

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

***BASIC FINANCIAL STATEMENTS
(AUDITED)***

FOR THE FISCAL YEAR ENDED
JUNE 30, 2005

SHANE E. BUMGARDNER, TREASURER



**Auditor of State
Betty Montgomery**

Board of Education
Danbury Local School District
Lakeside-Marblehead, Ohio

We have reviewed the *Independent Auditor's Report* of the Danbury Local School District, Ottawa County, prepared by Julian and Grube, Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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BETTY MONTGOMERY
Auditor of State

April 27, 2006

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

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Julian & Grube, Inc.

Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Danbury Local School District, Ottawa County, (the "District"), as of and for the fiscal year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Danbury Local School District, Ottawa County, as of June 30, 2005, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers" for the fiscal year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2006, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independent Auditor's Report
Danbury Local School District

The management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Julian & Grube, Inc." The signature is written in black ink and is positioned above the printed name of the firm.

Julian & Grube, Inc.
March 24, 2006

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

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, 2005. 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 2005 are as follows:

- In total, net assets of governmental activities increased \$1,017,179 which represents a 15.06% increase from 2004.
- General revenues accounted for \$8,557,604 in revenue or 92.40% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$704,371 or 7.60% of total revenues of \$9,261,975.
- The District had \$8,244,796 in expenses related to governmental activities; \$704,371 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$8,557,604 were adequate to provide for these programs.
- The District's major governmental funds were the general fund and debt service fund. The general fund had \$7,050,419 in revenues and \$7,324,332 in expenditures and other financing uses. During fiscal year 2005, the general fund's fund balance decreased \$346,913 from a restated balance of \$1,432,993 to \$1,086,080.
- The debt service fund's fund balance increased \$1,150,879, from \$2,799,255 to \$3,950,134, which consists of \$1,516,357 in revenues and \$365,478 in expenditures.

Using these Basic Financial Statements

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

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 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-46 of this report.

The District as a Whole

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

The table below provides a summary of the District's net assets for 2005 and 2004

	Net Assets	
	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>Assets</u>		
Current and other assets	\$ 12,292,270	\$ 9,972,292
Capital assets, net	<u>5,864,729</u>	<u>5,861,399</u>
Total assets	<u>18,156,999</u>	<u>15,833,691</u>
<u>Liabilities</u>		
Current liabilities	6,914,443	5,493,302
Long-term liabilities	<u>3,469,767</u>	<u>3,584,779</u>
Total liabilities	<u>10,384,210</u>	<u>9,078,081</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	2,854,729	2,676,399
Restricted	4,025,211	2,969,608
Unrestricted	<u>892,849</u>	<u>1,109,603</u>
Total net assets	<u>\$ 7,772,789</u>	<u>\$ 6,755,610</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$7,772,789. Of this total, \$892,849 is unrestricted in use.

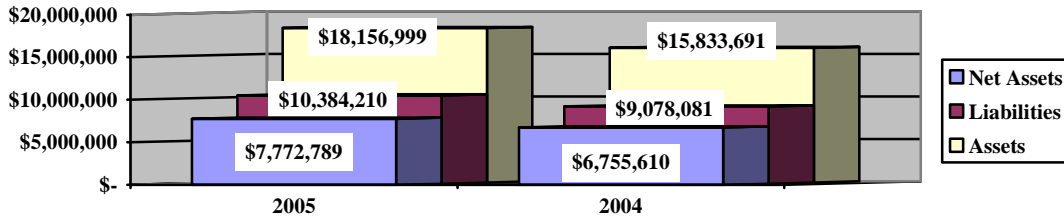
At year-end, capital assets represented 32.30% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of related debt, to acquire the assets at June 30, 2005, were \$2,854,729. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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A portion of the District's net assets, \$4,025,211, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$892,841 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 years 2005 and 2004.

Change in Net Assets

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 403,090	\$ 401,113
Operating grants and contributions	301,281	250,996
General revenues:		
Property taxes	6,858,960	6,462,192
Grants and entitlements	1,575,273	1,492,305
Investment earnings	105,953	46,300
Other	<u>17,418</u>	<u>22,496</u>
Total revenues	<u>9,261,975</u>	<u>8,675,402</u>

**DANBURY LOCAL SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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Change in Net Assets

	Governmental Activities	
	2005	2004
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 3,592,281	\$ 3,845,820
Special	651,419	570,997
Adult/continuing	47,782	6,323
Other	7,232	8,199
Support services:		
Pupil	355,569	331,153
Instructional staff	393,802	357,561
Board of education	77,294	86,256
Administration	734,975	612,451
Fiscal	344,793	312,946
Operations and maintenance	1,127,081	914,518
Pupil transportation	317,152	269,836
Central	12,897	7,780
Operations of non-instructional services	9,328	7,856
Extracurricular activities	188,033	245,324
Food service operations	213,212	265,800
Interest and fiscal charges	171,946	180,367
Total expenses	8,244,796	8,023,187
Change in net assets	1,017,179	652,215
Net assets at beginning of year	6,755,610	6,103,395
Net assets at end of year	\$ 7,772,789	\$ 6,755,610

Governmental Activities

Net assets of the District's governmental activities increased \$1,017,179. Total governmental expenses of \$8,244,796 were offset by program revenues of \$704,371 and general revenues of \$8,557,604. Program revenues supported 8.54% 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 91.06% of total governmental revenue.

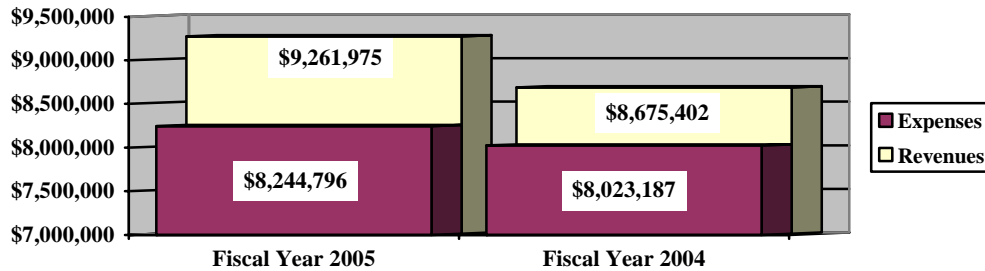
The largest expense of the District is for instructional programs. Instruction expenses totaled \$4,298,714 or 52.14% of total governmental expenses for fiscal 2005.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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The graph below presents the District's governmental activities revenue and expenses for fiscal years 2005 and 2004.

Governmental Activities - Revenues and Expenses



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

Governmental Activities

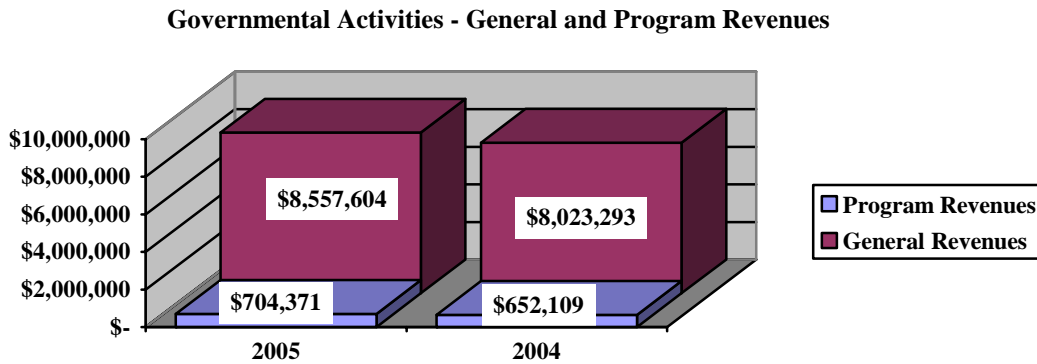
	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses				
Instruction:				
Regular	\$ 3,592,281	\$ 3,457,042	\$ 3,845,820	\$ 3,750,132
Special	651,419	609,956	570,997	531,375
Adult/continuing	47,782	36,690	6,323	6,323
Other	7,232	7,232	8,199	6,926
Support services:				
Pupil	355,569	288,328	331,153	256,584
Instructional staff	393,802	264,104	357,561	273,877
Board of education	77,294	77,294	86,256	86,256
Administration	734,975	731,525	612,451	610,229
Fiscal	344,793	344,793	312,946	312,946
Operations and maintenance	1,127,081	1,127,081	914,518	914,518
Pupil transportation	317,152	317,152	269,836	269,836
Central	12,897	7,897	7,780	2,780
Operations of non-instructional services	9,328	9,328	7,856	7,856
Extracurricular activities	188,033	74,441	245,324	105,243
Food service operations	213,212	15,616	265,800	55,830
Interest and fiscal charges	171,946	171,946	180,367	180,367
Total expenses	<u>\$ 8,244,796</u>	<u>\$ 7,540,425</u>	<u>\$ 8,023,187</u>	<u>\$ 7,371,078</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
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The dependence upon tax and other general revenues for governmental activities is apparent, 95.63% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 91.46%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2005 and 2004.



The District's Funds

The District's governmental funds reported a combined fund balance of \$5,223,650, which is greater than last year's restated balance of \$4,293,021. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance <u>June 30, 2005</u>	Restated Fund Balance <u>June 30, 2004</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
General	\$ 1,086,080	\$ 1,483,087	\$ (397,007)	26.77 %
Debt Service	3,950,134	2,799,255	1,150,879	41.11 %
Other Governmental	<u>46,155</u>	<u>69,771</u>	<u>(23,616)</u>	33.85 %
Total	<u>\$ 5,082,369</u>	<u>\$ 4,352,113</u>	<u>\$ 730,256</u>	16.78 %

General Fund

The District's general fund balance decreased \$397,007. The decrease in fund balance can be attributed to several items related to increasing expenditures. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

	2005 <u>Amount</u>	Restated 2004 <u>Amount</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 5,333,948	\$ 5,594,414	\$ (260,466)	-4.66%
Earnings on investments	105,953	46,300	59,653	128.84%
Intergovernmental	1,476,851	1,402,681	74,170	5.29%
Other revenues	<u>133,667</u>	<u>90,460</u>	<u>43,207</u>	47.76%
 Total	 <u>\$ 7,050,419</u>	 <u>\$ 7,133,855</u>	 <u>\$ (83,436)</u>	 -1.17%
<u>Expenditures</u>				
Instruction	\$ 3,882,773	\$ 4,015,048	\$ (132,275)	-3.29%
Support services	2,980,171	2,711,234	268,937	9.92%
Non-instructional services	9,328	7,756	1,572	20.27%
Extracurricular activities	154,733	146,896	7,837	5.34%
Facilities acquisition and construction	<u>297,327</u>	<u>39,134</u>	<u>258,193</u>	659.77%
 Total	 <u>\$ 7,324,332</u>	 <u>\$ 6,920,068</u>	 <u>\$ 404,264</u>	 5.84%

The increase in earnings on investments can be attributed to increases of interest rates by the Federal Reserve. The increases in facilities acquisition and construction can be attributed to the capitalization of roofing on one of the District's buildings.

Debt Service Fund

The debt service fund had \$1,516,357 in revenues and \$365,478 in expenditures. The debt service fund's fund balance increased from \$2,799,255 to \$3,950,134, 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 2005, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$6,856,521 and final budgeted revenues and other financing sources were \$7,461,819. Actual revenues and other financing sources for fiscal 2005 was \$7,479,999. This represents an \$18,180 increase over final budgeted revenues. The increase is primarily due to conservative original resources budget.

General fund original appropriations (appropriated expenditures including other financing uses) totaled \$7,574,470 and final appropriations (appropriated expenditures including other financing uses) totaled \$8,028,051. The actual budget basis expenditures for fiscal year 2005 totaled \$7,534,432 which is \$493,619 below the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$5,864,729 invested in land, land 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 2005 balances compared to 2004:

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

	Governmental Activities	
	2005	2004
Land	\$ 148,136	\$ 148,136
Land improvements	486,875	409,910
Building and improvements	4,367,476	4,396,454
Furniture and equipment	697,388	818,766
Vehicles	164,854	88,133
 Total	 \$ 5,864,729	 \$ 5,861,399

The overall increase in capital assets of \$3,330 is due to capital outlay of \$443,777 exceeding depreciation expense of \$440,447 in the fiscal year.

Debt Administration

At June 30, 2005, the District had \$3,010,000 in school improvement bonds. Of this total, \$185,000 is due within one year and \$2,825,000 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 and loans outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2005	2004
School improvement bonds	\$ 3,010,000	\$ 3,185,000
 Total	 \$ 3,010,000	 \$ 3,185,000

At June 30, 2005, the District's overall legal debt margin was \$33,899,368, and an unvoted debt margin of \$299,325.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

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 1 significant tax exemptions pending.

Personal Tangible Property tax receipts are reduced as mandated by the passage of HB66 by the state legislature.

Unrestricted Grants-in-Aid (State Foundation payments) includes the amount of \$110,599 for utility deregulation "hold harmless" payments that will expire partially in FY2006 and completely in FY2007. 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.

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

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

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

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

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

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

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.

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS
JUNE 30, 2005

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents . . .	\$ 4,820,178
Cash with fiscal agent	294
Receivables:	
Taxes	7,434,141
Accounts	3,582
Intergovernmental	16,856
Prepayments	13,624
Materials and supplies inventory	3,595
Capital assets:	
Land	148,136
Depreciable capital assets, net	5,716,593
Capital assets, net	<u>5,864,729</u>
 Total assets.	 <u>18,156,999</u>
Liabilities:	
Accounts payable.	142,840
Accrued wages and benefits	512,379
Pension obligation payable.	153,934
Intergovernmental payable	24,099
Deferred revenue	6,067,616
Accrued interest payable	13,575
Long-term liabilities:	
Due within one year.	236,055
Due in more than one year	<u>3,233,712</u>
 Total liabilities	 <u>10,384,210</u>
Net Assets:	
Invested in capital assets, net of related debt.	2,854,729
Restricted for:	
Debt service.	3,950,134
State funded programs.	18,390
Federally funded programs.	18,732
Student activities.	15,055
Capital acquisition	22,900
Unrestricted.	<u>892,849</u>
 Total net assets	 <u>\$ 7,772,789</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 3,592,281	\$ 127,592	\$ 7,647	\$ (3,457,042)
Special	651,419	-	41,463	(609,956)
Adult/continuing	47,782	11,092	-	(36,690)
Other	7,232	-	-	(7,232)
Support services:				
Pupil	355,569	-	67,241	(288,328)
Instructional staff	393,802	641	129,057	(264,104)
Board of education	77,294	-	-	(77,294)
Administration	734,975	3,450	-	(731,525)
Fiscal	344,793	-	-	(344,793)
Operations and maintenance	1,127,081	-	-	(1,127,081)
Pupil transportation	317,152	-	-	(317,152)
Central	12,897	-	5,000	(7,897)
Operation of non-instructional services	9,328	-	-	(9,328)
Extracurricular activities	188,033	113,592	-	(74,441)
Food service operations	213,212	146,723	50,873	(15,616)
Interest and fiscal charges	171,946	-	-	(171,946)
Total governmental activities	\$ 8,244,796	\$ 403,090	\$ 301,281	\$ (7,540,425)

General Revenues:

Property taxes levied for:	
General purposes	5,433,750
Debt service	1,425,210
Grants and entitlements not restricted	
to specific programs	1,575,273
Investment earnings	105,953
Miscellaneous	17,418
Total general revenues	8,557,604
Change in net assets	1,017,179
Net assets, beginning	6,755,610
Net assets, end of year	\$ 7,772,789

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<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	\$ 1,484,537	\$ 3,244,596	\$ 68,145	\$ 4,797,278
Cash with fiscal agent	-	-	294	294
Receivables:				
Taxes	6,648,209	785,932	-	7,434,141
Accounts	2,928	-	654	3,582
Intergovernmental	-	-	16,856	16,856
Prepayments	13,624	-	-	13,624
Materials and supplies inventory	-	-	3,595	3,595
Restricted assets:				
Equity in pooled cash and cash equivalents	22,900	-	-	22,900
Total assets	<u>\$ 8,172,198</u>	<u>\$ 4,030,528</u>	<u>\$ 89,544</u>	<u>\$ 12,292,270</u>
Liabilities:				
Accounts payable	\$ 142,270	\$ -	\$ 570	\$ 142,840
Accrued wages and benefits	483,626	-	28,753	512,379
Compensated absences payable	34,451	-	-	34,451
Pension obligation payable	141,178	-	12,756	153,934
Intergovernmental payable	22,789	-	1,310	24,099
Deferred revenue	6,261,804	80,394	-	6,342,198
Total liabilities	<u>7,086,118</u>	<u>80,394</u>	<u>43,389</u>	<u>7,209,901</u>
Fund Balances:				
Reserved for encumbrances	400,570	-	12,207	412,777
Reserved for materials and supplies inventory	-	-	3,595	3,595
Reserved for prepayments	13,624	-	-	13,624
Reserved for debt service	-	3,244,596	-	3,244,596
Reserved for property tax unavailable for appropriation	386,405	705,538	-	1,091,943
Reserved for capital acquisition	22,900	-	-	22,900
Unreserved, undesignated, reported in:				
General fund	262,581	-	-	262,581
Special revenue funds	-	-	30,353	30,353
Total fund balances	<u>1,086,080</u>	<u>3,950,134</u>	<u>46,155</u>	<u>5,082,369</u>
Total liabilities and fund balances	<u>\$ 8,172,198</u>	<u>\$ 4,030,528</u>	<u>\$ 89,544</u>	<u>\$ 12,292,270</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Total governmental fund balances		\$ 5,082,369
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		5,864,729
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		274,582
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.		(13,575)
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	\$ 425,316	
General obligation bonds payable	<u>3,010,000</u>	
Total		<u>(3,435,316)</u>
Net assets of governmental activities		<u><u>\$ 7,772,789</u></u>

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 5,333,948	\$ 1,417,935	\$ -	\$ 6,751,883
Tuition.	97,958	-	10,990	108,948
Charges for services.	-	-	146,723	146,723
Earnings on investments.	105,953	-	-	105,953
Extracurricular.	8,341	-	84,058	92,399
Classroom materials and fees	9,950	-	19,684	29,634
Other local revenues	17,418	-	25,386	42,804
Intergovernmental - Intermediate.	-	-	6,500	6,500
Intergovernmental - State.	1,476,851	98,422	47,592	1,622,865
Intergovernmental - Federal	-	-	247,189	247,189
Total revenues	<u>7,050,419</u>	<u>1,516,357</u>	<u>588,122</u>	<u>9,154,898</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,277,314	-	40,471	3,317,785
Special.	598,227	-	47,919	646,146
Adult/continuing.	-	-	47,782	47,782
Other.	7,232	-	-	7,232
Support services:				
Pupil.	292,042	-	61,528	353,570
Instructional staff	242,098	-	140,080	382,178
Board of education	77,294	-	-	77,294
Administration.	715,113	-	3,991	719,104
Fiscal	326,188	17,743	-	343,931
Operations and maintenance.	929,342	-	-	929,342
Pupil transportation	390,818	-	-	390,818
Central.	7,276	-	5,621	12,897
Operation of non-instructional services	9,328	-	-	9,328
Extracurricular activities.	154,733	-	106,482	261,215
Facilities acquisition and construction	297,327	-	-	297,327
Food service operations.	-	-	221,866	221,866
Debt service:				
Principal retirement	-	175,000	-	175,000
Interest and fiscal charges	-	172,735	-	172,735
Total expenditures	<u>7,324,332</u>	<u>365,478</u>	<u>675,740</u>	<u>8,365,550</u>
Excess of revenues under expenditures	<u>(273,913)</u>	<u>1,150,879</u>	<u>(87,618)</u>	<u>789,348</u>
Other financing sources (uses):				
Transfers in	-	-	73,000	73,000
Transfers (out).	(73,000)	-	-	(73,000)
Total other financing sources (uses)	<u>(73,000)</u>	<u>-</u>	<u>73,000</u>	<u>-</u>
Net change in fund balances	(346,913)	1,150,879	(14,618)	789,348
Fund balances at beginning of year (restated)				
	1,432,993	2,799,255	60,773	4,293,021
Fund balances at end of year.	<u>\$ 1,086,080</u>	<u>\$ 3,950,134</u>	<u>\$ 46,155</u>	<u>\$ 5,082,369</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds \$ 789,348

*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. Depreciation expense exceeds capital outlays in the current period accordingly.

Capital asset additions	\$	443,777	
Current year depreciation		<u>(440,447)</u>	
			3,330

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	107,077
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	175,000
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In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	789
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Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(58,365)</u>
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Change in net assets of governmental activities	<u><u>\$ 1,017,179</u></u>
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**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 5,267,764	\$ 5,747,068	\$ 5,747,068	\$ -
Tuition.	100,782	109,952	109,952	-
Earnings on investments.	98,056	94,321	106,978	12,657
Extracurricular.	7,645	8,331	8,341	10
Classroom materials and fees.	9,120	9,950	9,950	-
Other local revenues	15,774	11,696	17,209	5,513
Intergovernmental - State	1,353,157	1,476,278	1,476,278	-
Total revenues	<u>6,852,298</u>	<u>7,457,596</u>	<u>7,475,776</u>	<u>18,180</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,299,522	3,426,748	3,282,421	144,327
Special.	601,414	632,235	598,297	33,938
Other.	7,270	12,000	7,232	4,768
Support services:				
Pupil.	297,599	268,103	296,056	(27,953)
Instructional staff	251,990	280,380	250,684	29,696
Board of education	82,873	103,847	82,443	21,404
Administration.	716,838	668,941	713,122	(44,181)
Fiscal	327,945	313,291	326,245	(12,954)
Operations and maintenance.	943,528	990,086	938,637	51,449
Pupil transportation	398,750	325,733	396,683	(70,950)
Central.	7,314	2,472	7,276	(4,804)
Operation of non-instructional services	9,377	7,989	9,328	(1,339)
Extracurricular activities.	155,990	150,956	155,181	(4,225)
Facilities acquisition and construction.	399,900	771,110	397,827	373,283
Total expenditures	<u>7,500,310</u>	<u>7,953,891</u>	<u>7,461,432</u>	<u>492,459</u>
Excess of revenues over (under) expenditures.	<u>(648,012)</u>	<u>(496,295)</u>	<u>14,344</u>	<u>510,639</u>
Other financing sources (uses):				
Refund of prior year expenditure.	2,223	2,223	2,223	-
Transfers (out)	(72,100)	(72,100)	(73,000)	(900)
Advances in.	2,000	2,000	2,000	-
Advances (out)	(2,060)	(2,060)	-	2,060
Total other financing sources (uses)	<u>(69,937)</u>	<u>(69,937)</u>	<u>(68,777)</u>	<u>1,160</u>
Net change in fund balance	(717,949)	(566,232)	(54,433)	511,799
Fund balance at beginning of year	985,399	985,399	985,399	-
Prior year encumbrances appropriated	311,172	311,172	311,172	-
Fund balance at end of year	<u>\$ 578,622</u>	<u>\$ 730,339</u>	<u>\$ 1,242,138</u>	<u>\$ 511,799</u>

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 41,124	\$ 38,876
Investments	74,875	-
Total assets	115,999	\$ 38,876
Liabilities:		
Due to students	-	\$ 38,876
Total liabilities	-	\$ 38,876
Net Assets:		
Held in trust for scholarships	115,999	
Total net assets	\$ 115,999	

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 2,099
Gifts and contributions.	19,112
	21,211
Total additions.	21,211
Deductions:	
Scholarships awarded	19,635
	1,576
Change in net assets	1,576
Net assets at beginning of year	114,423
Net assets at end of year	\$ 115,999

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

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

The District currently operates 1 elementary school, 1 middle school and 1 comprehensive high school. The District employs 35 non-certified and 55 certified (including administrative) full-time and part-time employees to provide services to approximately 592 students in grades K through 12 and various community groups. The District ranks 586th of the 614 public school districts in Ohio and is the fourth largest of the seven districts in Ottawa County.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

JOINTLY GOVERNED ORGANIZATIONS

EHOVE Career Center (the "Center")

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

Northern Ohio Educational Computer Association (NOECA)

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

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

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

PROPRIETARY FUND

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

FIDUCIARY FUNDS

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

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

D. Basis of Accounting

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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

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

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2005 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Ottawa County Budget Commission for tax rate determination.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2005.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Although State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original, appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2005; however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at fiscal year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

During fiscal year 2005, investments were limited to the State Treasury Asset Reserve (STAR Ohio) and treasury bonds. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

The District has invested funds in STAR Ohio during fiscal 2005. 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, 2005.

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 2005 amounted to \$105,953, which includes \$73,594 assigned from other funds.

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

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

G. Inventory

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

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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

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

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities column on the statement of net assets. The District had no interfund receivables or payables at June 30, 2005.

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, 2005, 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, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees are paid.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, debt service, 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.

O. Estimates

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

P. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a capital acquisition reserve. These reserves are 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 basic financial statements.

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 2005.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles and Restatement of Fund Balance

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the basic financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ 1,483,087	\$ 2,799,255	\$ 69,771	\$ 4,352,113
Adjustment for GASB Technical Bulletin 2004-002	<u>(50,094)</u>	<u>-</u>	<u>(8,998)</u>	<u>(59,092)</u>
Restated Fund Balances, June 30, 2004	<u>\$ 1,432,993</u>	<u>\$ 2,799,255</u>	<u>\$ 60,773</u>	<u>\$ 4,293,021</u>

B. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Food Service Operations	\$ 7,073
Adult Education	4,602
Other Grant	5
Entry Year Teacher	8
Title VI-B	10,764
Title I	58

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

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Interim monies to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

A. Cash on Hand

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Cash with Fiscal Agent

At fiscal year-end, \$294 was left from pass through grants received from the County education service center; however, this amount is not part of the internal cash pool reported on the financial statements as "Cash with Fiscal Agent" and is not included in "Deposits with Financial Institutions" below.

C. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$393,400. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$362,663 of the District's bank balance of \$500,520 was exposed to custodial risk as discussed below, while \$137,857 was covered by Federal Deposit Insurance Corporation.

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

D. Investments

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
Treasury Bonds and Notes	\$ 74,875	\$ 74,875
STAR Ohio	4,505,108	4,505,108
	<u>\$ 4,579,983</u>	<u>\$ 4,579,983</u>

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

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

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Treasury Bonds and Notes	\$ 74,875	1.63
STAR Ohio	<u>4,505,108</u>	<u>98.37</u>
	<u>\$ 4,579,983</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 393,400
Investments	4,579,983
Cash on hand	1,670
Cash with fiscal agent	<u>294</u>
Total	<u>\$ 4,975,347</u>

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 4,820,472
Private-purpose trust activities	115,999
Agency funds	<u>38,876</u>
Total	<u>\$ 4,975,347</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:	
General Fund	\$ 73,000

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, 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 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. 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, 2005, are available to finance fiscal year 2005 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, 2005 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, 2005 was \$386,405 in the general fund and \$705,538 in the debt service fund. This amount has been recorded as 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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 278,669,700	94.87	\$ 284,738,430	95.13
Public Utility Personal	6,978,830	2.38	6,958,690	2.32
Tangible Personal Property	<u>8,079,572</u>	<u>2.75</u>	<u>7,627,698</u>	<u>2.55</u>
Total	<u>\$ 293,728,102</u>	<u>100.00</u>	<u>\$ 299,324,818</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 43.40		\$ 43.40	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Property taxes	\$ 7,434,141
Accounts	3,582
Intergovernmental	<u>16,856</u>
Total	<u>\$ 7,454,579</u>

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

**DANBURY LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Balance 06/30/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/05</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 148,136	\$ -	\$ -	\$ 148,136
Total capital assets, not being depreciated	<u>148,136</u>	<u>-</u>	<u>-</u>	<u>148,136</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	662,667	121,115	(35,987)	747,795
Buildings and improvements	6,774,606	128,458	-	6,903,064
Furniture and equipment	1,833,358	82,775	-	1,916,133
Vehicles	417,311	111,429	(42,393)	486,347
Total capital assets, being depreciated	<u>9,687,942</u>	<u>443,777</u>	<u>(78,380)</u>	<u>10,053,339</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(252,757)	(44,150)	35,987	(260,920)
Buildings and improvements	(2,378,152)	(157,436)	-	(2,535,588)
Furniture and equipment	(1,014,592)	(204,153)	-	(1,218,745)
Vehicles	(329,178)	(34,708)	42,393	(321,493)
Total accumulated depreciation	<u>(3,974,679)</u>	<u>(440,447)</u>	<u>78,380</u>	<u>(4,336,746)</u>
Governmental activities capital assets, net	<u>\$ 5,861,399</u>	<u>\$ 3,330</u>	<u>\$ -</u>	<u>\$ 5,864,729</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 305,009
<u>Support Services:</u>	
Pupil	1,791
Instructional staff	14,214
Administration	7,910
Fiscal	1,794
Operations and maintenance	28,346
Pupil transportation	36,272
Extracurricular activities	41,863
Food service operations	<u>3,248</u>
Total depreciation expense	<u>\$ 440,447</u>

**DANBURY LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 9 - LONG-TERM OBLIGATIONS

- A. During fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/05</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
Compensated absences	\$ 399,779	\$ 100,787	\$ (40,799)	\$ 459,767	\$ 51,055
School improvement bonds	<u>3,185,000</u>	<u>-</u>	<u>(175,000)</u>	<u>3,010,000</u>	<u>185,000</u>
Total long-term obligations, governmental activities	<u>\$ 3,584,779</u>	<u>\$ 100,787</u>	<u>\$ (215,799)</u>	<u>\$ 3,469,767</u>	<u>\$ 236,055</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% 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 expenditures 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:

<u>Year Ending June 30</u>	<u>Principal on Bonds</u>	<u>Interest on Bonds</u>	<u>Total</u>
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	225,000	118,509	343,509
2011 - 2015	1,340,000	379,682	1,719,682
2016 - 2017	<u>645,000</u>	<u>36,867</u>	<u>681,867</u>
Total	<u>\$ 3,010,000</u>	<u>\$ 1,126,111</u>	<u>\$ 4,136,111</u>

C. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$33,899,368 and an unvoted debt margin of \$299,325.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 10 - 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.

NOTE 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% 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:	Ohio School Plan		
Each occurrence		\$ 1,000,000	\$ 0
Aggregate		3,000,000	0
Errors and Omissions			
Each occurrence		1,000,000	2,500
Aggregate		2,000,000	
Employee Practices			
Each occurrence		1,000,000	2,500
Aggregate		2,000,000	
Property	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:	Ohio School Plan		
Each Accident		1,000,000	
Aggregate		1,000,000	

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 11 - RISK MANAGEMENT - (Continued)

B. OSBA Group Workers' Compensation Rating Plan

For fiscal year 2005, 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 School Employees Welfare Benefit Association (the "Association"), whose purpose is to provide health coverage and benefits to and for the eligible employees of Association members and their dependents. The District pays premiums to the Association based upon the benefits structure selected. The Association Trust Agreement provides that the Association will be self-sustaining through member premiums and will reinsure through commercial companies for specific claims in excess of \$100,000 and aggregate claims in excess of 120% of expected claims.

NOTE 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 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 43215-3746, or by calling (614) 222-5853.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$96,737, \$94,835 and \$133,406, respectively; 48.65% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$49,676 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

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 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 2005 and 2004, 13% 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% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$430,651, \$519,236, and \$535,424, respectively; 83.91% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$69,297 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$978 made by the District and \$932 certain made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or the STRS have an option to choose Social Security or the SERS/STRS. The District's liability is 6.2% of wages paid.

NOTE 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% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$33,127 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.3 billion at June 30, 2005. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254.780 million and STRS had 115,395 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% for those who apply.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses, before premium deduction. Net health care costs at June 30, 2005, were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million and SERS had 58,123 participants eligible to receive health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$44,902 during the 2005 fiscal year.

NOTE 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).

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ (54,433)
Net adjustment for revenue accruals	(425,357)
Net adjustment for expenditure accruals	(128,199)
Net adjustment for other sources/uses	(4,223)
Adjustment for encumbrances	<u>265,299</u>
GAAP basis	<u>\$ (346,913)</u>

NOTE 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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 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, 2005, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2004	\$ (411,878)	\$ 77,318
Current year set-aside requirement	89,375	89,375
Qualifying disbursements	<u>(140,865)</u>	<u>(143,793)</u>
Total	<u>\$ (463,368)</u>	<u>\$ 22,900</u>
Cash balance carried forward to FY 2006	<u>\$ (463,368)</u>	<u>\$ 22,900</u>

The District had qualifying expenditures which exceeded the textbooks set-aside amount, which may be carried forward to the next fiscal year. The qualifying capital acquisition expenditures did not meet the set-aside requirement for the fiscal year, therefore the balance is required to be restricted.

A schedule of the restricted assets at June 30, 2005 follows:

Amount restricted for capital acquisition	<u>\$ 22,900</u>
Total restricted assets	<u>\$ 22,900</u>



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333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Danbury Local School District, Ottawa County, as of and for the fiscal year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 24, 2006. As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers" for the fiscal year ended June 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Danbury Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Education
Danbury Local School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Danbury Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we reported to the management of the Danbury Local School District in a separate letter dated March 24, 2006.

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

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

Julian & Grube, Inc.
March 24, 2006



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 11, 2006**