



**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY
REGULAR AUDIT
FOR THE YEAR ENDED JUNE 30, 2004**



**Auditor of State
Betty Montgomery**

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Danville Local School District, Knox County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Danville Local School District, Knox County, Ohio, as of June 30, 2004, and the respective changes in financial position, thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Betty Montgomery
Auditor of State

March 21, 2006

Danville School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The discussion and analysis of Danville Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the financial statements and notes to those respective statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key Financial Highlights for 2004 are as follows:

- In total, net assets increased by \$10,410.
- Revenues for governmental activities totaled \$5,774,108 in 2004. Of this total, 78.8 percent consisted of general revenues while program revenues accounted for the balance of 21.2 percent.
- Program expenses totaled \$5,763,698. Instructional expenses made up 56.3 percent of this total while support services accounted for 35.2 percent. Other expenses rounded out the remaining 8.5 percent.
- Outstanding general obligation bonded debt decreased from \$1,644,997 to \$1,627,947 in 2003.

Using these Basic Financial Statements

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

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

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains all the funds used by the School District to provide programs and activities, the view of the School District as a whole considers all financial transactions and asks the question, "How did we do financially during 2004?" The *Statement of Net Assets* and *Statement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses, regardless of when cash is received or paid.

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

Danville School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

factors and willingness of the community to support the School District. On the other hand, financial factors may include the School District's financial position, liquidity and solvency and fiscal capacity.

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

The School District as a Whole

You may recall that the *Statement of Net Assets* provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2004 compared to 2003:

Danville School District
Management's Discussion and Analysis
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Unaudited

Table 1
Net Assets
Governmental Activities

	2004	2003	Change
Assets			
Current and Other Assets	\$3,206,689	\$2,941,693	\$264,996
Capital Assets, Net	9,523,342	9,869,622	(346,280)
<i>Total Assets</i>	<u>12,730,031</u>	<u>12,811,315</u>	<u>(81,284)</u>
Liabilities			
Current Liabilities	1,199,459	1,288,170	(88,711)
Long-Term Liabilities:			
Due Within One Year	69,127	60,062	9,065
Due in More Than One Year	1,627,091	1,639,139	(12,048)
<i>Total Liabilities</i>	<u>2,895,677</u>	<u>2,987,371</u>	<u>(91,694)</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	7,942,342	8,258,622	(316,280)
Restricted for:			
Capital Projects	23,126	113,127	(90,001)
Debt Service	154,526	100,211	54,315
Other Purposes	248,269	215,292	32,977
Unrestricted	1,466,091	1,136,692	329,399
<i>Total Net Assets</i>	<u>\$9,834,354</u>	<u>\$9,823,944</u>	<u>\$10,410</u>

Total assets decreased by \$81,284. The School District had an increase in taxes receivable which was offset by a decrease in capital assets caused by the current year depreciation expense. Total liabilities decreased by \$91,694, due to scheduled bond payments and more taxes revenue available as an advance at fiscal year end compared to the prior year.

By comparing assets and liabilities, one can see the overall position of the School District has increased as evidenced by the increase in net assets of \$10,410.

The vast majority of revenue supporting all governmental activities is general revenue. General revenue totaled \$4,551,893 or 78.8 percent of the total revenue. The most significant portions of the general revenue are grants and entitlements, and local property and income tax. The remaining amount of revenue received was in the form of program revenues, equaling \$1,222,215 or 21.2 percent of total revenue.

Table 2 shows the changes in net assets for fiscal year 2004. Since this is the first year that the School District prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Danville School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Table 2
Changes in Net Assets
Governmental Activities

	2004
Revenues	
Program Revenues:	
Charges for Services and Sales	\$557,592
Operating Grants and Contributions	642,027
Capital Grants and Contributions	22,596
Total Program Revenues	1,222,215
General Revenues:	
Property Taxes	1,314,700
Income Taxes	607,495
Grants and Entitlements	2,555,327
Investments	25,253
Miscellaneous	49,118
Total General Revenues	4,551,893
Total Revenues	5,774,108
Program Expenses	
Instruction:	
Regular	2,443,462
Special	696,053
Vocational	105,810
Support Services:	
Pupils	201,819
Instructional Staff	468,377
Board of Education	14,159
Administration	425,610
Fiscal	155,627
Operation and Maintenance of Plant	517,161
Pupil Transportation	235,396
Central	8,904
Food Service Operations	223,133
Extracurricular Activities	168,568
Interest and Fiscal Charges	99,619
Total Program Expenses	5,763,698
Increase in Net Assets	10,410
<i>Net Assets Beginning of Year - Restated</i>	<i>9,823,944</i>
<i>Net Assets End of Year</i>	<i>\$9,834,354</i>

Danville School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Governmental Activities

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

Approximately 56.3 percent of the School District's budget is used to fund instructional expenses. Additional supporting services for pupils, staff, transportation and business operations encompass 35.2 percent. The remaining amount of program expenses, 8.5 percent, is budgeted to facilitate other obligations of the School District such as interest and fiscal charges, the food service program and numerous extracurricular activities.

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

Table 3
Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004
Governmental Activities:		
Instruction:		
Regular	\$2,443,462	(\$1,981,519)
Special	696,053	(355,304)
Vocational	105,810	(85,794)
Support Services:		
Pupils	201,819	(197,229)
Instructional Staff	468,377	(380,333)
Board of Education	14,159	(14,159)
Administration	425,610	(425,610)
Fiscal	155,627	(155,627)
Operation and Maintenance of Plant	517,161	(507,078)
Pupil Transportation	235,396	(228,475)
Central	8,904	(8,904)
Food Service Operations	223,133	(412)
Extracurricular Activities	168,568	(101,420)
Interest and Fiscal Charges	99,619	(99,619)
Total	\$5,763,698	(\$4,541,483)

As one can see, the reliance upon local tax revenues for governmental activities is crucial. Over 33.4 percent of expenses are directly supported by local property and income taxes. Grant and entitlements not restricted to specific programs support 44.3 percent, while investment and other miscellaneous type revenues support the remaining activity costs. Program revenues account for 21.2 percent of all governmental expenses.

Danville School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

School District's Funds

Information regarding the School District's major funds begins on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$5,775,826 and expenditures of \$5,429,451. The net change in fund balance for the year was most significant in the general fund, with an increase of \$330,180 due to keeping operating expenditures under current revenues.

General Fund Budgeting Highlights

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

During the course of fiscal year 2004, the School District amended its general fund budget numerous times, none significant. The School District uses an operational unit budget process and has in place systems that are designed to tightly control expenditures but provide flexibility for program based decision and management.

For the General fund, the original and final budget basis estimated revenue totaled \$4,781,609. Final budget basis appropriations totaled \$4,690,194 compared to the original estimate of \$4,688,944.

The general fund's unencumbered ending cash balance totaled \$1,422,578, which was well above the original budgeted amount of \$1,246,699, due to regular instruction and other special education costs actually being lower than estimated at the end of fiscal year 2004.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$9,523,342 invested in land, buildings, furniture, fixtures and equipment, and vehicles. Table 4 shows fiscal 2004 values compared to 2003. More detailed information is presented in Note 12 to the basic financial statements.

Table 4
Capital Assets at June 30
Governmental Activities

	2004	2003
Land	\$105,035	\$105,035
Buildings	9,017,151	9,237,995
Furniture, Fixtures and Equipment	277,629	376,156
Vehicles	123,527	150,436
<i>Total Capital Assets</i>	\$9,523,342	\$9,869,622

All capital assets, except land, are reported net of depreciation. As one can see, there was a decrease in capital assets during the fiscal year, mainly due to depreciation expense of \$377,953 for fiscal year 2004.

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Management's Discussion and Analysis
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Debt

At June 30, 2004 the School District had \$1,581,000 of classroom facilities improvement bonds. Table 5 below summarizes the School District's bonds outstanding. More detailed information is presented in Note 17 to the basic financial statements.

Table 5
Outstanding Debt at Year End
Governmental Activities

	2004	2003
Classroom Facilities		
Improvement Bonds	\$1,581,000	\$1,611,000
Accretion	46,947	33,997
	\$1,627,947	\$1,644,997

The bonds will be retired out of the debt service fund. The 2000 general obligation bonds include serial bonds and capital appreciation bonds that will mature in fiscal years 2012, 2013, 2014 and 2015. The final amount of the capital appreciation bonds will be \$325,000.

The School District's overall legal debt margin was \$1,476,665 with an unvoted debt margin of \$49,200.

Current Issues Affecting Financial Condition

The Danville Local School District's motto is *Excellence From All . . . Shaping Quality Graduates*. The District Continuous Improvement Plan (revised 2005) includes the primary goal of "Increasing Student Achievement." While the School District remains in Continuous Improvement Status on the Ohio State Report Card, Danville High School received a rating of "Excellent" in 2003-2004. In all we do, the School District strives to promote and maintain a high quality program of free and appropriate education for all.

The financial future of the School District is not without its challenges. These challenges are internal and external in nature. The internal challenges will continue to exist as the School District must continue to rely heavily on local property and income taxes to fund its operations. External challenges continue to evolve as the State of Ohio determines the outcome of the Ohio Supreme Court case dealing with the unconstitutionality of the State's educational funding system, and budget cuts at the State level.

On August 9, 1999, the State Controlling Board approved the School District's participation in the Classroom Facilities Assistance Program with \$1,656,000 as the local share of twenty percent and \$6,499,688 as the State share of eighty percent. With these funds, a K-8 facility was constructed. The School District decided to meet its local share by issuing bonds. In addition, the School District decided to fund its maintenance obligation for the project with a one-half mill levy.

Although the School District relies heavily on its property taxpayers to support its operations, the community support for the school is very strong. On March 7, 2000, the voters approved the following:

- a 3.1 mill levy not to exceed 23 years, for the local share of the Ohio School Facilities building project and

Danville School District
Management's Discussion and Analysis
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- a .50 mill levy not to exceed 23 years, for maintenance of the new facilities built during the Ohio School Facilities building project.

The community last passed a property tax levy February, 1986, for a continuing period of time. Currently, the School District is at the 20-mill floor, like the majority of other Ohio School Districts. In March 2004, the School District passed an increase to their income tax rate of 1.50 percent, which brought the income tax rate to a total current collection rate of 2.00 percent. The income tax is a very valuable tool as Danville is a rural community and the income tax does not unfairly overburden the predominant agricultural community.

Danville Local School District does not anticipate any meaningful growth in State revenue due to the recently adopted biennial budget, and the unknown affects of House Bill 66.

Expenditure reductions, including staff reduction and institution of new fees have helped to offset the effects of declining revenues due to factors effecting state funding. Reductions were necessary, especially with large increases in health care costs, utilities and fuel, supplies and other expenses.

Currently, the School District is developing a plan for upgrading antiquated science facilities at the High School. Lack of funding makes this need very difficult to meet, but the continued success of our science programs depend on the upgrade.

As a result of the challenges mentioned above, it is imperative the School District's management continue to carefully and prudently plan in order to provide the resources required to meet student needs over the next several years.

In summary, the Danville Local School District has committed itself to financial and educational excellence for many years to come.

Contacting the School District's Financial Management

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

Basic
Financial
Statements

Danville Local School District

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,778,810
Accrued Interest Receivable	489
Accounts Receivable	137
Intergovernmental Receivable	70,247
Inventory Held for Resale	6,837
Materials and Supplies Inventory	1,167
Prepaid Items	38,504
Income Taxes Receivable	157,180
Property Taxes Receivable	1,153,318
Nondepreciable Capital Assets	105,035
Depreciable Capital Assets, Net	<u>9,418,307</u>
 <i>Total Assets</i>	 <u>12,730,031</u>
Liabilities	
Accounts Payable	5,966
Accrued Wages Payable	389,188
Matured Compensated Absences Payable	13,204
Intergovernmental Payable	107,295
Deferred Revenue	676,635
Accrued Interest Payable	7,171
Long-Term Liabilities:	
Due Within One Year	69,127
Due In More Than One Year	<u>1,627,091</u>
 <i>Total Liabilities</i>	 <u>2,895,677</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	7,942,342
Restricted for:	
Capital Projects	23,126
Debt Service	154,526
Food Service Operations	92,507
Public School Support	32,530
Classroom Facilities Maintenance	51,035
Student Activities	22,703
Special Education	31,027
Setasides	1,246
Other Purposes	17,221
Unrestricted	<u>1,466,091</u>
 <i>Total Net Assets</i>	 <u>\$9,834,354</u>

See accompanying notes to the basic financial statements

Danville Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$2,443,462	\$374,406	\$71,862	\$15,675	(\$1,981,519)
Special	696,053	0	340,749	0	(355,304)
Vocational	105,810	0	20,016	0	(85,794)
Support Services:					
Pupils	201,819	0	4,590	0	(197,229)
Instructional Staff	468,377	0	88,044	0	(380,333)
Board of Education	14,159	0	0	0	(14,159)
Administration	425,610	0	0	0	(425,610)
Fiscal	155,627	0	0	0	(155,627)
Operation and Maintenance of Plant	517,161	10,083	0	0	(507,078)
Pupil Transportation	235,396	0	0	6,921	(228,475)
Central	8,904	0	0	0	(8,904)
Food Service Operations	223,133	105,955	116,766	0	(412)
Extracurricular Activities	168,568	67,148	0	0	(101,420)
Interest and Fiscal Charges	99,619	0	0	0	(99,619)
Totals	\$5,763,698	\$557,592	\$642,027	\$22,596	(4,541,483)

General Revenues

Income Taxes Levied for	
General Purposes	607,495
Property Taxes Levied for:	
General Purposes	1,130,685
Debt Service	157,019
Capital Outlay	26,996
Grants and Entitlements not Restricted to Specific Programs	2,555,327
Investment Earnings	25,253
Miscellaneous	49,118
Total General Revenues	4,551,893
Change in Net Assets	10,410
Net Assets Beginning of Year - See Note 3	9,823,944
Net Assets End of Year	\$9,834,354

See accompanying notes to the basic financial statements

Danville Local School District

Balance Sheet

Governmental Funds

June 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,424,037	\$353,527	\$1,777,564
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	1,246	0	1,246
Accrued Interest Receivable	489	0	489
Accounts Receivable	0	137	137
Intergovernmental Receivable	29,067	41,180	70,247
Prepaid Items	35,933	2,571	38,504
Income Taxes Receivable	157,180	0	157,180
Property Taxes Receivable	992,670	160,648	1,153,318
Inventory Held for Resale	0	6,837	6,837
Materials and Supplies Inventory	0	1,167	1,167
<i>Total Assets</i>	<u>\$2,640,622</u>	<u>\$566,067</u>	<u>\$3,206,689</u>
 Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$0	\$5,966	\$5,966
Accrued Wages Payable	364,158	25,030	389,188
Matured Compensated Absences Payable	13,204	0	13,204
Intergovernmental Payable	69,800	2,025	71,825
Deferred Revenue	650,819	112,057	762,876
<i>Total Liabilities</i>	<u>1,097,981</u>	<u>145,078</u>	<u>1,243,059</u>
 Fund Balances			
Reserved for Encumbrances	2,705	31,862	34,567
Reserved for Textbooks	1,246	0	1,246
Reserved for Property Taxes	341,851	55,323	397,174
Unreserved, Undesignated			
Reported in:			
General Fund	1,196,839	0	1,196,839
Special Revenue Funds	0	229,392	229,392
Debt Service Fund	0	104,335	104,335
Capital Projects Funds	0	77	77
<i>Total Fund Balances</i>	<u>1,542,641</u>	<u>420,989</u>	<u>1,963,630</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$2,640,622</u>	<u>\$566,067</u>	<u>\$3,206,689</u>

See accompanying notes to the basic financial statements

Danville Local School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2004*

Total Governmental Funds Balances	\$1,963,630
 <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	9,523,342
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. These deferrals are attributed to property taxes and intergovernmental receivable.	
Property Taxes	79,509
Intergovernmental	<u>6,732</u>
Total	86,241
Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.	(35,470)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(7,171)
Long-term liabilities, including bonds payable and compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds:	
Compensated Absences	(68,271)
General Obligation Bonds	<u>(1,627,947)</u>
Total	<u>(1,696,218)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$9,834,354</u></u>

See accompanying notes to the basic financial statements

Danville Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Property Taxes	\$1,111,718	\$181,669	\$1,293,387
Income Taxes	607,495	0	607,495
Intergovernmental	2,767,928	473,082	3,241,010
Interest	23,145	2,108	25,253
Tuition and Fees	368,999	5,407	374,406
Extracurricular Activities	0	67,148	67,148
Contributions and Donations	1,971	0	1,971
Charges for Services	0	105,955	105,955
Rentals	10,083	0	10,083
Miscellaneous	26,064	23,054	49,118
<i>Total Revenues</i>	<u>4,917,403</u>	<u>858,423</u>	<u>5,775,826</u>
Expenditures			
Current:			
Instruction:			
Regular	2,070,960	75,713	2,146,673
Special	541,308	130,747	672,055
Vocational	102,800	478	103,278
Support Services:			
Pupils	186,488	4,781	191,269
Instructional Staff	327,625	94,660	422,285
Board of Education	14,149	0	14,149
Administration	398,725	16,295	415,020
Fiscal	152,721	3,225	155,946
Operation and Maintenance of Plant	476,492	12,596	489,088
Pupil Transportation	206,226	0	206,226
Central	8,904	0	8,904
Food Service Operations	0	202,436	202,436
Extracurricular Activities	91,729	77,809	169,538
Capital Outlay	9,096	106,695	115,791
Debt Service:			
Principal Retirement	0	30,000	30,000
Interest and Fiscal Charges	0	86,793	86,793
<i>Total Expenditures</i>	<u>4,587,223</u>	<u>842,228</u>	<u>5,429,451</u>
<i>Net Change in Fund Balances</i>	330,180	16,195	346,375
<i>Fund Balances Beginning of Year - Restated</i> <i>(See Note 3)</i>	<u>1,212,461</u>	<u>404,794</u>	<u>1,617,255</u>
<i>Fund Balances End of Year</i>	<u>\$1,542,641</u>	<u>\$420,989</u>	<u>\$1,963,630</u>

See accompanying notes to the basic financial statements

Danville Local School District

*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2004*

Net Change in Fund Balances - Total Governmental Funds \$346,375

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Outlay	31,673
Depreciation	<u>(377,953)</u>

Total (346,280)

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

Property Taxes	21,313
Intergovernmental	<u>(23,031)</u>

Total (1,718)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 30,000

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Accrued Interest on Bonds	124
Bond Accretion	<u>(12,950)</u>

Total (12,826)

Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represent contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	(14,067)
Pension Obligation	<u>8,926</u>

Total (5,141)

Change in Net Assets of Governmental Activities \$10,410

See accompanying notes to the basic financial statements

Danville Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property Taxes	\$929,019	\$929,019	\$929,019	\$0
Income Taxes	682,708	682,708	682,708	0
Intergovernmental	2,738,861	2,738,861	2,738,861	0
Interest	22,427	22,427	23,504	1,077
Tuition and Fees	368,997	368,997	368,999	2
Contributions and Donations	1,971	1,971	1,971	0
Rentals	10,083	10,083	10,083	0
Miscellaneous	27,543	27,543	27,543	0
<i>Total Revenues</i>	4,781,609	4,781,609	4,782,688	1,079
Expenditures				
Current:				
Instruction:				
Regular	2,118,556	2,118,556	2,038,151	80,405
Special	596,832	596,832	481,646	115,186
Vocational	106,407	106,407	100,702	5,705
Other	62,442	62,442	58,356	4,086
Support Services:				
Pupils	158,509	158,509	179,927	(21,418)
Instructional Staff	239,403	239,403	328,736	(89,333)
Board of Education	16,759	16,759	14,154	2,605
Administration	396,248	396,248	390,245	6,003
Fiscal	146,866	148,116	142,714	5,402
Operation and Maintenance of Plant	521,103	521,103	471,532	49,571
Pupil Transportation	210,495	210,495	198,961	11,534
Central	8,904	8,904	8,904	0
Extracurricular Activities	97,324	97,324	91,020	6,304
Capital Outlay	9,096	9,096	9,096	0
<i>Total Expenditures</i>	4,688,944	4,690,194	4,514,144	176,050
<i>Net Change in Fund Balance</i>	92,665	91,415	268,544	177,129
<i>Fund Balance Beginning of Year</i>	1,129,224	1,129,224	1,129,224	0
Prior Year Encumbrances Appropriated	24,810	24,810	24,810	0
<i>Fund Balance End of Year</i>	\$1,246,699	\$1,245,449	\$1,422,578	\$177,129

See accompanying notes to the basic financial statements

Danville Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	Private Purpose Trust Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$11,778	\$40,773
Liabilities		
Due to Students	0	\$40,773
Net Assets		
Held in Trust for Scholarships	\$11,778	

See accompanying notes to the basic financial statements

Danville Local School District
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
June 30, 2004

	<u>Scholarship</u>
Additions	
Contributions and Donations	\$18,500
Interest	<u>4</u>
<i>Total Additions</i>	18,504
Deductions	
Scholarships Awarded	<u>16,300</u>
<i>Change in Net Assets</i>	2,204
<i>Net Assets Beginning of Year</i>	<u>9,574</u>
<i>Net Assets End of Year</i>	<u><u>\$11,778</u></u>

See accompanying notes to the basic financial statements

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 1 - Description of the School District and Reporting Entity

Danville Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio.

The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State statute and federal guidelines. This Board of Education controls the School District's two instructional facilities and one administrative building staffed by 27 noncertified and 60 certificated full-time teaching personnel who provide services to 650 students and other community members.

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

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

The School District participates in two jointly governed organizations and one insurance pool. These organizations are the Tri-Rivers Educational Computer Association, Knox County Career Center, and the Ohio School Plan. These organizations are presented in Notes 10 and 11 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

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

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

B. Fund Accounting

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The School District reports its activities in two categories of funds: governmental and fiduciary.

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

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

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

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

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

C. Measurement Focus

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

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

The private purpose trust fund is accounted for on a flow of economic resources measurement focus.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from income taxes is recognized in the period the income is earned. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

E. Cash and Cash Equivalents

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

During fiscal year 2004, investments were limited to certificates of deposits and STAR Ohio.

Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2004.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$23,145, which includes \$2,472 assigned from other School District funds.

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

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature of normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or the laws of other governments, or imposed by law through constitutional provisions or enabling legislation.

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

G. Inventory

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

H. Capital Assets

All capital assets of the School District are classified as general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

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

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

Description	Governmental Activities Estimated Lives
Buildings	45 years
Furniture, Fixtures and Equipment	5-15 years
Vehicles	10 years

I. Compensated Absences

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

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

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

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

J. 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 governmental fund financial statements when due.

K. 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 financial statements.

L. Fund Balance Reserves

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

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

M. Net Assets

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

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

N. 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.

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

O. Estimates

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

P. Budgetary Data

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

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

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

Note 3 - Change in Accounting Principles and Restatement of Fund Balances/Net Assets

Changes in Accounting Principles For fiscal year 2004, the School District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Differences", and GASB Interpretation No. 6 "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

GASB Statement No. 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. Fiduciary funds are reported by type.

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

On the government-wide financial statements, the beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the reclassification of funds based on the guidance provided in Statement No. 34 and the conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

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

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

Restatement of Fund Balance It was determined that funds reported as enterprise funds should be reclassified and reported as special revenue funds. The new standards for reporting fund obligations for compensated absences in Interpretation No. 6 also caused changes in previously reported fund balances. These restatements had the following effects on fund balance of the major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2003	\$1,191,808	\$337,388	\$1,529,196
Implementation of GASB Interpretation No. 6	20,653	0	20,653
Fund Reclassification	0	67,406	67,406
Adjusted Fund Balance, June 30, 2003	<u>\$1,212,461</u>	<u>\$404,794</u>	<u>\$1,617,255</u>
GASB 34 Adjustments:			
Capital Assets			9,869,622
Intergovernmental Payable			(44,396)
Accrued Interest			(7,295)
Long-Term Liabilities:			
Compensated Absences			(54,204)
Bonds Payable			(1,644,997)
Long-Term (Deferred) Assets			87,959
Governmental Activities Net Assets, June 30, 2003			<u><u>\$9,823,944</u></u>

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 4 - Fund Deficits

The following funds had deficit fund balances at June 30, 2004:

Special Revenue Funds:	Deficit
EMIS	\$14
DPIA	19

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

Note 5 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are:

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

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

Net Change in Fund Balance	
GAAP Basis	\$330,180
Net Adjustment for Revenue Accruals	(134,715)
Net Adjustment for Expenditure Accruals	75,784
Encumbrances	(2,705)
Budget Basis	\$268,544

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 6 - Deposits and Investments

State statutes classify monies held by the School 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 School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

Interim deposits are deposits of interim monies. Interim 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 pass book accounts.

Protection of the School 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. Pooled collateral must equal 105 percent of market value.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal 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;

Danville Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating 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 School 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.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements."

Deposits At fiscal year-end, the carrying amount of the School District's deposits was \$665,931 and the bank balance was \$807,550. Of the bank balance:

1. \$200,000 of the bank balance was covered by depository insurance; and
2. \$607,550 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Investments Investments are categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investment in STAROhio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. The School District's investment in STAROhio had a fair value of \$1,165,430 at June 30, 2004.

Danville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$1,831,361	\$0
Investments of the Cash Management Pool:		
STAROhio	(1,165,430)	1,165,430
GASB Statement No. 3	\$665,931	\$1,165,430

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible property is currently assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three 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 School District prior to June 30.

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

Danville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

The amount available as an advance at June 30, 2004 was \$341,851 in the general fund, \$6,843 in the classroom facilities maintenance special revenue fund and \$48,480 in the bond retirement fund. The amount available as an advance at June 30, 2003, was \$159,152 in the general fund and \$23,862 in the bond retirement fund.

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

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

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$43,176,060	92.19 %	\$45,571,920	92.62 %
Public Utility Personal	2,192,030	4.68	2,172,440	4.42
Tangible Personal Property	1,464,506	3.13	1,456,042	2.96
Total	\$46,832,596	100.00 %	\$49,200,402	100.00 %
Tax rate per \$1,000 of assessed valuation	\$44.60		\$44.60	

Note 8 - Income Tax

The School District levies a voted tax of one half percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1990, and is a continuing tax. On January 1, 1999, an additional one and one-half percent tax collection began and expired it on December 31, 2003. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund.

Note 9 - Receivables

Receivables at June 30, 2004, consisted of taxes, accounts (rent and student fees), tuition and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

Danville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Funds:	
CAFS	\$29,067
Title VI-B	18,000
Title I	9,739
School Lunch Subsidy	9,591
Title II	<u>3,850</u>
Total	<u><u>\$70,247</u></u>

Note 10 - Jointly Governed Organizations

A. Tri-Rivers Educational Computer Association

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

The legislative and advisory body is the assembly which is comprised of the superintendents of the participating schools. The degree of control exercised by any participating school district is limited to its representation on the assembly, which elects the board of directors, who exercises total control over the operation of TRECA including budgeting, appropriating, contracting and designating management. All revenues are generated from participating districts and State funding. Danville Local School District paid \$42,489 to TRECA during fiscal year 2004. The Tri-Rivers Joint Vocational School is the fiscal agent of TRECA. Financial information can be obtained by writing to TRECA, 2222 Marion-Mt. Gilead Road, Marion, Ohio 43302.

B. Knox County Career Center

The Knox County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards, which possesses its own budgeting and taxing authority. The School District did not make any payments to the Career Center during fiscal year 2004. To obtain financial information, write to the Knox County Career Center, Tracy Elliot, who serves as Treasurer, at 306 Martinsburg Road, Mount Vernon, Ohio 43050.

Note 11 – Insurance Pool

The School District participates in the Ohio School Plan (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other

Danville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

administrative services. The Plan's business and affairs are conducted by a fifteen member board consisting of superintendents, treasurers, the president of Harcum-Hyre Insurance Agency, Inc., and a member of the Hylant Group, Inc. The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum-Hyre Insurance Agency serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Harcum-Hyre Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

Note 12 - Capital Assets

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

	Balance 7/1/03	Additions	Deductions	Balance 6/30/04
Governmental Activities				
Capital Assets, not being depreciated:				
Land	\$105,035	\$0	\$0	\$105,035
Capital Assets, being Depreciated				
Buildings	10,347,355	10,794	0	10,358,149
Furniture, Fixtures and Equipment	1,053,280	20,879	0	1,074,159
Vehicles	548,582	0	0	548,582
Total Capital Assets, being Depreciated	<u>11,949,217</u>	<u>31,673</u>	<u>0</u>	<u>11,980,890</u>
Less Accumulated Depreciation:				
Buildings	(1,109,360)	(231,638)	0	(1,340,998)
Furniture, Fixtures and Equipment	(677,124)	(119,406)	0	(796,530)
Vehicles	(398,146)	(26,909)	0	(425,055)
Total Accumulated Depreciation	<u>(2,184,630)</u>	<u>(377,953) *</u>	<u>0</u>	<u>(2,562,583)</u>
Total Capital Assets, being Depreciated, net	<u>9,764,587</u>	<u>(346,280)</u>	<u>0</u>	<u>9,418,307</u>
Governmental Activities Capital Assets, Net	<u>\$9,869,622</u>	<u>(\$346,280)</u>	<u>\$0</u>	<u>\$9,523,342</u>

Danville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$205,527
Special	23,458
Vocational	1,980
Support Services:	
Pupils	9,685
Instructional Staff	46,104
Administration	6,431
Fiscal	840
Operation and Maintenance of Plant	30,640
Pupil Transportation	30,114
Food Service Operations	20,886
Extracurricular Activities	2,288
Total Depreciation Expense	<u><u>\$377,953</u></u>

Note 13 - Risk Management

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2004, the School District contracted with the Ohio School Plan for general liability coverage with a \$1,000,000 single occurrence limit and \$3,000,000 aggregate and no deductible. Professional liability is protected at the level of \$1,000,000 for single occurrence limit and \$3,000,000 aggregate and no deductible. Vehicles have a \$1,000 deductible for both comprehensive and collision and are covered for property and general liability insurance in the amount of \$1,000,000 with a \$1,000 deductible.

Selective Insurance Company of South Carolina holds the coverage for the blanket building and contents, boiler and machinery with a \$22,974,728 limit and a \$1,000 deductible. Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in coverage from the prior year.

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

Note 14 - Pension Plans

A. School Employees Retirement System

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

Danville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$51,555, \$46,584 and \$27,410 respectively; 59.13 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

B. State Teachers Retirement System

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

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

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

Danville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$274,079, \$273,468, and \$196,485 respectively; 83.71 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2004, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 15 - Postemployment Benefits

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$21,083 for fiscal year 2004.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums are reduced by fifty percent for those who apply. A safety net is in place for retirees whose household income falls below federal poverty levels.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease of 0.92 percent from fiscal year 2003. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the 2004 fiscal year, School District paid \$27,848 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30,

Danville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

Note 16 - Other Employee Benefits

A. Compensated Absences

The criteria for determining vacation, personal and sick leave benefits 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 upon termination of employment. Teachers do not earn vacation time.

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

B. Health and Life Insurance

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

Note 17 - Long-Term Obligations

Changes in long-term obligations of the School District during fiscal year 2004 were as follows:

	Amount Outstanding 6/30/03	Additions	Deletions	Amount Outstanding 6/30/04	Amounts Due in One Year
Governmental Activities					
2000 Classroom Facilities Improvement					
\$1,610,001 4.85%-5.75% Serial Bonds	\$1,565,001	\$0	\$30,000	\$1,535,001	\$35,000
\$45,999 4.85%-5.75%					
Capital Appreciation Bonds	45,999	0	0	45,999	0
Accretion on Capital Appreciation Bonds	33,997	12,950	0	46,947	0
Compensated Absences	54,204	14,067	0	68,271	34,127
Total Governmental Activities	\$1,699,201	\$27,017	\$30,000	\$1,696,218	\$69,127

The bonds will be retired out of the debt service fund. The 2000 general obligation bonds include serial bonds and capital appreciation bonds that will mature in fiscal years 2012, 2013, 2014 and 2015. The addition was \$12,950 which represents the annual accretion of discounted interest. The final amount of the capital appreciation bonds will be \$325,000.

Danville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

The School District's overall legal debt margin was \$1,476,665 with an unvoted debt margin of \$49,200 at June 30, 2004.

Principal and interest requirements to retire the classroom facilities improvement bonds outstanding at June 30, 2004 are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds			
	Serial		Capital Appreciation	
	Principal	Interest	Principal	Interest
2005	\$35,000	\$85,175	\$0	\$0
2006	40,000	83,300	0	0
2007	45,000	81,164	0	0
2008	50,000	78,753	0	0
2009	55,000	76,061	0	0
2010-2014	120,487	270,837	45,999	279,001
2015-2019	429,514	369,311	0	0
2020-2024	760,000	115,288	0	0
Total	\$1,535,001	\$1,159,889	\$45,999	\$279,001

Note 18 - Set-Asides

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

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

	Textbooks	Capital Acquisition
Set-aside Reserve Balance as of June 30, 2003	\$0	\$0
Current Year Set-aside Requirement	91,413	91,413
Current Year Offsets	0	(21,432)
Qualifying Disbursements	(90,167)	(94,924)
Totals	\$1,246	(\$24,943)
Set-aside Balance Carried Forward to Future Fiscal Years	\$1,246	(\$24,943)
Set-aside Reserve Balance as of June 30, 2004	\$1,246	\$0

Danville City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

The School District had qualifying disbursements and offsets during the fiscal year that reduced the capital acquisition set-aside amounts below zero. The total reserve balance at June 30, 2004 is \$1,246.

Note 19 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

B. Litigation

The School District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending projects. The School District's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material adverse effect, if any, on the financial condition of the School District.

Note 20 - School State 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 decision 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 School District is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

Note 21 – Subsequent Event

As noted in Note 8, the School District had a five year income tax levy expire on December 31, 2003. The voters approved a five year levy in 2004 and on January 1, 2005, a one and one-half percent income tax collection began.

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Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Danville Local School District, Knox County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 21, 2006, in which we noted the District adopted Governmental Accounting Board Standard No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated March 21, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated March 21, 2006, we reported an other matter related to noncompliance we deemed immaterial.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

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

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

Betty Montgomery
Auditor of State

March 21, 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

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 4, 2006**