



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**DANVILLE LOCAL SCHOOL DISTRICT
KNOX COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Board of Education
Danville Local School District
Knox County
413 South Market Street
Danville, Ohio 43015

We have audited the accompanying general-purpose financial statements of the Danville Local School District, Knox County, Ohio (the District), as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose 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 made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2002 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO
Auditor of State

December 13, 2002

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Danville Local School District
 Combined Balance Sheet
 All Fund Types and Account Groups
 June 30, 2002

| | Governmental Fund Types | | | | Proprietary Fund Type | Fiduciary Fund Type | Account Groups | | Totals (Memorandum Only) |
|---|-------------------------|--------------------|------------------|---------------------|--------------------------|------------------------|----------------------------|-------------------------------------|--------------------------------|
| | General | Special Revenue | Debt Service | Capital Projects | Enterprise | Agency | General Fixed Assets | General Long-Term Obligations | |
| Assets and Other Debits | | | | | | | | | |
| Assets | | | | | | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$1,055,772 | \$126,376 | \$54,514 | \$1,879,497 | \$62,298 | \$42,549 | \$0 | \$0 | \$3,221,006 |
| Equity in Pooled Cash and Cash Equivalents in Segregate Accounts | 0 | 0 | 0 | 250,323 | 0 | 0 | 0 | 0 | 250,323 |
| Receivables: | | | | | | | | | |
| Taxes | 1,021,926 | 17,650 | 111,722 | 0 | 0 | 0 | 0 | 0 | 1,151,298 |
| Accounts | 26,670 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 26,670 |
| Accrued Interest | 721 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 721 |
| Intergovernmental Receivable | 0 | 40,225 | 0 | 0 | 0 | 0 | 0 | 0 | 40,225 |
| Prepaid Items | 31,803 | 0 | 0 | 0 | 609 | 0 | 0 | 0 | 32,412 |
| Inventory Held for Resale | 0 | 0 | 0 | 0 | 4,679 | 0 | 0 | 0 | 4,679 |
| Materials and Supplies Inventory | 0 | 0 | 0 | 0 | 987 | 0 | 0 | 0 | 987 |
| Fixed Assets (net, where applicable, of accumulated depreciation) | 0 | 0 | 0 | 0 | 29,902 | 0 | 10,559,274 | 0 | 10,589,176 |
| Other Debits | | | | | | | | | |
| Amount Available in Debt Service Fund for Retirement of General Obligation Debt | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 102,380 | 102,380 |
| Amount to be Provided from General Government Resources | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,645,919 | 1,645,919 |
| Total Assets and Other Debits | \$2,136,892 | \$184,251 | \$166,236 | \$2,129,820 | \$98,475 | \$42,549 | \$10,559,274 | \$1,748,299 | \$17,065,796 |

(continued)

Danville Local School District
 Combined Balance Sheet
 All Fund Types and Account Groups(continued)
 June 30, 2002

| | Governmental Fund Types | | | | Proprietary Fund Type | Fiduciary Fund Type | Account Groups | | Totals (Memorandum Only) |
|--|-------------------------|--------------------|------------------|---------------------|--------------------------|------------------------|----------------------------|-------------------------------------|--------------------------------|
| | General | Special Revenue | Debt Service | Capital Projects | Enterprise | Agency | General Fixed Assets | General Long-Term Obligations | |
| <i>Liabilities, Fund Equity and Other Credits</i> | | | | | | | | | |
| <i>Liabilities</i> | | | | | | | | | |
| Accounts Payable | \$0 | \$0 | \$0 | \$26,670 | \$0 | \$0 | \$0 | \$0 | \$26,670 |
| Contracts Payable | 2,186 | 0 | 0 | 498,935 | 0 | 0 | 0 | 0 | 501,121 |
| Retainage Payable | 0 | 0 | 0 | 250,323 | 0 | 0 | 0 | 0 | 250,323 |
| Accrued Wages and Benefits | 357,772 | 17,744 | 0 | 0 | 5,219 | 0 | 0 | 0 | 380,735 |
| Compensated Absences Payable | 23,598 | 0 | 0 | 0 | 1,698 | 0 | 0 | 56,411 | 81,707 |
| Intergovernmental Payable | 76,018 | 865 | 0 | 0 | 2,926 | 0 | 0 | 33,419 | 113,228 |
| Deferred Revenue | 430,042 | 19,792 | 63,856 | 0 | 0 | 0 | 0 | 0 | 513,690 |
| Undistributed Monies | 0 | 0 | 0 | 0 | 0 | 1,939 | 0 | 0 | 1,939 |
| Due to Students | 0 | 0 | 0 | 0 | 0 | 40,610 | 0 | 0 | 40,610 |
| General Obligation Bonds Payable | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,658,469 | 1,658,469 |
| <i>Total Liabilities</i> | 889,616 | 38,401 | 63,856 | 775,928 | 9,843 | 42,549 | 0 | 1,748,299 | 3,568,492 |
| <i>Fund Equity and Other Credits</i> | | | | | | | | | |
| Investment in General Fixed Assets | 0 | 0 | 0 | 0 | 0 | 0 | 10,559,274 | 0 | 10,559,274 |
| Retained Earnings: | | | | | | | | | |
| Unreserved | 0 | 0 | 0 | 0 | 88,632 | 0 | 0 | 0 | 88,632 |
| Fund Balance: | | | | | | | | | |
| Reserved for Encumbrances | 7,456 | 16,192 | 0 | 1,412,853 | 0 | 0 | 0 | 0 | 1,436,501 |
| Reserved for Property Taxes | 322,352 | 7,562 | 47,866 | 0 | 0 | 0 | 0 | 0 | 377,780 |
| Unreserved, Undesignated (Deficit) | 917,468 | 122,096 | 54,514 | (58,961) | 0 | 0 | 0 | 0 | 1,035,117 |
| <i>Total Fund Equity and Other Credits</i> | 1,247,276 | 145,850 | 102,380 | 1,353,892 | 88,632 | 0 | 10,559,274 | 0 | 13,497,304 |
| <i>Total Liabilities, Fund Equity and Other Credits</i> | \$2,136,892 | \$184,251 | \$166,236 | \$2,129,820 | \$98,475 | \$42,549 | \$10,559,274 | \$1,748,299 | \$17,065,796 |

See accompanying notes to the general purpose financial statements

Danville Local School District
 Combined Statement of Revenues, Expenditures
 and Changes in Fund Balances
 All Governmental Fund Types
 For the Fiscal Year Ended June 30, 2002

| | General | Special Revenue | Debt Service | Capital Projects | Totals (Memorandum Only) |
|--|--------------------|--------------------|------------------|---------------------|--------------------------------|
| Revenues | | | | | |
| Property and Other Local Taxes | \$836,092 | \$19,546 | \$117,284 | \$0 | \$972,922 |
| Income Tax | 757,313 | 0 | 0 | 0 | 757,313 |
| Intergovernmental | 2,511,385 | 299,163 | 14,314 | 3,436,314 | 6,261,176 |
| Interest | 54,619 | 723 | 0 | 99,202 | 154,544 |
| Tuition and Fees | 141,127 | 0 | 0 | 0 | 141,127 |
| Extracurricular Activities | 0 | 68,874 | 0 | 0 | 68,874 |
| Contributions and Donations | 13,445 | 4,100 | 0 | 0 | 17,545 |
| Rentals | 424 | 0 | 0 | 0 | 424 |
| Miscellaneous | 33,544 | 29,314 | 0 | 0 | 62,858 |
| Total Revenues | 4,347,949 | 421,720 | 131,598 | 3,535,516 | 8,436,783 |
| Expenditures | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 1,946,579 | 73,725 | 0 | 0 | 2,020,304 |
| Special | 646,986 | 154,616 | 0 | 0 | 801,602 |
| Vocational | 98,219 | 0 | 0 | 0 | 98,219 |
| Support Services: | | | | | |
| Pupils | 114,332 | 6,015 | 0 | 0 | 120,347 |
| Instructional Staff | 248,674 | 42,583 | 0 | 0 | 291,257 |
| Board of Education | 13,299 | 0 | 0 | 0 | 13,299 |
| Administration | 363,473 | 22,390 | 0 | 0 | 385,863 |
| Fiscal | 136,076 | 429 | 2,663 | 0 | 139,168 |
| Operation and Maintenance of Plant | 468,050 | 1,262 | 0 | 0 | 469,312 |
| Pupil Transportation | 232,086 | 0 | 0 | 0 | 232,086 |
| Central | 7,138 | 0 | 0 | 0 | 7,138 |
| Extracurricular Activities | 121,696 | 60,624 | 0 | 0 | 182,320 |
| Capital Outlay | 110,350 | 0 | 0 | 6,321,685 | 6,432,035 |
| Debt Service: | | | | | |
| Principal Retirement | 0 | 0 | 20,000 | 0 | 20,000 |
| Interest and Fiscal Charges | 0 | 0 | 89,245 | 0 | 89,245 |
| Total Expenditures | 4,506,958 | 361,644 | 111,908 | 6,321,685 | 11,302,195 |
| Excess of Revenues Over (Under) Expenditures | (159,009) | 60,076 | 19,690 | (2,786,169) | (2,865,412) |
| Other Financing Sources | | | | | |
| Operating Transfers In | 1,030 | 0 | 0 | 46,989 | 48,019 |
| Operating Transfers Out | (46,789) | (1,230) | 0 | 0 | (48,019) |
| Total Other Financing Sources (Uses) | (45,759) | (1,230) | 0 | 46,989 | 0 |
| Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | (204,768) | 58,846 | 19,690 | (2,739,180) | (2,865,412) |
| Fund Balances Beginning of Year | 1,452,044 | 87,004 | 82,690 | 4,093,072 | 5,714,810 |
| Fund Balances End of Year | \$1,247,276 | \$145,850 | \$102,380 | \$1,353,892 | \$2,849,398 |

See accompanying notes to the general purpose financial statements

Danville Local School District
 Combined Statement of Revenues, Expenditures
 and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual
 All Governmental Fund Types
 For the Fiscal Year Ended June 30, 2002

| | General | | Variance Favorable (Unfavorable) |
|--|-------------------|--------------------|--|
| | Revised Budget | Actual | |
| Revenues | | | |
| Property and Other Local Taxes | \$849,936 | \$849,936 | \$0 |
| Income Tax | 767,945 | 767,945 | 0 |
| Intergovernmental | 2,511,385 | 2,511,385 | 0 |
| Interest | 53,967 | 55,444 | 1,477 |
| Tuition and Fees | 141,057 | 141,127 | 70 |
| Extracurricular Activities | 0 | 0 | 0 |
| Contributions and Donations | 13,445 | 13,445 | 0 |
| Rentals | 424 | 424 | 0 |
| Miscellaneous | 5,948 | 7,024 | 1,076 |
| <i>Total Revenues</i> | <u>4,344,107</u> | <u>4,346,730</u> | <u>2,623</u> |
| Expenditures | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 1,861,458 | 1,840,939 | 20,519 |
| Special | 651,649 | 628,399 | 23,250 |
| Vocational | 102,805 | 97,311 | 5,494 |
| Other | 67,450 | 67,270 | 180 |
| Support Services: | | | |
| Pupils | 113,867 | 113,460 | 407 |
| Instructional Staff | 300,113 | 250,712 | 49,401 |
| Board of Education | 13,980 | 13,297 | 683 |
| Administration | 373,932 | 369,056 | 4,876 |
| Fiscal | 139,712 | 138,817 | 895 |
| Operation and Maintenance of Plant | 480,346 | 470,940 | 9,406 |
| Pupil Transportation | 239,849 | 233,190 | 6,659 |
| Central | 7,500 | 7,138 | 362 |
| Extracurricular Activities | 124,863 | 123,338 | 1,525 |
| Capital Outlay | 119,334 | 116,557 | 2,777 |
| Debt Service: | | | |
| Principal Retirement | 0 | 0 | 0 |
| Interest and Fiscal Charges | 0 | 0 | 0 |
| <i>Total Expenditures</i> | <u>4,596,858</u> | <u>4,470,424</u> | <u>126,434</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>(252,751)</u> | <u>(123,694)</u> | <u>129,057</u> |
| Other Financing Sources (Uses) | | | |
| Operating Transfers In | 1,030 | 1,030 | 0 |
| Operating Transfers Out | (46,789) | (46,789) | 0 |
| <i>Total Other Financing Sources (Uses)</i> | <u>(45,759)</u> | <u>(45,759)</u> | <u>0</u> |
| <i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i> | <u>(298,510)</u> | <u>(169,453)</u> | <u>129,057</u> |
| <i>Fund Balances Beginning of Year</i> | 1,158,095 | 1,158,095 | 0 |
| Prior Year Encumbrances Appropriated | 57,488 | 57,488 | 0 |
| <i>Fund Balances End of Year</i> | <u>\$917,073</u> | <u>\$1,046,130</u> | <u>\$129,057</u> |

| Special Revenue | | | Debt Service | | |
|-----------------|------------------|----------------------------------|-----------------|-----------------|----------------------------------|
| Revised Budget | Actual | Variance Favorable (Unfavorable) | Revised Budget | Actual | Variance Favorable (Unfavorable) |
| \$18,787 | \$18,787 | \$0 | \$116,710 | \$116,710 | \$0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 267,004 | 268,642 | 1,638 | 14,314 | 14,314 | 0 |
| 723 | 723 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 68,874 | 68,874 | 0 | 0 | 0 | 0 |
| 4,100 | 4,100 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 29,257 | 29,314 | 57 | 0 | 0 | 0 |
| <u>388,745</u> | <u>390,440</u> | <u>1,695</u> | <u>131,024</u> | <u>131,024</u> | <u>0</u> |
| 87,459 | 81,799 | 5,660 | 0 | 0 | 0 |
| 171,023 | 154,720 | 16,303 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 7,954 | 6,015 | 1,939 | 0 | 0 | 0 |
| 49,723 | 42,589 | 7,134 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 29,700 | 22,390 | 7,310 | 0 | 0 | 0 |
| 500 | 429 | 71 | 3,000 | 2,663 | 337 |
| 9,363 | 9,363 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 69,664 | 60,624 | 9,040 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 20,000 | 20,000 | 0 |
| 0 | 0 | 0 | 89,245 | 89,245 | 0 |
| <u>425,386</u> | <u>377,929</u> | <u>47,457</u> | <u>112,245</u> | <u>111,908</u> | <u>337</u> |
| <u>(36,641)</u> | <u>12,511</u> | <u>49,152</u> | <u>18,779</u> | <u>19,116</u> | <u>337</u> |
| 0 | 0 | 0 | 0 | 0 | 0 |
| (1,230) | (1,230) | 0 | 0 | 0 | 0 |
| <u>(1,230)</u> | <u>(1,230)</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| (37,871) | 11,281 | 49,152 | 18,779 | 19,116 | 337 |
| 88,315 | 88,315 | 0 | 35,398 | 35,398 | 0 |
| 10,588 | 10,588 | 0 | 0 | 0 | 0 |
| <u>\$61,032</u> | <u>\$110,184</u> | <u>\$49,152</u> | <u>\$54,177</u> | <u>\$54,514</u> | <u>\$337</u> |

(continued)

Danville Local School District
 Combined Statement of Revenues, Expenditures
 and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual
 All Governmental Fund Types (continued)
 For the Fiscal Year Ended June 30, 2002

| | Capital Projects | | Variance Favorable (Unfavorable) |
|--|--------------------|--------------------|--|
| | Revised Budget | Actual | |
| Revenues | | | |
| Property and Other Local Taxes | \$0 | \$0 | \$0 |
| Income Tax | 0 | 0 | 0 |
| Intergovernmental | 3,643,432 | 3,460,421 | (183,011) |
| Interest | 95,941 | 99,202 | 3,261 |
| Tuition and Fees | 0 | 0 | 0 |
| Extracurricular Activities | 0 | 0 | 0 |
| Contributions and Donations | 0 | 0 | 0 |
| Rentals | 0 | 0 | 0 |
| Miscellaneous | 0 | 0 | 0 |
| <i>Total Revenues</i> | <u>3,739,373</u> | <u>3,559,623</u> | <u>(179,750)</u> |
| Expenditures | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 758 | 758 | 0 |
| Special | 0 | 0 | 0 |
| Vocational | 0 | 0 | 0 |
| Other | 0 | 0 | 0 |
| Support Services: | | | |
| Pupils | 238,324 | 238,324 | 0 |
| Instructional Staff | 32,274 | 32,274 | 0 |
| Board of Education | 0 | 0 | 0 |
| Administration | 0 | 0 | 0 |
| Fiscal | 0 | 0 | 0 |
| Operation and Maintenance of Plant | 5,409 | 5,057 | 352 |
| Pupil Transportation | 0 | 0 | 0 |
| Central | 0 | 0 | 0 |
| Extracurricular Activities | 0 | 0 | 0 |
| Capital Outlay | 7,768,992 | 7,637,726 | 131,266 |
| Debt Service: | | | |
| Principal Retirement | 0 | 0 | 0 |
| Interest and Fiscal Charges | 0 | 0 | 0 |
| <i>Total Expenditures</i> | <u>8,045,757</u> | <u>7,914,139</u> | <u>131,618</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>(4,306,384)</u> | <u>(4,354,516)</u> | <u>(48,132)</u> |
| Other Financing Sources (Uses) | | | |
| Operating Transfers In | 46,989 | 46,989 | 0 |
| Operating Transfers Out | 0 | 0 | 0 |
| <i>Total Other Financing Sources (Uses)</i> | <u>46,989</u> | <u>46,989</u> | <u>0</u> |
| <i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i> | <u>(4,259,395)</u> | <u>(4,307,527)</u> | <u>(48,132)</u> |
| <i>Fund Balances Beginning of Year</i> | 3,305,745 | 3,305,745 | 0 |
| Prior Year Encumbrances Appropriated | 962,725 | 962,725 | 0 |
| <i>Fund Balances End of Year</i> | <u>\$9,075</u> | <u>(\$39,057)</u> | <u>(\$48,132)</u> |

See accompanying notes to the general purpose financial statements

| Totals (Memorandum Only) | | |
|--------------------------|--------------------|--|
| Revised Budget | Actual | Variance Favorable (Unfavorable) |
| \$985,433 | \$985,433 | \$0 |
| 767,945 | 767,945 | 0 |
| 6,436,135 | 5,557,686 | (878,449) |
| 150,631 | 155,369 | 4,738 |
| 141,057 | 141,127 | 70 |
| 68,874 | 68,874 | 0 |
| 17,545 | 17,545 | 0 |
| 424 | 424 | 0 |
| 35,205 | 36,338 | 1,133 |
| <u>8,603,249</u> | <u>7,730,741</u> | <u>(872,508)</u> |
| 1,949,675 | 1,923,496 | 26,179 |
| 822,672 | 783,119 | 39,553 |
| 102,805 | 97,311 | 5,494 |
| 67,450 | 67,270 | 180 |
| 360,145 | 357,799 | 2,346 |
| 382,110 | 325,575 | 56,535 |
| 13,980 | 13,297 | 683 |
| 403,632 | 391,446 | 12,186 |
| 143,212 | 141,909 | 1,303 |
| 495,118 | 485,360 | 9,758 |
| 239,849 | 233,190 | 6,659 |
| 7,500 | 7,138 | 362 |
| 194,527 | 183,962 | 10,565 |
| 7,888,326 | 7,754,283 | 134,043 |
| 20,000 | 20,000 | 0 |
| 89,245 | 89,245 | 0 |
| <u>13,180,246</u> | <u>12,874,400</u> | <u>305,846</u> |
| <u>(4,576,997)</u> | <u>(5,143,659)</u> | <u>(566,662)</u> |
| 48,019 | 48,019 | 0 |
| (48,019) | (48,019) | 0 |
| <u>0</u> | <u>0</u> | <u>0</u> |
| (4,576,997) | (5,143,659) | (566,662) |
| 4,587,553 | 4,587,553 | 0 |
| <u>1,030,801</u> | <u>1,030,801</u> | <u>0</u> |
| <u>\$1,041,357</u> | <u>\$474,695</u> | <u>(\$566,662)</u> |

Danville Local School District
 Combined Statement of Revenues,
 Expenses and Changes in Retained Earnings
 Proprietary Fund Type
 For the Fiscal Year Ended June 30, 2002

| | Enterprise |
|--|------------|
| <i>Operating Revenues</i> | |
| Sales | \$113,558 |
| <i>Operating Expenses</i> | |
| Salaries and Wages | 44,082 |
| Fringe Benefits | 16,988 |
| Purchased Services | 1,608 |
| Materials and Supplies | 17,926 |
| Cost of Sales | 85,715 |
| Depreciation | 2,821 |
| <i>Total Operating Expenses</i> | 169,140 |
| <i>Operating Loss</i> | (55,582) |
| <i>Non-Operating Revenues</i> | |
| Donated Commodities | 17,536 |
| Operating Grants | 61,163 |
| Interest | 1,473 |
| <i>Total Non-Operating Revenues</i> | 80,172 |
| <i>Net Income</i> | 24,590 |
| <i>Retained Earnings Beginning of Year</i> | 64,042 |
| <i>Retained Earnings End of Year</i> | \$88,632 |

See accompanying notes to the general purpose financial statements

Danville Local School District
 Combined Statement of Revenues, Expenses
 and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual
 Proprietary Fund Type
 For the Fiscal Year Ended June 30, 2002

| | Enterprise | | |
|---|-------------------|-----------|--|
| | Revised Budget | Actual | Variance Favorable (Unfavorable) |
| <i>Revenues</i> | | | |
| Sales | \$113,538 | \$113,558 | \$20 |
| Operating Grants | 61,163 | 61,163 | 0 |
| Interest | 1,473 | 1,473 | 0 |
| <i>Total Revenues</i> | 176,174 | 176,194 | 20 |
| <i>Expenses</i> | | | |
| Salaries and Wages | 46,007 | 45,623 | 384 |
| Fringe Benefits | 21,164 | 20,872 | 292 |
| Purchased Services | 4,100 | 1,608 | 2,492 |
| Materials and Supplies | 92,650 | 92,970 | (320) |
| Capital Outlay | 24,350 | 11,947 | 12,403 |
| <i>Total Expenses</i> | 188,271 | 173,020 | 15,251 |
| <i>Excess of Revenues Over (Under) Expenses</i> | (12,097) | 3,174 | 15,271 |
| <i>Fund Equity Beginning of Year</i> | 56,656 | 56,656 | 0 |
| <i>Fund Equity End of Year</i> | \$44,559 | \$59,830 | \$15,271 |

See accompanying notes to the general purpose financial statements

Danville Local School District
 Combined Statement of Cash Flows
 Proprietary Fund Type
 For the Fiscal Year Ended June 30, 2002

| | Enterprise |
|---|------------|
| <i>Increase (Decrease) in Cash and Cash Equivalents</i> | |
| Cash Flows from Operating Activities | |
| Cash Received from Customers | \$113,558 |
| Cash Payments for Goods and Services | (92,110) |
| Cash Payments to Employees for Services | (45,623) |
| Cash Payments for Employee Benefits | (20,872) |
| <i>Net Cash Used for Operating Activities</i> | (45,047) |
| Cash Flows from Noncapital Financing Activities | |
| Operating Grants Received | 61,163 |
| Cash Flows from Capital and Related Financing Activities | |
| Payments for Capital Acquisitions | (11,947) |
| Cash Flows from Investing Activities | |
| Interest on Investments | 1,473 |
| <i>Net Increase in Cash and Cash Equivalents</i> | 5,642 |
| <i>Cash and Cash Equivalents Beginning of Year</i> | 56,656 |
| <i>Cash and Cash Equivalents End of Year</i> | \$62,298 |
| <i>Reconciliation of Operating Loss to Net Cash Used for Operating Activities</i> | |
| <i>Operating Loss</i> | (\$55,582) |
| Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities | |
| Depreciation | 2,821 |
| Donated Commodities Used During Year | 14,450 |
| Decrease/(Increase) in Assets: | |
| Inventory Held for Resale | (1,311) |
| Prepaid Items | (91) |
| Increase/(Decrease) in Liabilities: | |
| Accrued Wages and Benefits | 349 |
| Compensated Absences Payable | (1,708) |
| Intergovernmental Payable | (3,975) |
| <i>Total Adjustments</i> | 10,535 |
| <i>Net Cash Used for Operating Activities</i> | (\$45,047) |
| Non-Cash Non Capital Financing Activities: | |
| Federal donated commodities in the amount of \$17,536 were recorded as revenue when received. | |

See accompanying notes to the general purpose financial statements

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 1 - Description of the School District and Reporting Entity

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

The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State and/or federal agencies. This Board of Education controls the School District's three instructional facilities and one administrative building staffed by 27 noncertified and 61 certificated full-time teaching personnel who provide services to 656 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 following entities which perform activities within the School District boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for these entities nor are they fiscally dependent on the School District.

Parent Teacher Organization, Athletic Boosters and Band Boosters The School District is not involved in the budgeting or management, is not responsible for any debt and has no influence over the organizations.

The School District participates in the Tri-Rivers Educational Computer Association, a jointly governed organization. This organization is presented in Note 9 to the general purpose financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of Danville Local 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 proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

A. Basis of Presentation - Fund Accounting

The School District uses funds and account groups to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

Governmental Fund Types Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the School District's governmental fund types:

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 general fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds Special revenue funds are used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Fund Type Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The following is the School District's proprietary fund type:

Enterprise Funds Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

Fiduciary Fund Types Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. There are two types of fiduciary funds, trust and agency. The School District has no trust funds. The School District's agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term obligations related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group This account group is established to account for all fixed assets of the School District, other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group This account group is established to account for all long-term obligations of the School District except those accounted for in the proprietary funds.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental and agency funds. The full accrual basis of accounting is followed for the proprietary funds.

Revenue Recognition 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 year-end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the fiscal year in which the exchange or which the tax is imposed takes place and revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 6) Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the 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 non-exchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2002, but which were levied to finance fiscal year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On the governmental fund financial statement, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expense/Expenditure 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.

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the object level within each function. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Advances in and out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

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

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

Estimated Resources Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements as the final budgeted amounts reflect the amounts in the final amended certificate in effect when the final appropriations were passed.

Appropriations Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions at the legal level of control must be approved by the Board of Education. The Treasurer maintains budgetary information at the object level and has the authority to allocate appropriations at the function and object level without resolution by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations, and do not exceed the certificate of estimated resources that was in effect at the time the final appropriation were passed. Formal budgetary integration is employed as a management control device during the year for all funds, other than agency funds, consistent with statutory provisions.

Encumbrances As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Expenditures plus encumbrances may not legally exceed appropriations. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

Lapsing of Appropriations At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

D. Cash and Cash Equivalents

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

During fiscal year 2002, investments were limited to certificates of deposits and STAROhio.

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

Nonparticipating investment contracts, including nonnegotiable certificates of deposit, are reported at cost. The School District has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 2002. 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, 2002.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2002 amounted to \$54,619, which includes \$3,480 assigned from other School District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, 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 considered to be cash equivalents.

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

F. Inventory

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

G. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. The School District had no restricted assets at June 30, 2002.

H. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the respective fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five hundred dollars. The School District does not possess any infrastructure.

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

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 capitalized. Interest incurred during the construction of general fixed assets is also not capitalized.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the proprietary fund types is computed using the straight-line method over an estimated useful life of ten years. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

I. Interfund Assets and Liabilities

Short-term interfund loans are classified as "interfund receivables/payables." Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "due from other funds" or "due to other funds" on the balance sheet.

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributed to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for 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 payment method. An accrual for 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.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

K. Contributed Capital

Contributed capital represents resources from other funds, other governments and private sources provided to the enterprise funds that are not subject to repayment. These assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year end. The School District has no contributed capital.

L. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current expendable available financial resources.

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

In general, amounts paid after sixty days are considered not to have been paid with current available financial resources. Capital leases are recognized as a liability of the general long-term obligations account group until due. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

Under Ohio Law, a debt retirement fund may be created and used for the payment of loans. Generally accepted accounting principles requires the reporting of the liability in the funds that received the proceeds. To comply with GAAP reporting requirements, the School District's debt service fund has been split among the appropriate funds. Debt service fund resources used to pay both principal and interest have also been allocated accordingly.

M. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

N. Fund Balance Reserves

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

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

O. Estimates

The preparation of the 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. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 3 - Fund Deficits

The following funds had deficit fund balances at June 30, 2002:

| | <u>Deficit Fund Balance</u> |
|------------------------------|---------------------------------|
| Special Revenue Funds: | |
| Title VI-B | \$191 |
| Title I | 1,607 |
| Miscellaneous Federal Grants | 146 |

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

Note 4 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations and changes in fund balance/retained earnings 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 Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) Actual, All Governmental Fund Types and the Combined Statement of Revenues, Expenses and Changes in Fund Equity – Budget (Non-GAAP Basis) and Actual, Proprietary Fund Type are 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 that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosures in the proprietary fund types (GAAP basis).
4. For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
5. Principal payments on loans are on the operating statements (budget basis) rather than on the balance sheet (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements by fund type:

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types

| | General | Special Revenue | Debt Service | Capital Projects |
|---|-------------|--------------------|-----------------|---------------------|
| GAAP Basis | (\$204,768) | \$58,846 | \$19,690 | (\$2,739,180) |
| Net Adjustment for Revenue Accruals | (1,219) | (31,280) | (574) | 24,107 |
| Advances In | 7,605 | 7,605 | 0 | 0 |
| Net Adjustment for Expenditure Accruals | 46,176 | (93) | 0 | 319,333 |
| Adjustment for Encumbrances | (9,642) | (16,192) | 0 | (1,911,787) |
| Advances Out | (7,605) | (7,605) | 0 | 0 |
| Budget Basis | (\$169,453) | \$11,281 | \$19,116 | (\$4,307,527) |

Net Income/Excess of Revenues
Over (Under) Expenses
Proprietary Fund Type

| | |
|---|----------|
| GAAP Basis | \$24,590 |
| Net Adjustment for Revenue Accruals | (17,536) |
| Net Adjustment for Expenditure Accruals | 10,182 |
| Capital Outlay | (14,415) |
| Encumbrances | (2,468) |
| Depreciation Expense | 2,821 |
| Budget Basis | \$3,174 |

Note 5 - 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.

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

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;
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."

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

Deposits At fiscal year-end, the carrying amount of the School District's deposits was \$944,452 and the bank balance was \$1,165,414. Of the bank balance:

1. \$100,000 of the bank balance was covered by depository insurance; and
2. \$1,065,414 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 \$2,526,877 at June 30, 2002.

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 9 | \$3,471,329 | \$0 |
| Investment in STAROhio | (2,526,877) | 2,526,877 |
| GASB Statement 3 | \$944,452 | \$2,526,877 |

Note 6 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar year 2002 for real and public utility property taxes represents collections of calendar year 2001 taxes. Property tax payments received during calendar year 2002 for tangible personal property (other than public utility property) are for calendar year 2002 taxes.

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

2002 real property taxes are levied after April 1, 2002, on the assessed value as of January 1, 2002, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2002 public utility property taxes became a lien December 31, 2001, are levied after April 1, 2002 and are collected in 2002 with real property taxes.

2002 tangible personal property taxes are levied after April 1, 2001, on the value as of December 31, 2001. Collections are made in 2002. Tangible personal property assessments are twenty-five percent of true value.

The assessed values upon which the fiscal year 2002 taxes were collected are:

| | 2001 Second- Half Collections | | 2002 First- Half Collections | |
|---|----------------------------------|----------------|---------------------------------|----------------|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential and Other Real Estate | \$ 36,347,610 | 89.86% | \$ 37,574,770 | 91.63% |
| Public Utility Personal | 2,822,790 | 6.98% | 2,123,060 | 5.18% |
| Tangible Personal Property | 1,279,770 | 3.16% | 1,309,906 | 3.19% |
| Total Assessed Values | <u>\$ 40,450,170</u> | <u>100.00%</u> | <u>\$ 41,007,736</u> | <u>100.00%</u> |
| Tax rate per \$1,000 of Assessed Valuation | \$44.60 | | \$44.60 | |

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.

Tangible personal property taxes paid 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 and are intended to finance the fiscal year in which they are paid.

The School District receives property taxes from Knox and Holmes Counties. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2002, are available to finance fiscal year 2002 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 2002 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 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue.

The amount available as an advance at June 30, 2002 was \$377,780. \$322,352 was available to the general fund, \$47,866 to the bond retirement fund and \$7,562 to the classroom facilities fund.

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 7 - Income Tax

The School District levies a voted tax of one half percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1990, and is a continuing tax. On January 1, 1999, an additional one and one-half percent tax collection began. This tax levy is for five years. 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 8 - Receivables

Receivables at June 30, 2002, consisted of income and property taxes, accounts 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 fiscal year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

| <u>Intergovernmental Receivables</u> | <u>Amounts</u> |
|--------------------------------------|------------------------|
| Special Revenue Funds: | |
| Career Development | \$521 |
| Vocational Equipment | 764 |
| Ohio Reads | 37,500 |
| Title VI-B | <u>1,440</u> |
| Total Intergovernmental Receivables | <u><u>\$40,225</u></u> |

Note 9 - Jointly Governed Organization

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 \$46,688 to TRECA during fiscal year 2002. 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.

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 10 - Fixed Assets

A summary of the enterprise funds' fixed assets at June 30, 2002, follows:

| | |
|--------------------------------|------------------------|
| Furniture and Equipment | \$72,011 |
| Less: accumulated depreciation | <u>(42,109)</u> |
| Net Fixed Assets | <u><u>\$29,902</u></u> |

A summary of the changes in general fixed assets during fiscal year 2002 follows:

| | Balance 6/30/01 | Additions | Deletions | Balance 6/30/02 |
|----------------------------|---------------------------|---------------------------|------------------------|----------------------------|
| Land and Improvements | \$93,798 | \$12,211 | \$0 | \$106,009 |
| Buildings and Improvements | 1,707,257 | 48,146 | 40,107 | 1,715,296 |
| Furniture and Equipment | 907,141 | 148,893 | 5,798 | 1,050,236 |
| Vehicles | 490,021 | 58,561 | 0 | 548,582 |
| Construction in Progress | <u>511,357</u> | <u>6,627,794</u> | <u>0</u> | <u>7,139,151</u> |
| Total General Fixed Assets | <u><u>\$3,709,574</u></u> | <u><u>\$6,895,605</u></u> | <u><u>\$45,905</u></u> | <u><u>\$10,559,274</u></u> |

Note 11 - 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 2002, 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.

Nationwide Insurance Company holds the coverage for the boiler and machinery with an \$8,587,500 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 12 - Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension system. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 100 E. Broad Street, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 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 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2001, 4.2 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$27,410, \$19,197, and \$24,093, respectively; 41.58 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$16,013 representing the unpaid contribution for fiscal year 2002 is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides basic retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

For the fiscal year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$196,485, \$182,381, and \$106,026, respectively; 82.48 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$34,428 representing the unpaid contribution for fiscal year 2002 is recorded as a liability within the respective funds.

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, 2002, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid.

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 13 - 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 on a pay-as-you-go basis.

All STRS benefit recipients and sponsored 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. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$93,072 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 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. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

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, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent from fiscal year 2001. 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 2002, the minimum pay was established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$60,003.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 14 - 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 and accidental death and dismemberment insurance to most employees through Metropolitan Educational Council Health Benefits Program in the amount of \$30,000, for all regular certified and noncertified employees.

Note 15 - Long-Term Obligations

Changes in long-term obligations of the School District during fiscal year 2002, were as follows

| | Principal Outstanding 06/30/01 | Additions | Deductions | Principal Outstanding 06/30/02 |
|---|--------------------------------------|-----------------|-----------------|--------------------------------------|
| Classroom Facilities Improvement Bonds | | | | |
| Series 2000 4.85 - 5.75% | \$1,656,000 | \$0 | \$20,000 | \$1,636,000 |
| Accretion of Capital Appreciation Bonds | 12,145 | 10,324 | 0 | 22,469 |
| Compensated Absences | 37,428 | 18,983 | 0 | 56,411 |
| Intergovernmental Payable | 20,152 | 33,419 | 20,152 | 33,419 |
| Total General Long-Term Obligations | <u>\$1,725,725</u> | <u>\$62,726</u> | <u>\$40,152</u> | <u>\$1,748,299</u> |

The bonds will be retired out of the debt service fund. The 2000 general obligation bonds include capital appreciation bonds that will mature in fiscal years 2012, 2013, 2014 and 2015. This year the addition of \$10,324 on these bonds represents the accretion of discounted interest for the fiscal year 2002.

Compensated absences will be paid from the fund from which the employee is paid. The intergovernmental payable represents contractually required pension contributions paid outside the available period and will be paid from the fund from which the employee is paid.

The School District's overall legal debt margin was \$2,157,076 with an unvoted debt margin of \$41,008 at June 30, 2002

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

Principal and interest requirements to retire the classroom facilities improvement bonds outstanding at June 30, 2002 are as follows:

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|--------------------------------|--------------------|--------------------|--------------------|
| 2003 | \$25,000 | \$88,147 | \$113,147 |
| 2004 | 30,000 | 86,793 | 116,793 |
| 2005 | 35,000 | 85,175 | 120,175 |
| 2006 | 40,000 | 83,300 | 123,300 |
| 2007 | 45,000 | 81,164 | 126,164 |
| 2008-2012 | 248,260 | 427,177 | 675,437 |
| 2013-2017 | 222,740 | 545,873 | 768,613 |
| 2018-2022 | 655,000 | 196,794 | 851,794 |
| 2023-2024 | 335,000 | 19,407 | 354,407 |
| Total | <u>\$1,636,000</u> | <u>\$1,613,830</u> | <u>\$3,249,830</u> |

Note 16 - Segment Information for Enterprise Funds

The School District maintains two enterprise funds to account for the operations of food service and uniform school supplies. The table below reflects in a summarized format the more significant financial data relating to the enterprise funds of the School District as of and for the fiscal year ended June 30, 2002.

| | Food Service | Uniform School Supplies | Total Enterprise Funds |
|-----------------------------|-----------------|-------------------------------|------------------------------|
| Operating Revenues | \$107,258 | \$6,300 | \$113,558 |
| Depreciation | 2,821 | 0 | 2,821 |
| Operating Loss | (54,792) | (790) | (55,582) |
| Donated Commodities | 17,536 | 0 | 17,536 |
| Operating Grants | 61,163 | 0 | 61,163 |
| Interest | 1,473 | 0 | 1,473 |
| Net Income (Loss) | 25,380 | (790) | 24,590 |
| Fixed Assets Additions | 11,947 | 0 | 11,947 |
| Net Working Capital | 58,730 | 3,266 | 61,996 |
| Total Assets | 95,209 | 3,266 | 98,475 |
| Long-Term Compensated | | | |
| Absences Payable | 1,698 | 0 | 1,698 |
| Total Equity | 85,366 | 3,266 | 88,632 |
| Encumbrances, June 30, 2002 | 2,468 | 0 | 2,468 |

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 17 - 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, 2002.

B. Litigation

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

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, capital acquisition and budget stabilization. The budget stabilization set-aside is no longer required due to legislative revisions of the statute. Disclosure of this information is required by State statute.

| | Textbooks/ Instructional Materials Reserve | Capital Improvements Reserve | Budget Stabilization Reserve |
|---|---|------------------------------------|------------------------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| Set-Aside Reserved Balance as of June 30, 2001 | \$0 | \$0 | \$20,182 |
| Current Year Set-Aside | 79,128 | 79,128 | 0 |
| Reduction Authorized by Legislative Revisions | 0 | 0 | (20,182) |
| Qualifying Disbursements | <u>(79,128)</u> | <u>(79,128)</u> | <u>0</u> |
| Set-Aside Balance Carried Forward to Future Fiscal Years | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| Set-Aside Reserved Balance as of June 30, 2002 | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |

The School District had qualifying disbursements and offsets during the fiscal year that reduced the textbook and capital improvement set-aside amounts to zero. The total reserve balance for the two set-asides at the end of the fiscal year was zero.

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 19 – Contractual Commitments

At June 30, 2002, the following contractual commitments for the classroom facilities construction have been entered into. These contractual commitments will complete the construction.

| <u>Project Contractors</u> | <u>Contract Description</u> | <u>Amount of Remaining Contract</u> |
|-------------------------------|-----------------------------|---|
| Cement Products, Incorporated | Brick Work | \$2,214 |
| Lepi Enterprises | Asbestos Abatement | 55,727 |
| Adena Corporation | General Contractor | 685,270 |
| Universal Refrigeration | Refrigeration | 109,674 |
| Shelby Process | Plumbing | 20,576 |
| SS Sprinkler | Sprinkler Systems | 10,710 |
| Kahl's Electric | Electrical | <u>181,721</u> |
| Total | | <u><u>\$1,065,892</u></u> |

Note 20 – State School Funding Decision

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- ▶ A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- ▶ Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November, 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

The Educational Service Center is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

Danville Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 21 – Subsequent Events

State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school-funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding 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 on its future State funding and on its financial operations.



**STATE OF OHIO
OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Board of Education
Danville Local School District
Knox County
413 South Market Street
Danville, Ohio 43014

We have audited the general-purpose financial statements of the Danville Local School District, Knox County, Ohio (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated December 13, 2002. 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.

Compliance

As part of obtaining reasonable assurance about whether the District's general-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the general-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Danville Local School District
Knox County
Report of Independent Accountants on Compliance and on Internal
Control Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of the audit committee, management, and the Board of Education, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large loop at the end of the last name.

JIM PETRO
Auditor of State

December 13, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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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
JANUARY 7, 2003**