

**VILLAGE OF DANVILLE
KNOX COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2008 - 2007



Mary Taylor, CPA
Auditor of State

Village Council
Village of Danville
512 South Market Street
P.O. Box W
Danville, Ohio 43014

We have reviewed the *Independent Accountants' Report* of the Village of Danville, Knox County, prepared by Knox & Knox, for the audit period January 1, 2007 through December 31, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Accountants' Report* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Accountants' Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 3, 2010

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VILLAGE OF DANVILLE
KNOX COUNTY

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KNOX & KNOX

Accountants and Consultants

Independent Accountants' Report

Village of Danville
Knox County
512 South Market Street
Danville, Ohio 43014

To the Village Council:

We have audited the accompanying financial statements of the Village of Danville, Knox County, Ohio, (the Village) as of and for the years ended December 31, 2008 and 2007. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates, if any, made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Village has prepared its financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, we presume they are material.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2008 and 2007. In addition to the accompanying financial statements present for 2008 and 2007, the revisions require presenting entity wide statements. While the Village does not follow GAAP, generally accepted auditing standards require us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2008 and 2007 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2008 and 2007, its cash flows, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Danville, Knox County, as of December 31, 2008 and 2007, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2009, on our consideration of the Village'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 do not opine on the internal control over financial reporting or on compliance, that reports 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 *Governmental Auditing Standards*. You should read it in conjunction with this report in considering the results of our audit.

Knox & Knox

Orrville, Ohio
November 28, 2009

VILLAGE OF DANVILLE
KNOX COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2008

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
CASH RECEIPTS:					
Property and Other Local Taxes	\$167,650	\$81,138			\$248,788
Intergovernmental Revenue	86,539	70,107			156,646
Charges for Services	83				83
Fines, Licenses, and Permits	627				627
Earnings on Investments	4,917				4,917
Total Cash Receipts	259,816	151,245			411,061
CASH DISBURSEMENTS:					
Current:					
Security of Persons and Property	11,892	128,823			140,715
Public Health Services	577				577
Leisure Time Activities	47	11,518			11,565
Transportation		45,393			45,393
General Government	116,290				116,290
Debt Service					
Redemption of Principal		3,891	\$101,321		105,212
Interest/Other Fiscal Charges		1,109	14,803		15,912
Capital Outlay				\$71,753	71,753
Total Cash Disbursements	128,806	190,734	116,124	71,753	507,417
Total Receipts Over/(Under) Disbursements	131,010	(39,489)	(116,124)	(71,753)	(96,356)
OTHER FINANCING RECEIPTS/DISBURSEMENTS					
Transfers-In		73,900	116,125		190,025
Transfers-Out	(73,900)				(73,900)
Other Sources	800				800
Other Uses	(18,727)	(683)			(19,410)
Total Other Financing Receipts/(Disbursements)	(91,827)	73,217	116,125		97,515
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	39,183	33,728	1	(71,753)	1,159
Fund Cash Balances, January 1	37,151	52,844	19,967	160,275	270,237
FUND CASH BALANCES, DECEMBER 31	\$76,334	\$86,572	\$19,968	\$88,522	\$271,396

The notes to the financial statements are an integral part of this statement.

VILLAGE OF DANVILLE
KNOX COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES
IN FUND CASH BALANCES - ENTERPRISE FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Enterprise Fund</u>
OPERATING CASH RECEIPTS:	
Charges for Services	\$363,900
Miscellaneous	<u>691</u>
Total Operating Cash Receipts	<u>364,591</u>
OPERATING CASH DISBURSEMENTS:	
Personal Services	107,800
Contractual Services	74,912
Supplies and Materials	22,224
Capital Outlay	<u>6,826</u>
Total Operating Cash Disbursements	<u>211,762</u>
Excess of Cash Receipts Under Disbursements Before Interfund Transfers and Advances	<u>152,829</u>
Transfers-Out	<u>(116,125)</u>
Net Receipts over/(Under) Disbursements	36,704
Fund Cash Balances, January 1	<u>169,125</u>
FUND CASH BALANCES, DECEMBER 31	<u><u>\$205,829</u></u>

The notes to the financial statements are an integral part of this statement.

VILLAGE OF DANVILLE
KNOX COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND
CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2007

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
CASH RECEIPTS:					
Property and Other Local Taxes	\$169,405	\$57,843			\$227,248
Intergovernmental Revenue	\$62,410	101,741			164,151
Charges for Services	187				187
Fines, Licenses, and Permits	2,659				2,659
Earnings on Investments	6,748				6,748
	<u>241,409</u>	<u>159,584</u>	<u></u>	<u></u>	<u>400,993</u>
CASH DISBURSEMENTS:					
Current:					
Security of Persons and Property	11,540	139,594			151,134
Public Health Services	577				577
Leisure Time Activities	405	23,912			24,317
Transportation		73,673			73,673
General Government	124,538				124,538
Debt Service					
Principal Payments			99,177		99,177
Interest Payments			16,947		16,947
Capital Outlay		53,496		68,358	121,854
	<u>137,060</u>	<u>290,675</u>	<u>116,124</u>	<u>68,358</u>	<u>612,217</u>
Total Receipts Over/(Under) Disbursements	<u>104,349</u>	<u>(131,091)</u>	<u>(116,124)</u>	<u>(68,358)</u>	<u>(211,224)</u>
OTHER FINANCING RECEIPTS/DISBURSEMENTS					
Note Proceeds	193	24,688		172,693	197,574
Other Sources (Uses)	(24,295)	14,010			(10,285)
Transfers-In		75,296	116,125		191,421
Transfers-Out	(75,296)				(75,296)
Advances-In				135,000	135,000
Advances-Out				(140,000)	(140,000)
	<u>(99,398)</u>	<u>113,994</u>	<u>116,125</u>	<u>\$167,693</u>	<u>298,414</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	4,951	(17,097)	1	99,335	87,190
Fund Cash Balances, January 1	<u>32,200</u>	<u>69,941</u>	<u>19,966</u>	<u>60,940</u>	<u>183,047</u>
FUND CASH BALANCES, DECEMBER 31	<u><u>\$37,151</u></u>	<u><u>\$52,844</u></u>	<u><u>\$19,967</u></u>	<u><u>\$160,275</u></u>	<u><u>\$270,237</u></u>

The notes to the financial statements are an integral part of this statement.

VILLAGE OF DANVILLE
KNOX COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES
IN FUND CASH BALANCES - ENTERPRISE FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Enterprise Fund</u>
OPERATING CASH RECEIPTS:	
Charges for Services	\$365,538
Miscellaneous	<u>5,136</u>
Total Operating Cash Receipts	<u>370,674</u>
OPERATING CASH DISBURSEMENTS:	
Personal Services	99,586
Contractual Services	72,999
Supplies and Materials	26,977
Capital Outlay	<u>27,546</u>
Total Operating Cash Disbursements	<u>227,108</u>
Operating Income	<u>143,566</u>
Sale of Fixed Assets	9,732
Transfers-Out	(116,125)
Advances-In	140,000
Advances-Out	<u>(135,000)</u>
Total Interfund Transfers and Advances	<u>(101,393)</u>
Net Receipts over/(Under) Disbursements	42,173
Fund Cash Balances, January 1	<u>126,952</u>
FUND CASH BALANCES, DECEMBER 31	<u><u>\$169,125</u></u>

The notes to the financial statements are an integral part of this statement.

VILLAGE OF DANVILLE
KNOX COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Danville, Knox County, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides water and sewer utilities, park operations, and police services. The Village contracts with the Eastern Knox County Joint Fire District to receive fire protection services and emergency medical services.

The Village's management believes these financial statements present all activities for which the Village is financially accountable.

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

The Village maintains an interest bearing checking and savings account.

D. Fund Accounting

The Village uses fund accounting to segregate cash and investments that are restricted as to use. The Village classifies its funds into the following types:

1. General Fund

The General fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

Street Construction, Maintenance, and Repair Fund - This fund receives gasoline tax and motor vehicle tax money for constructing, maintenance and repairing Village streets.

Police Fund - This fund receives general and tangible personal property tax money for the operation of the Village police department.

VILLAGE OF DANVILLE
KNOX COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Fund Accounting (continued)

3. Debt Service Fund

These funds are used to accumulate resources for the payment of bonds and note indebtedness. The Village has the following debt service fund:

OWDA and OPWC Debt Fund - This fund is used to retire the debt associated with the Richard Street Project and the Village sewer system.

4. Capital Projects Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds. The Village had the following significant Capital Project Fund:

Water Well Improvement Fund - This fund was established to record the activity of the OWDA project relating to water well improvements.

5. Enterprise Fund

These funds account for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The Village had the following significant Enterprise Funds:

Water Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Sewer Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the office, department, and division level, and within each the amount appropriated for personal services. The Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

VILLAGE OF DANVILLE
KNOX COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Budgetary Process (continued)

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are cancelled, and need to be reappropriated in the subsequent year.

A summary of 2008 and 2007 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payment for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Village maintains a cash and investments pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 was as follows:

	2008	2007
Demand deposits	\$477,210	\$439,362

Deposits: Deposits are (1) insured by the Federal Depository Insurance Corporation or (2) collateralized by the financial institution's public entity deposit pool.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2008 and 2007 follows:

Fund Type	2008 Budgeted vs. Actual Receipts		
	Budgeted Receipts	Actual Receipts	Variance
General	\$234,124	\$ 260,616	\$26,492
Special Revenue	226,785	225,145	(1,640)
Debt Service	116,125	116,125	
Capital Projects	80,000		(80,000)
Enterprise	338,500	364,591	26,091
Total	\$995,534	\$966,477	(\$29,057)

VILLAGE OF DANVILLE
KNOX COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

3. BUDGETARY ACTIVITY (continued)

<u>Fund Type</u>	<u>2008 Budgeted vs Actual Budgetary Basis Expenditures</u>		
	<u>Appropriation</u>	<u>Budgetary</u>	<u>Variance</u>
	<u>Authority</u>	<u>Expenditures</u>	
General	\$275,101	\$221,443	\$53,658
Special Revenue	243,575	191,417	52,158
Debt Service	121,554	116,124	5,430
Capital Projects	706,929	71,753	635,176
Enterprise	<u>628,023</u>	<u>327,892</u>	<u>300,131</u>
Total	<u>\$1,975,182</u>	<u>\$928,629</u>	<u>\$1,046,553</u>

<u>Fund Type</u>	<u>2007 Budgeted vs. Actual Receipts</u>		
	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
	<u>Receipts</u>	<u>Receipts</u>	
General	\$242,012	\$241,602	(\$410)
Special Revenue	246,876	273,578	26,702
Debt Service	121,215	116,125	(5,090)
Capital Projects	840,285	307,693	(532,592)
Enterprise	<u>377,709</u>	<u>520,406</u>	<u>142,697</u>
Total	<u>\$1,828,097</u>	<u>\$1,459,404</u>	<u>(\$368,693)</u>

<u>Fund Type</u>	<u>2007 Budgeted vs Actual Budgetary Basis Expenditures</u>		
	<u>Appropriation</u>	<u>Budgetary</u>	<u>Variance</u>
	<u>Authority</u>	<u>Expenditures</u>	
General	\$280,129	\$236,571	\$43,558
Special Revenue	295,035	290,675	4,360
Debt Service	120,110	116,124	3,986
Capital Projects	643,982	208,358	435,624
Enterprise	<u>479,023</u>	<u>478,233</u>	<u>790</u>
Total	<u>\$1,818,279</u>	<u>\$1,329,961</u>	<u>\$488,318</u>

Contrary to Ohio law, appropriations exceeded estimated resources in the General (2008), Capital Projects (2008) and Enterprise (2008) fund types and the General Fund type (2007).

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments for first half is due December 31. The second half payment is due the following June 20.

Public Utilities are also taxed on personal and real property located within the Village.

VILLAGE OF DANVILLE
KNOX COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

4. PROPERTY TAX (continued)

Tangible personal property tax is assessed by the property owner, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

5. LOCAL INCOME TAX

The Village levies a municipal income tax of 1 percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required, Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

6. DEBT

Debt outstanding at December 31, 2008 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
OPWC Loan - Richards Street	\$5,369	0.00%
OWDA	596,770	2.20%
Police Cruiser	16,553	5.20%
Total	<u>\$618,692</u>	

The Ohio Public Works Commission (OPWC) street improvement loan is for the extension of a Village street and water lines.

The Ohio Water Development Authority (OWDA) sewer upgrade loan (OWDA) was for improvements mandated by the Environmental Protection Agency (EPA), to be completed for the Village sewer system.

The Police Cruiser Loan was for acquisition of a police cruiser. The loan was obtained in 2007 with the first payment required in 2008.

Amortization of the above debt, including interest, follows:

<u>Year ending</u> <u>December 31</u>	<u>Payment</u>	<u>Principal</u>	<u>Interest</u>
2009	\$120,820	\$107,337	\$13,483
2010	120,820	109,779	11,041
2011	120,820	112,279	8,541
2012	120,053	114,073	5,980
2013	63,133	59,778	3,355
2014-2018	58,385	47,159	11,226
2019-2023	58,385	52,093	6,292
2024-2028	16,791	16,194	597
	<u>\$679,207</u>	<u>\$618,694</u>	<u>\$60,514</u>

VILLAGE OF DANVILLE
KNOX COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

7. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Fund (OP&F). Other full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contributions rates are also prescribed by the Ohio Revised Code. OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. During 2008 and 2007 OPERS members contributed 10% and 9.5% of their gross salaries, respectively. The Village contributed an amount equal to 14% (2008) and 13.75% (2007) of participants' gross salaries. The Village has paid all contributions required through December 31, 2008.

8. RISK MANAGEMENT

The Government is exposed to various risks of property and casualty losses, and injuries to employees.

The Government insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Government belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the member's deductibles.

A. Casualty Coverage

For an occurrence prior to January 1, 2006 PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year.

For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (for claims prior to January 1, 2006) or \$3,000,000 (for claims after January 1, 2006) as noted above.

VILLAGE OF DANVILLE
KNOX COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

8. RISK MANAGEMENT (continued)

B. Property Coverage

Beginning in 2005, APEEP established a risk-sharing program. Under the program, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. This amount was increased to \$300,000 in 2007. For 2007, APEEP reinsures members for specific losses exceeding \$100,000 up to \$300,000 per occurrence, subject to an annual aggregate loss payment. For 2006, APEEP reinsures members for specific losses exceeding \$00,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop-loss is reached by payment of losses between \$100,000 and \$250,000 in 2006 or \$100,000 and \$300,000 in 2007, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

C. Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2007 and 2006.

	2007	2006
Assets	\$37,560,071	\$36,123,194
Liabilities	(17,340,825)	(16,738,904)
Net Assets	\$20,219,246	\$19,384,290

At December 31, 2007 and 2006, respectively, casualty coverage liabilities noted above include approximately \$15.9 million and \$15.0 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$15.0 million and \$14.4 million of unpaid claims to be billed to approximately 443 member governments in the future, as of December 31, 2007 and 2006, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. This payable includes the subsequent year's contribution due if the Government terminates participation, as described in the last paragraph below.

Based on the discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

VILLAGE OF DANVILLE
KNOX COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

8. RISK MANAGEMENT (continued)

C. Financial Position (continued)

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they give written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

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KNOX & KNOX

Accountants and Consultants

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

Village of Danville
Knox County
512 South Market Street
Danville, Ohio 43014

To the Village Council:

We have audited the accompanying financial statements of the Village of Danville, Knox County, Ohio, (the Village) as of and for the years ended December 31, 2008 and 2007, and have issued our report thereon dated November 28, 2009, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Village's internal control over financial reporting as basis for designing our audit procedures in order to express our opinions on the financial statements, but not to opine on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies that might be considered material weaknesses. However, we noted other matters that we reported to the Village in a separate letter dated November 28, 2009.

COMPLIANCE AND OTHER MATTERS

As part of reasonably assuring whether the Village's basic 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 one instance of noncompliance that we must report under *Government Auditing Standards*, and is shown in the accompanying schedule as Finding Number 2008-01.

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

KNOX & KNOX

Orrville, Ohio
November 28, 2009

VILLAGE OF DANVILLE
KNOX COUNTY

SCHEDULE OF FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2008-01

Noncompliance Citation

Ohio Rev. Code Section 5705.39 requires that total appropriations from each fund shall not exceed the total of the estimated resources available for expenditures.

During 2008 and 2007, total appropriations exceeded total estimated resources at year end as follows:

<u>Fund Type</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
General (2008)	\$271,275	\$275,101	(\$3,826)
Capital Projects (2008)	240,275	706,929	(466,654)
Enterprise (2008)	507,625	628,023	(120,398)
General (2007)	274,212	280,129	(5,917)

Client Response: None

VILLAGE OF DANVILLE
KNOX COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

Finding Number	Finding Summary	Fully Corrected	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding Is No Longer Valid; Explain:
2006-01	Ohio Revised Code 5705.39 requires appropriations not exceed estimated resources	No	Repeated as finding number 2008-01



Mary Taylor, CPA
Auditor of State

VILLAGE OF DANVILLE

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 13, 2010