>	<u>9,078,081</u>
 Net Assets:	
Invested in capital assets, net of related debt	2,676,399
Restricted for:	
Set-asides	77,318
Debt service	2,807,370
Other purposes	84,920
Unrestricted	1,109,603
<i>Total net assets</i>	<u><u>\$ 6,755,610</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Revenue and Changes in Net Assets</u>
				<u>Governmental Activities</u>
Governmental activities:				
Instruction:				
Regular	\$ 3,845,820	\$ 93,182	\$ 2,506	\$ (3,750,132)
Special	570,997	-	39,622	(531,375)
Adult/continuing	6,323	-	-	(6,323)
Other	8,199	1,273	-	(6,926)
Support services:				
Pupil	331,153	6,500	68,069	(256,584)
Instructional staff	357,561	-	83,684	(273,877)
Board of education	86,256	-	-	(86,256)
Administration	612,451	2,222	-	(610,229)
Fiscal	312,946	-	-	(312,946)
Operations and maintenance	914,518	-	-	(914,518)
Pupil transportation	269,836	-	-	(269,836)
Central	7,780	-	5,000	(2,780)
Operation of non-instructional services	7,856	-	-	(7,856)
Extracurricular activities	245,324	140,081	-	(105,243)
Food service operations	265,800	157,855	52,115	(55,830)
Interest and fiscal charges	180,367	-	-	(180,367)
<i>Total governmental activities</i>	<u>\$ 8,023,187</u>	<u>\$ 401,113</u>	<u>\$ 250,996</u>	<u>(7,371,078)</u>

General Revenues:

Property taxes levied for:	
General purposes	5,643,811
Debt service	818,381
Grants and entitlements not restricted to specific programs	1,492,305
Investment earnings	46,300
Miscellaneous	22,496
<i>Total general revenues</i>	<u>8,023,293</u>
<i>Change in net assets</i>	652,215
Net assets, beginning (restated)	<u>6,103,395</u>
<i>Net assets, end of year</i>	<u>\$ 6,755,610</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004**

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 1,197,002	\$ 2,676,014	\$ 85,294	\$ 3,958,310
Receivables:				
Taxes	4,991,202	881,193	-	5,872,395
Accounts	13,694	-	1,365	15,059
Intergovernmental	946	-	7,461	8,407
Accrued interest	1,025	-	-	1,025
Interfund receivable	1,500	-	-	1,500
Prepayments	16,228	-	-	16,228
Materials and supplies inventory	-	-	1,299	1,299
Restricted assets:				
Equity in pooled cash and cash equivalents	99,569	-	-	99,569
Total assets	<u><u>\$ 6,321,166</u></u>	<u><u>\$ 3,557,207</u></u>	<u><u>\$ 95,419</u></u>	<u><u>\$ 9,973,792</u></u>
Liabilities:				
Accounts payable	\$ 8,711	\$ -	\$ 1,211	\$ 9,922
Accrued wages and benefits	477,459	-	18,427	495,886
Compensated absences payable	32,828	-	-	32,828
Pension obligation payable	105,641	-	3,518	109,159
Intergovernmental payable	21,763	-	992	22,755
Interfund payable	-	-	1,500	1,500
Deferred revenue	4,191,677	757,952	-	4,949,629
Total liabilities	<u><u>4,838,079</u></u>	<u><u>757,952</u></u>	<u><u>25,648</u></u>	<u><u>5,621,679</u></u>
Fund Balances:				
Reserved for encumbrances	302,461	-	38,547	341,008
Reserved for materials and supplies inventory	-	-	1,299	1,299
Reserved for prepayments	16,228	-	-	16,228
Reserved for property tax unavailable for appropriation	798,349	123,157	-	921,506
Reserved for school bus purchase	22,251	-	-	22,251
Reserved for capital acquisition	77,318	-	-	77,318
Unreserved, undesignated, reported in:				
General fund	266,480	-	-	266,480
Special revenue funds	-	-	29,925	29,925
Debt service fund	-	2,676,098	-	2,676,098
Total fund balances	<u><u>1,483,087</u></u>	<u><u>2,799,255</u></u>	<u><u>69,771</u></u>	<u><u>4,352,113</u></u>
Total liabilities and fund balances	<u><u>\$ 6,321,166</u></u>	<u><u>\$ 3,557,207</u></u>	<u><u>\$ 95,419</u></u>	<u><u>\$ 9,973,792</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental fund balances		\$ 4,352,113
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		5,861,399
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 167,505	167,505
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	366,951	
Pension obligation payable	59,092	
General obligation bonds payable	3,185,000	
Accrued interest payable	14,364	
		(3,625,407)
<i>Net assets of governmental activities</i>		\$ 6,755,610

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 5,594,414	\$ 810,706	\$ -	\$ 6,405,120
Tuition	58,538	-	13,410	71,948
Charges for services	-	-	156,704	156,704
Earnings on investments	46,300	-	-	46,300
Extracurricular	9,426	-	90,418	99,844
Classroom materials and fees	-	-	22,372	22,372
Other local revenues	22,496	-	42,591	65,087
Intergovernmental - Intermediate	946	-	6,664	7,610
Intergovernmental - State	1,401,735	89,624	37,427	1,528,786
Intergovernmental - Federal	-	-	214,559	214,559
<i>Total revenues</i>	<u>7,133,855</u>	<u>900,330</u>	<u>584,145</u>	<u>8,618,330</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,476,704	-	64,326	3,541,030
Special	528,742	-	39,962	568,704
Adult/continuing	-	-	4,423	4,423
Other	9,602	-	-	9,602
Support services:				
Pupil	258,573	-	70,122	328,695
Instructional staff	270,278	-	69,153	339,431
Board of education	86,256	-	-	86,256
Administration	597,855	-	2,444	600,299
Fiscal	292,403	15,894	-	308,297
Operations and maintenance	918,215	-	-	918,215
Pupil transportation	235,545	-	-	235,545
Central	2,400	-	5,380	7,780
Operation of non-instructional services	7,756	-	100	7,856
Extracurricular activities	146,511	-	130,837	277,348
Facilities acquisition and construction	39,134	-	-	39,134
Food service operations	-	-	247,293	247,293
Debt service:				
Principal retirement	-	165,000	-	165,000
Interest and fiscal charges	-	181,111	-	181,111
<i>Total expenditures</i>	<u>6,869,974</u>	<u>362,005</u>	<u>634,040</u>	<u>7,866,019</u>
<i>Excess of revenues under expenditures</i>	<u>263,881</u>	<u>538,325</u>	<u>(49,895)</u>	<u>752,311</u>
Other financing sources (uses):				
Transfers in	-	-	70,000	70,000
Transfers (out)	(70,000)	-	-	(70,000)
<i>Total other financing sources (uses)</i>	<u>(70,000)</u>	<u>-</u>	<u>70,000</u>	<u>-</u>
<i>Net change in fund balances</i>	193,881	538,325	20,105	752,311
Fund balances at beginning of year (restated)	1,289,206	2,260,930	49,666	3,599,802
Fund balances at end of year	<u>\$ 1,483,087</u>	<u>\$ 2,799,255</u>	<u>\$ 69,771</u>	<u>\$ 4,352,113</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

**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, 2004**

Net change in fund balances - total governmental funds	\$ 752,311
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 expense (\$424,962) exceeded capital outlays (\$59,570) in the current period.	(365,392)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	57,072
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	165,000
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.	744
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>42,480</u>
<i>Change in net assets of governmental activities</i>	<u><u>\$ 652,215</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 4,935,052	\$ 5,325,579	\$ 5,325,579	\$ -
Tuition	46,613	50,302	50,302	-
Earnings on investments	40,036	43,204	46,871	3,667
Extracurricular	8,760	9,453	9,441	(12)
Other local revenues	17,249	18,614	19,892	1,278
Intergovernmental - State	1,298,946	1,401,736	1,401,735	(1)
<i>Total revenues</i>	<u>6,346,656</u>	<u>6,848,888</u>	<u>6,853,820</u>	<u>4,932</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,843,962	3,850,436	3,487,128	363,308
Special	557,495	558,434	522,628	35,806
Other	9,983	10,000	9,665	335
Support services:				
Pupil	315,610	316,142	262,695	53,447
Instructional staff	326,192	326,741	270,982	55,759
Board of education	84,343	84,485	96,020	(11,535)
Administration	599,797	600,807	593,769	7,038
Fiscal	317,673	318,208	294,179	24,029
Operations and maintenance	843,310	844,730	1,001,431	(156,701)
Pupil transportation	320,775	321,315	303,014	18,301
Central	2,468	2,472	2,416	56
Operation of non-instructional services	16,365	16,393	18,188	(1,795)
Extracurricular activities	167,730	168,013	147,515	20,498
Facilities acquisition and construction	114,397	114,590	158,094	(43,504)
<i>Total expenditures</i>	<u>7,520,100</u>	<u>7,532,766</u>	<u>7,167,724</u>	<u>365,042</u>
<i>Excess of revenues over (under) expenditures</i>	<u>(1,173,444)</u>	<u>(683,878)</u>	<u>(313,904)</u>	<u>369,974</u>
Other financing sources (uses):				
Refund of prior year expenditure	2,200	2,200	2,200	-
Transfers (out)	(100,000)	(100,000)	(70,000)	30,000
Advances in	500	500	500	-
Advances (out)	-	-	(2,000)	(2,000)
<i>Total other financing sources (uses)</i>	<u>(97,300)</u>	<u>(97,300)</u>	<u>(69,300)</u>	<u>28,000</u>
<i>Net change in fund balance</i>	<u>(1,270,744)</u>	<u>(781,178)</u>	<u>(383,204)</u>	<u>397,974</u>
Fund balance at beginning of year (restated)	1,349,787	1,349,787	1,349,787	-
Prior year encumbrances appropriated	18,816	18,816	18,816	-
<i>Fund balance at end of year</i>	<u>\$ 97,859</u>	<u>\$ 587,425</u>	<u>\$ 985,399</u>	<u>\$ 397,974</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 39,018	\$ 34,396
Investments	74,875	-
Receivables:		
Accounts	509	-
Accrued interest	21	-
	114,423	34,396
<i>Total assets</i>		
	114,423	34,396
Liabilities:		
Accounts payable	-	133
Due to students	-	34,263
	-	34,263
<i>Total liabilities</i>		
	-	\$ 34,396
Net Assets:		
Held in trust for scholarships	114,423	
<i>Total net assets</i>	\$ 114,423	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 1,589
Gifts and contributions	14,038
<i>Total additions</i>	15,627
Deductions:	
Scholarships awarded	1,500
<i>Change in net assets</i>	14,127
Net assets at beginning of year	100,296
<i>Net assets at end of year</i>	\$ 114,423

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

1. DESCRIPTION OF THE SCHOOL DISTRICT

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

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

The District currently operates 1 elementary school, 1 middle school, and 1 comprehensive high school. The District employs 31 non-certified and 55 certified (including administrative) full-time and part-time employees to provide services to approximately 620 students in grades K through 12 and various community groups. The District ranks 584 of the 613 public school districts in Ohio and is the fourth largest of the seven districts in Ottawa County.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

(the primary government). The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATIONS

EHOVE Joint Vocational School

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

Northern Ohio Educational Computer Association (NOECA)

NOECA is a joint venture among 41 school districts. The joint venture was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports NOECA based upon a per pupil charge, dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last 12 months financial contributions. NOECA is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the District does not have an equity interest in NOECA as the residual interest in the net resources of a joint venture upon dissolution is not equivalent to an equity interest. The District paid \$25,028 to NOECA in fiscal year 2004 for services. Financial information can be obtained from Betty J. Schwiefert, Treasurer for the Erie- Huron-Ottawa County Educational Service Center, who serves as fiscal agent, at 2900 South Columbus Avenue, Sandusky, Ohio 44870-5569.

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

The Plan's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program. See Note 11.B. for more information on this group purchasing pool.

The San-Ott School Employees Welfare Benefit Association (Consortium)

The District participates in a shared risk pool, with participants from Sandusky and Ottawa counties. The Consortium is governed by an assembly which consists of one representative

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

from each participant (usually the superintendent or designee). The assembly exercises control over the operation of the consortium. All consortium revenues are generated from charges for services. Financial information can be obtained by writing to San-Ott Consortium, Jay Valasek, Treasurer of Vanguard-Sentinel Vocational Schools, at 1306 Cedar Street, Fremont, Ohio 43420.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

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

PROPRIETARY FUND

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

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

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operation, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2004 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.

2. By no later than January 20, the board-adopted budget is filed with the Ottawa County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2004.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund and fund, function and object, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund, function and object must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the level of budgetary control must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2004; however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at fiscal year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the level of budgetary control.

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F. Cash and Investments

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

During fiscal year 2004, investments were limited to STAR Ohio and federal agency securities. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

The District has invested funds in STAR Ohio during fiscal 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund and the private purpose trust funds. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$46,300, which includes \$30,822 assigned from other funds.

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

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

G. Inventory

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

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deletions during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2004, the District increased its capitalization

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threshold from \$500 to \$1,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not have infrastructure.

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

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

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the statement of net assets.

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "*Accounting for Compensated Absences*", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2004, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees at least 50 years of age with 10 years of service or any age with at least 20 years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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(Continued)

For governmental fund financial statements compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, school bus purchases, prepayments, capital acquisition and property tax revenue unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

M. Net Assets

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

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

N. Prepayments

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

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FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

O. Estimates

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

P. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a capital acquisition reserve and school bus purchase reserve. The capital acquisition reserve is required by state statute. A schedule of statutory reserves is presented in Note 16.

Q. Interfund Activity

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2004.

3. ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2004, the District has implemented GASB Statement No. 34, "*Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*", GASB Statement No. 37, "*Basic Financial Statements for State and Local Governments: Omnibus*", GASB Statement No. 38, "*Certain Financial Statement Note Disclosures*", GASB Statement No. 39, "*Determining Whether Certain Organizations are Component Units*", GASB Statement No. 41, "*Budgetary Comparison Schedule - Perspective Differences*", and GASB Interpretation No. 6, "*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38, 39 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes, and rescinds certain financial statement note disclosures. GASB Statement No. 39 further defines the guidelines of GASB Statement No. 14, "*The Financial Reporting Entity*."

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GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization, or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2003, however such effect was immaterial.

The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	General	Debt Service	Nonmajor	Total
Fund balance June 30, 2003	\$ 1,277,237	\$ 2,260,930	\$ 50,331	\$ 3,588,498
Fund reclassifications	2,918	-	(665)	2,253
Implementation of GASB Interpretation No. 6	9,051	-	-	9,051
Restated fund balance, June 30, 2003	<u>\$ 1,289,206</u>	<u>\$ 2,260,930</u>	<u>\$ 49,666</u>	<u>\$ 3,599,802</u>

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	<u>Total</u>
Restated fund balance, June 30, 2003	\$ 3,599,802
GASB 34 adjustments:	
Long-term (deferred) assets	110,433
Capital assets	6,226,791
Accrued interest payable	(15,108)
Pension obligation	(46,580)
Compensated absences	(421,943)
Long-term liabilities	(3,350,000)
Governmental activities net assets, June 30, 2003	<u>\$ 6,103,395</u>

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(Continued)

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund - The general fund unencumbered fund balance at the beginning of the year has been restated from \$1,346,810 to \$1,349,787 due to fund reclassifications to properly reflect their intended purpose in accordance with GASB Statement No. 34.

B. Deficit Fund Balances

Fund balances at June 30, 2004 included the following individual fund deficits:

	Deficit
Nonmajor Funds	
Food Service Operations	\$ 5,705
Adult Education	1,012
Ohio Reads	39
Summer Intervention	49
Title VI-B	128
Title I	92
Drug Free Schools	6
Reducing Class Size	7

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

4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the financial statements as "Equity in Pooled Cash and Investments". Statutes require the classification of monies held by the District into three categories.

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

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

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

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

Interim monies may be 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 or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);

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

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "*Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements*".

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Deposits: At fiscal year-end, the carrying amount of the District's deposits was \$114,422 and the bank balance was \$257,994. Of the bank balance:

1. \$134,628 was covered by federal depository insurance; and
2. \$123,366 was covered by collateral held by a qualified third party in the name of the District.

Collateral is required for demand deposits and time and savings deposits in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

	Category 2	Reported Amount	Fair Value
Federal securities	\$ 74,875	\$ 74,875	\$ 74,875
Investment in STAR Ohio		4,015,201	4,015,201
<i>Total investments</i>		\$ 4,090,076	\$ 4,090,076

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 4,131,293	\$ 74,875
Investments of the cash management pool:		
Investment in STAR Ohio	(4,015,201)	4,015,201
Cash on hand	(1,670)	-
GASB Statement No. 3	\$ 114,422	\$ 4,090,076

5. INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2004 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

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(Continued)

Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental funds	\$ 1,500

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the statement of net assets.

- B.** Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:	
General Fund	\$ 70,000

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

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

6. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, 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 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003, and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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(Continued)

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Ottawa County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property, and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004 was \$798,349 in the general fund and \$123,157 in the debt service fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2003 was \$530,690 in the general fund and \$81,542 in the debt service fund.

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

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential and other real estate	\$ 230,590,110	94.13%	\$ 278,669,700	94.87%
Public utility personal	7,248,940	2.96%	6,978,830	2.38%
Tangible personal property	7,133,413	2.91%	8,079,572	2.75%
<i>Total</i>	<u>\$ 244,972,463</u>	<u>100.00%</u>	<u>\$ 293,728,102</u>	<u>100.00%</u>
 Tax rate per \$1,000 of assessed valuation	 \$ 43.40		 \$ 43.40	

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FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

7. RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs, and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:	
Property taxes	\$ 5,872,395
Accounts	15,059
Intergovernmental	8,407
Accrued interest	<u>1,025</u>
<i>Total</i>	<u><u>\$ 5,896,886</u></u>

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

8. CAPITAL ASSETS

A. The capital asset balances of the governmental activities have been restated due to changes in the District's capital asset policy, (See Note 2.H. for detail), to include land values not reported in the prior year, errors and omissions, and the application of depreciation in accordance with GASB Statement No. 34.

	Balance 6/30/03	Adjustments	Restated Balance 6/30/03
Governmental Activities			
Capital assets, not being depreciated:			
Land	\$ -	\$ 148,136	\$ 148,136
<i>Total capital assets, not being depreciated</i>	<u>-</u>	<u>148,136</u>	<u>148,136</u>
Capital assets, being depreciated:			
Land improvements	709,656	(46,989)	662,667
Buildings and improvements	8,026,988	(1,263,054)	6,763,934
Furniture and equipment	1,282,055	502,405	1,784,460
Vehicles	446,574	(29,263)	417,311
<i>Total capital assets, being depreciated</i>	<u>10,465,273</u>	<u>(836,901)</u>	<u>9,628,372</u>
Less: accumulated depreciation:	-	(3,549,717)	(3,549,717)
<i>Governmental activities capital assets, net</i>	<u><u>\$ 10,465,273</u></u>	<u><u>\$ (4,238,482)</u></u>	<u><u>\$ 6,226,791</u></u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

B. Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Restated Balance 06/30/03	Additions	Deductions	Balance 06/30/04
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 148,136	\$ -	\$ -	\$ 148,136
<i>Total capital assets, not being depreciated</i>	<u>148,136</u>	<u>-</u>	<u>-</u>	<u>148,136</u>
Capital assets, being depreciated:				
Land improvements	662,667	-	-	662,667
Buildings and improvements	6,763,934	10,672	-	6,774,606
Furniture and equipment	1,784,460	48,898	-	1,833,358
Vehicles	417,311	-	-	417,311
<i>Total capital assets, being depreciated</i>	<u>9,628,372</u>	<u>59,570</u>	<u>-</u>	<u>9,687,942</u>
Less: accumulated depreciation:				
Land improvements	(215,407)	(37,350)	-	(252,757)
Buildings and improvements	(2,220,816)	(157,336)	-	(2,378,152)
Furniture and equipment	(814,648)	(199,944)	-	(1,014,592)
Vehicles	(298,846)	(30,332)	-	(329,178)
<i>Total accumulated depreciation</i>	<u>(3,549,717)</u>	<u>(424,962)</u>	<u>-</u>	<u>(3,974,679)</u>
<i>Governmental activities capital assets, net</i>	<u>\$ 6,226,791</u>	<u>\$ (365,392)</u>	<u>\$ -</u>	<u>\$ 5,861,399</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 306,957
Support Services:	
Pupil	1,855
Instructional staff	15,324
Administration	9,805
Fiscal	1,860
Operations and maintenance	18,688
Pupil transportation	31,921
Extracurricular activities	35,234
Food service operations	3,318
<i>Total depreciation expense</i>	<u>\$ 424,962</u>

9. LONG-TERM OBLIGATIONS

- A.** The balance of the District's governmental activities long-term obligations at June 30, 2003 has been restated. The compensated absences liability increased \$17,854 from \$405,147 to \$423,001 due to the implementation of GASB Interpretation No. 6 and the fund

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

reclassifications described in Note 3.A. Pension obligations of \$39,268 at June 30, 2003 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2003 was a decrease of \$21,414 from \$3,794,415 to \$3,773,001. During fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	Restated Balance Outstanding 06/30/03	Additions	Reductions	Balance Outstanding 06/30/04	Amounts Due in One Year
Governmental Activities:					
Compensated absences	\$ 423,001	\$ 15,480	\$ (38,702)	\$ 399,779	\$ 48,308
School improvement bonds	3,350,000	-	(165,000)	3,185,000	175,000
Total long-term obligations, governmental activities	<u>\$ 3,773,001</u>	<u>\$ 15,480</u>	<u>\$ (203,702)</u>	<u>\$ 3,584,779</u>	<u>\$ 223,308</u>

School Improvement Bonds - On July 1, 1993, the District issued \$4,415,000 in general obligation bonds at an interest rate of 5.48 percent to provide funds for acquisition and construction of equipment and facilities. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the statement of net assets. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund. The source of payment is derived from a current 3.1 mill bonded debt tax levy and the bonds are due to mature on December 1, 2016.

- B.** The following is a summary of the District's future annual debt service requirements to maturity for the general obligation bonds:

Year Ending June 30	Principal on Bonds	Interest on Bonds	Total
2005	\$ 175,000	\$ 172,735	\$ 347,735
2006	185,000	163,596	348,596
2007	195,000	153,714	348,714
2008	205,000	142,804	347,804
2009	215,000	130,939	345,939
2010 - 2014	1,265,000	453,273	1,718,273
2015 - 2017	945,000	81,785	1,026,785
<i>Total</i>	<u>\$ 3,185,000</u>	<u>\$ 1,298,846</u>	<u>\$ 4,483,846</u>

C. Legal Debt Margin

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

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$26,049,784 and an unvoted debt margin of \$293,728.

10. EMPLOYEE BENEFITS

Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 220 days for all personnel. Upon retirement, payment is made for one-fourth of the accrued, but unused, sick leave balance to a maximum of 55 days for all employees.

11. RISK MANAGEMENT

A. Comprehensive

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

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

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

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

B. OSBA Group Workers' Compensation Rating Plan

For fiscal year 2004, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan.

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

C. Group Health Insurance

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

12. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 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'

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$94,835, \$133,406, and \$123,623, respectively; 68 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$64,116 represents the unpaid contribution for fiscal year 2004.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2004 and 2003, 13 percent of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

\$519,236, \$535,424, and \$485,429, respectively; 87 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$75,156 represents the unpaid contribution for fiscal year 2004. Contributions to the DC and Combined Plans for fiscal 2004 were \$642 made by the District and \$620 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.20 percent of wages paid.

13. POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$39,941 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, 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. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

For this fiscal year, employer contributions to fund health care benefits were 4.91 percent of covered payroll. 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 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$60,141 during the 2004 fiscal year.

14. BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

Net Change in Fund Balance	
	General Fund
Budget basis	\$ (383,204)
Net adjustment for revenue accruals	280,035
Net adjustment for expenditure accruals	(13,422)
Net adjustment for other sources/uses	(700)
Adjustment for encumbrances	311,172
GAAP basis	\$ 193,881

15. CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state, and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

B. Litigation

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

C. State School Funding Decision

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient..." The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

16. STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2004, the reserve activity was as follows:

	Textbooks	Capital Acquisition
Set-aside balance as of June 30, 2003	\$ (155,984)	\$ -
Current year set-aside requirement	83,440	83,440
Qualifying disbursements	(339,334)	(6,122)
<i>Total</i>	\$ (411,878)	\$ 77,318
Balance carried forward to FY 2005	\$ (411,878)	\$ 77,318

A schedule of the restricted assets at June 30, 2004 follows:

Amount restricted for capital acquisition	\$ 77,318
Amount restricted for school bus purchase	22,251
<i>Total restricted assets</i>	\$ 99,569

17. CONTRACTUAL COMMITMENTS

At June 30, 2004, the District had General Fund contractual commitments as follows:

Company	Project	Amount Remaining on Contract
Aluminum, Inc.	Home side bleacher project	\$ 116,279
Cardinal Bus Sales & Service	72 Passenger bus	59,697

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**Auditor of State
Betty Montgomery**

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

Danbury Local School District
Ottawa County
9451 East Harbor Road
Lakeside-Marblehead, Ohio 43440-1300

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Danbury Local School District, Ottawa County, Ohio (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 26, 2005, wherein we noted the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and changed its capital assets threshold policy during fiscal year 2004. 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 to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated May 26, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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*. In a separate letter to the District's management dated May 26, 2005, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, and the Board of Education. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

May 26, 2005

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	The original list of fixed assets was prepared by an appraiser several years ago. The process for additions/ deletions for the past few years has been a review of the special cost centers that relate to purchase of fixed asset type items. No listing of these items including description, serial number, etc., has been maintained to support the exact amount of the additions.	Yes	



**Auditor of State
Betty Montgomery**

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**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 12, 2005**