



**Auditor of State
Betty Montgomery**

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT
DARKE COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Combined Statement of Cash Receipts, Disbursements and Changes in Fund Balances – All Governmental Fund Types - For the Fiscal Year Ended June 30, 2003.....	3
Combined Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Proprietary Fund Types and Similar Fiduciary Funds - For the Fiscal Year Ended June 30, 2003.....	4
Combined Statement of Receipts - Budget and Actual For the Fiscal Year Ended June 30, 2003.....	5
Combined Statement of Disbursements and Encumbrances Compared with Expenditure Authority - For the Fiscal Year Ended June 30, 2003.....	6
Combined Statement of Cash Receipts, Disbursements and Changes in Fund Balances – All Governmental Fund Types - For the Fiscal Year Ended June 30, 2002.....	9
Combined Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Proprietary Fund Types and Similar Fiduciary Funds - For the Fiscal Year Ended June 30, 2002.....	10
Combined Statement of Receipts - Budget and Actual For the Fiscal Year Ended June 30, 2002.....	11
Combined Statement of Disbursements and Encumbrances Compared with Expenditure Authority - For the Fiscal Year Ended June 30, 2002.....	12
Notes to the Financial Statements	15
Schedule of Federal Awards Expenditures - For the Year Ended June 30, 2003.....	29
Notes to the Schedule of Federal Awards Expenditures.....	30
Independent Accountants' Report on Compliance and On Internal Control Required by <i>Government Auditing Standards</i>	31
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control over Compliance in Accordance with OMB Circular A-133.....	33
Schedule of Findings.....	35
Schedule of Prior Audit Findings	37

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**Auditor of State
Betty Montgomery**

REPORT OF INDEPENDENT ACCOUNTANTS

Versailles Exempted Village School District
Darke County
P.O. Box 313
4 Virginia Street
Versailles, Ohio 45380

To Members of the Board:

We have audited the accompanying financial statements of the Versailles Exempted Village School District, Darke County, (the District), as of and for the years ended June 30, 2003 and 2002. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Ohio Administrative Code Section 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 1, the accompanying financial statements and notes have been prepared on a basis of accounting in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash, investments, and combined fund cash balances of the District as of June 30, 2003 and 2002, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances for the years then ended on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 8, 2003, 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.

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The accompanying federal awards expenditures schedule is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Education and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

December 8, 2003

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Governmental Fund Types				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Revenues:					
Taxes	\$2,906,819				\$2,906,819
Intergovernmental	5,508,653	351,297		1,186	5,861,136
Interest	82,674				82,674
Extracurricular Activities		190,361			190,361
Classroom Materials & Fees	18,871				18,871
Miscellaneous	10,192	17,635		12,375	40,202
Total Revenues	8,527,209	559,293		13,561	9,100,063
Expenditures:					
Current:					
Instruction:					
Regular	4,104,902	112,964		44,416	4,262,282
Special	589,575	88,110			677,685
Vocational	498,041				498,041
Support Services:					
Pupils	311,836	146,595			458,431
Instruction	397,719	16,655			414,374
Board of Education	21,130				21,130
Administration	826,951	14,000			840,951
Fiscal	227,828				227,828
Operation and Maintenance	466,296			294,339	760,635
Transportation	308,039				308,039
Central Services	5,682	497			6,179
Extracurricular Activities	239,670	178,112			417,782
Capital Outlay	22,500			13,861	36,361
Total Expenditures	8,020,169	556,933		352,616	8,929,718
Excess (Deficiency) of Revenues Over (Under) Expenditures	507,040	2,360		(339,055)	170,345
Other Financing Sources (Uses):					
Proceeds from Sale of Fixed Assets	1,360				1,360
Refund of Prior Year Expenditures	33,198				33,198
Operating Transfers In				795,000	795,000
Operating Transfers Out	(795,500)				(795,500)
Advances In	1,186				1,186
Advances Out				(1,186)	(1,186)
Total Other Financing Sources (Uses)	(759,756)			793,814	34,058
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(252,716)	2,360		454,759	204,403
Fund Balances at Beginning of Year	3,426,929	130,409	2,755	644,213	4,204,306
Fund Balances at End of Year	<u>\$3,174,213</u>	<u>\$132,769</u>	<u>\$2,755</u>	<u>\$1,098,972</u>	<u>\$4,408,709</u>

The accompanying notes are an integral part of the financial statements.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS,
DISBURSEMENTS AND CHANGES IN FUND BALANCES
PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>Proprietary Fund Type</u>		<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Agency</u>	
Operating Revenues:				
Food Services	\$290,266			\$290,266
Extracurricular Activities			145,887	145,887
Classroom Materials & Fees	39,916			39,916
Self Insurance Premiums		611,319		611,319
Miscellaneous	37	1,921	6,975	8,933
Total Operating Revenue	<u>330,219</u>	<u>613,240</u>	<u>152,862</u>	<u>1,096,321</u>
Operating Expenses:				
Salaries	157,274			\$157,274
Fringe Benefits	52,023			52,023
Purchased Services	6,232	135,043	26,255	167,530
Materials and Supplies	174,779		99,070	273,849
Capital Outlay	1,039		1,104	2,143
Claims		782,000		782,000
Other Objects	674	1,925	17,832	20,431
Total Operating Expenses	<u>392,021</u>	<u>918,968</u>	<u>144,261</u>	<u>1,455,250</u>
Operating Income (Loss)	<u>(61,802)</u>	<u>(305,728)</u>	<u>8,601</u>	<u>(358,929)</u>
Non-Operating Revenues (Expenses):				
Interest		19,448		19,448
Federal and State Subsidies	50,973			50,973
Total Non-Operating Revenues and (Expenses)	<u>50,973</u>	<u>19,448</u>		<u>70,421</u>
Net Income (Loss)	<u>(10,829)</u>	<u>(286,280)</u>	<u>8,601</u>	<u>(288,508)</u>
Other Financing Sources (Uses):				
Operating Transfers In			500	500
Excess of Revenues Over (Under) Expenditures	(10,829)	(286,280)	9,101	(288,008)
Fund Balance at Beginning of Year	<u>106,737</u>	<u>979,339</u>	<u>70,632</u>	<u>1,156,708</u>
Fund Balance at End of Year	<u>\$95,908</u>	<u>\$693,059</u>	<u>\$79,733</u>	<u>\$868,700</u>

The accompanying notes are an integral part of the financial statements.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF RECEIPTS-BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Fund Types/Fund	Budget	Actual	Variance Favorable/ (Unfavorable)
Governmental:			
General Fund	\$8,484,250	\$8,562,953	\$78,703
Special Revenue Funds	559,508	559,293	(215)
Capital Project Funds	808,561	808,561	
Proprietary:			
Enterprise Funds	381,237	381,192	(45)
Internal Service Funds	630,840	632,688	1,848
Total (Memorandum Only)	<u>\$10,864,396</u>	<u>\$10,944,687</u>	<u>\$80,291</u>

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

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Fund Types/Fund	Prior Year Carryover Appropriations	2003 Appropriations	Total
Governmental:			
General Fund	\$329,412	\$9,637,498	\$9,966,910
Special Revenue Funds	41,255	609,697	650,952
Capital Project Funds	81,634	357,186	438,820
Proprietary:			
Enterprise Funds	3,762	452,650	456,412
Internal Service Funds		1,047,900	1,047,900
Total (Memorandum Only)	<u>\$456,063</u>	<u>\$12,104,931</u>	<u>\$12,560,994</u>

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

<u>Actual 2003 Disbursements</u>	<u>Encumbrances Outstanding At 6/30/03</u>	<u>Total</u>	<u>Variance Favorable/ (Unfavorable)</u>
\$8,815,669	\$276,568	\$9,092,237	\$874,673
556,933	41,916	598,849	52,103
353,802	48,370	402,172	36,648
392,021	30,207	422,228	34,184
<u>918,968</u>	<u></u>	<u>918,968</u>	<u>128,932</u>
<u><u>\$11,037,393</u></u>	<u><u>\$397,061</u></u>	<u><u>\$11,434,454</u></u>	<u><u>\$1,126,540</u></u>

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**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	Governmental Fund Types				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Revenues:					
Taxes	\$2,914,615				\$2,914,615
Tuition	18,636				18,636
Intergovernmental	5,208,429	259,544		45,899	5,513,872
Interest	143,529	368			143,897
Extracurricular Activities		186,793			186,793
Classroom Materials & Fees	23,738				23,738
Miscellaneous	18,071	11,123			29,194
Total Revenues	<u>8,327,018</u>	<u>457,828</u>		<u>45,899</u>	<u>8,830,745</u>
Expenditures:					
Current:					
Instruction:					
Regular	3,764,343	76,802		27,937	3,869,082
Special	507,927	72,615			580,542
Vocational	487,071			1,439	488,510
Support Services:					
Pupils	305,993	105,543			411,536
Instruction	380,941	17,003			397,944
Board of Education	18,228				18,228
Administration	794,111				794,111
Fiscal	230,163				230,163
Operation and Maintenance	460,239			87,619	547,858
Transportation	377,040				377,040
Central Services	7,545	7,606			15,151
Extracurricular Activities	225,450	147,598			373,048
Capital Outlay	22,500				22,500
Total Expenditures	<u>7,581,551</u>	<u>427,167</u>		<u>116,995</u>	<u>8,125,713</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>745,467</u>	<u>30,661</u>		<u>(71,096)</u>	<u>705,032</u>
Other Financing Sources (Uses):					
Proceeds from Sale of Fixed Assets	350				350
Refund of Prior Year Expenditures	7,493				7,493
Operating Transfers In				560,000	560,000
Operating Transfers Out	(560,000)				(560,000)
Advances In	6,439				6,439
Advances Out		(5,000)		(1,439)	(6,439)
Total Other Financing Sources (Uses)	<u>(545,718)</u>	<u>(5,000)</u>		<u>558,561</u>	<u>7,843</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	199,749	25,661		487,465	712,875
Fund Balances (Deficits) at Beginning of Year	<u>3,227,180</u>	<u>104,748</u>	<u>2,755</u>	<u>156,748</u>	<u>3,491,431</u>
Fund Balances (Deficits) at End of Year	<u>\$3,426,929</u>	<u>\$130,409</u>	<u>\$2,755</u>	<u>\$644,213</u>	<u>\$4,204,306</u>

The accompanying notes are an integral part of the financial statements.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS,
DISBURSEMENTS AND CHANGES IN FUND BALANCES
PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Proprietary Fund Type</u>		<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Agency</u>	
Operating Revenues:				
Food Services	\$296,428			\$296,428
Extracurricular Activities			143,887	143,887
Classroom Materials & Fees	29,905			29,905
Self Insurance Premiums		505,163		505,163
Miscellaneous	253	1,546	3,875	5,674
Total Operating Revenue	<u>326,586</u>	<u>506,709</u>	<u>147,762</u>	<u>981,057</u>
Operating Expenses:				
Salaries	152,707			\$152,707
Fringe Benefits	50,059			50,059
Purchased Services	3,887	140,956	21,464	166,307
Materials and Supplies	185,992		102,039	288,031
Capital Outlay	4,411		2,777	7,188
Claims		529,035		529,035
Other Objects	759	1,209	19,148	21,116
Total Operating Expenses	<u>397,815</u>	<u>671,200</u>	<u>145,428</u>	<u>1,214,443</u>
Operating Income (Loss)	<u>(71,229)</u>	<u>(164,491)</u>	<u>2,334</u>	<u>(233,386)</u>
Non-Operating Revenues (Expenses):				
Interest	2,197	40,501	1,387	44,085
Federal and State Subsidies	50,838			50,838
Total Non-Operating Revenues and (Expenses)	<u>53,035</u>	<u>40,501</u>	<u>1,387</u>	<u>94,923</u>
Net Income (Loss)	(18,194)	(123,990)	3,721	(138,463)
Fund Balance at Beginning of Year	<u>124,931</u>	<u>1,103,329</u>	<u>66,911</u>	<u>1,295,171</u>
Fund Balance at End of Year	<u>\$106,737</u>	<u>\$979,339</u>	<u>\$70,632</u>	<u>\$1,156,708</u>

The accompanying notes are an integral part of the financial statements.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF RECEIPTS-BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Fund Types/Fund	Budget	Actual	Variance Favorable/ (Unfavorable)
Governmental:			
General Fund	\$8,227,540	\$8,341,300	\$113,760
Special Revenue Funds	449,257	457,828	8,571
Capital Project Funds	605,899	605,899	
Proprietary:			
Enterprise Funds	379,156	379,621	465
Internal Service Funds	543,861	547,210	3,349
Total (Memorandum Only)	<u>\$10,205,713</u>	<u>\$10,331,858</u>	<u>\$126,145</u>

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

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Fund Types/Fund	Prior Year Carryover Appropriations	2002 Appropriations	Total
Governmental:			
General Fund	\$207,653	\$8,946,188	\$9,153,841
Special Revenue Funds	19,225	490,146	509,371
Capital Project Funds	72,051	189,804	261,855
Proprietary:			
Enterprise Funds	3,730	440,423	444,153
Internal Service Funds		777,700	777,700
Total (Memorandum Only)	<u>\$302,659</u>	<u>\$10,844,261</u>	<u>\$11,146,920</u>

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

<u>Actual 2002 Disbursements</u>	<u>Encumbrances Outstanding At 6/30/02</u>	<u>Total</u>	<u>Variance Favorable/ (Unfavorable)</u>
\$8,141,551	\$329,412	\$8,470,963	\$682,878
432,167	41,255	473,422	35,949
118,434	81,634	200,068	61,787
397,815	3,762	401,577	42,576
<u>671,200</u>	<u></u>	<u>671,200</u>	<u>106,500</u>
<u><u>\$9,761,167</u></u>	<u><u>\$456,063</u></u>	<u><u>\$10,217,230</u></u>	<u><u>\$929,690</u></u>

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**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Versailles Exempted Village School District (the "District") is an exempted village district as defined by Ohio Rev. Code Section 3311.04. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by state statute and/or federal guidelines.

The District was established through the consolidation of existing land areas and school districts. The District serves an area of approximately 80 square miles. It is located in Darke County, and includes all of the Village of Versailles, North Star, Yorkshire and portions of surrounding townships. It is staffed by 55 non-certificated employees, 96 certificated employees who provide services to 1430 students and other community members. The District currently operates (3) instructional buildings, (1) administrative building, and leases (1) building from St. Denis Catholic Church.

Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District does not have any component units.

The District is associated with two organizations which are defined as jointly governed organizations, two insurance purchasing pools, and one related organization. These organizations include the Metropolitan Dayton Educational Cooperative Association (for transmission of reports), the Southwestern Ohio Educational Purchasing Cooperative, the Southwestern Ohio Educational Purchasing Cooperative and Worker's Compensation Group Rating Program, and Worch Memorial Library. These organizations are discussed in Notes 9, 10, and 11 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles, the District chooses to prepare its financial statements on the basis of accounting formerly prescribed or permitted for school districts by the Auditor of State. This comprehensive basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting

The District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

Governmental Fund Types

General Fund

The general fund is the general operating fund of the District. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

Special Revenue Funds

The special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to disbursements for specified purposes.

Debt Service Funds

The debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. According to governmental accounting principles, the debt service fund accounts for the payment of long-term debt for governmental funds only. Under Ohio law, the debt service fund might also be used to account for the payment of the long-term debt of proprietary funds and the short-term debt of both governmental and proprietary funds. For purposes of this report, these funds have been classified into the proper groups, if practicable.

Capital Projects Funds

The 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 or trust funds).

Proprietary Fund Types

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

Enterprise Funds

The enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has 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.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Internal Service Funds

The internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis.

Fiduciary Fund Type

Fiduciary Funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include expendable trust, non-expendable trust, and agency funds.

C. Budgetary Process

1. Budget

A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year, for the period July 1 to June 30 of the following fiscal year.

2. Estimated Resources

The County Budget Commission certifies its actions to the District by March 1. As part of this certification, the District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1 this certificate is amended to include any unencumbered balances from the preceding fiscal year. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include July 1, 2001 and 2002 unencumbered fund balances. However, those fund balances are available for appropriations.

3. Appropriations

A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for the period July 1 to June 30. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

4. Encumbrances

The District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Investments

To improve cash management, all cash received by the District Treasurer is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through District accounting records.

Investments are stated at cost which approximates market value. Investment earnings are allocated as authorized by State statute based upon District policy.

E. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the District.

F. Property, Plant and Equipment

Fixed assets acquired or constructed for general governmental service are recorded as expenditures. Depreciation is not recorded for these fixed assets.

G. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

3. DEPOSITS AND INVESTMENTS

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

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

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

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

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, 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 moneys deposited with the institution.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

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

1. United States treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes debentures or any other obligations or security 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; and
6. The State Treasurer's investment pool (STAR Ohio)
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.
8. Under certain 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 obligation, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District and must be purchased with the expectation that it will be held to maturity. 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.

As of June 30, 2003 and 2002, the District had \$450 in undeposited cash on hand which is included in the fund balance.

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

Deposits: At June 30, 2003, the carrying amount of the District's deposits was \$2,831,524 and the bank balance was \$2,951,802. Of the bank balance, \$100,000 was covered by federal depository insurance and \$2,851,802 was uninsured and uncollateralized. At June 30, 2002, the carrying amount of the District's deposits was \$2,899,956 and the bank balance was \$2,974,326. Of the bank balance, \$100,000 was covered by federal depository insurance and \$2,874,326 was uninsured and uncollateralized.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The District's investments are categorized below to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name.

Funds invested by the District are held in the State Treasurer's Investment Pool (Star Ohio), with a carrying value and market value of \$2,445,435 at June 30, 2003 and carrying value and market value of \$2,460,608 at June 30, 2002. The District's investments in STAR Ohio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

4. PROPERTY TAX

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Darke and Shelby County. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002
(Continued)**

4. PROPERTY TAX

The assessed values upon which the fiscal year 2003 taxes were collected are:

Real Property	
Residential/Agricultural	\$87,135,570
Commercial/Industrial	16,264,290
Public Utilities	61,510
Tangible Personal Property	
General	12,065,790
Public Utilities	<u>3,629,390</u>
Total Valuation	<u>\$119,156,550</u>
Tax Rate per \$1,000 of assessed valuation	\$44.08

5. RISK MANAGEMENT

A. Commercial Insurance

The District has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Vehicles
- Boiler
- Inland Marine

The District did not have significant changes in coverage from the prior year.

B. Self Insurance

The District is also self insured for employee health care benefits. The Self Insurance Fund pays covered claims to service providers, and recovers these costs from interfund rates that are charged based on claims approved by the claims administrator. A comparison of Self Insurance Fund cash balance and estimated liability as of June 30, follows

	<u>2003</u>	<u>2002</u>
Cash	\$ 691,444	\$ 977,720
Estimated Liabilities	\$ 100,101	\$ 214,561

The District participates in the Southwestern Ohio Educational Purchasing Council (the Council), a public entity shared risk pool consisting of seventy school districts. The District pays monthly premiums to the Council for employee dental and vision benefits. The District, a participant is responsible for the payment of all Council liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002
(Continued)**

5. RISK MANAGEMENT (Continued)

The District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Program (SOEPC GRP), an insurance purchasing pool. The intent of the SOEPC GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the SOEPC GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the SOEPC GRP. Each participant pays its workers' compensation premium to the State based on the rate for the SOEPC GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the SOEPC GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the SOEPC GRP. Participation in the SOEPC GRP is limited to school districts that can meet the SOEPC GRP's selection criteria. The firm of Anthem provides administrative, cost control and actuarial services to the SOEPC GRP.

This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the SOEPC GRP. Participation in the SOEPC GRP is limited to school districts that can meet the SOEPC GRP's selection criteria. The firm of Anthem provides administrative, cost control and actuarial services to the SOEPC GRP.

6. PENSION PLANS

A. School Employees Retirement System

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

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 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 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, 2003, 2002 and 2001 were \$60,028, \$56,649 and \$53,530 respectively; 100 percent has been contributed for fiscal year 2003, 2002 and 2001.

B. State Teachers Retirement System

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

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002
(Continued)**

6. PENSION PLANS (Continued)

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

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; **13** percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations for the fiscal years ended June 30, 2003, 2002, and 2001 were \$620,525, \$434,700 and \$257,780 respectively; 100 percent has been contributed for fiscal year 2003, 2002 and 2001.

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. The Board's liability is 6.2 percent of wages paid.

7. POST EMPLOYMENT BENEFITS

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

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002
(Continued)**

7. POST EMPLOYMENT BENEFITS (Continued)

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the year ended June 30, 2002, the board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. Effective July 1, 2002, 1% of covered payroll will be allocated to the fund. For the School District the amount to fund health care benefits equaled \$47,424 during the 2003 fiscal year and \$204,564 during fiscal year 2002. As of June 30, 2002, eligible benefit recipients totaled 105,300. For the fiscal year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000. The balance in the fund was \$3.011 billion at June 30, 2002.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, 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.

At June 30, 2002, the employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at \$12,400. For the School District the amount to fund health care equaled \$113,730 during the 2003 fiscal year and \$105,283 for fiscal year 2002. The number of participants currently receiving health care benefits is approximately 50,000. For the fiscal year ended June 30, 2002, net health care costs paid by SERS were \$182,946,777. At June 30, 2001 STRS had net assets available for payment of healthcare benefits of \$335.2 million.

8. LEASE COMMITMENTS

The District renewed its lease agreement with St. Denis Roman Catholic Church for the building known as the St. Denis School Building on April 17, 2001. The lease is for the two school years commencing August 15, 2001 through June 15, 2003. Rental of the building is \$22,500 per year, payable in ten equal monthly installments of \$2,250 per month. The District renewed the lease for the two school years commencing August 15, 2003 through June 15, 2005 for \$23,200, payable in ten equal monthly installments of \$2,320.

9. JOINTLY GOVERNED ORGANIZATIONS

Southwestern Ohio Educational Purchasing Council - The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The Montgomery County Educational Service acts as the Fiscal agent for the group. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts by the Fiscal Agent. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 2003, the district paid \$8,058 to SOEPC and during fiscal year 2002, the district paid \$4,094 to SOEPC. To obtain financial information write to Southwestern Ohio Educational Purchasing Council, Robert Brown serving as director at 1831 Harshman Road, Dayton, Ohio 45424.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002
(Continued)**

9. JOINTLY GOVERNED ORGANIZATIONS (Continued)

Metropolitan Dayton Educational Cooperative Association - The District is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. (MDECA) is an association of public school districts in a geographic region determined by the Ohio Department of Education. The 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 school districts.

The governing board of (MDECA) consists of one representative from each of the participating members. During fiscal year 2003 and 2002, the district paid \$187,705 and \$30,017 respectively to MDECA for services provided. Financial information can be obtained from MDECA located at 201 Riverside Drive, Suite 1C, Dayton, Ohio 45405.

10. GROUP INSURANCE PURCHASING POOL

The District is a member of the Southwestern Ohio Educational Purchasing Council (the Council), a public entity shared risk pool consisting of seventy school districts. The Cooperative is organized as a Voluntary Employee Benefit Association under Section 501 (c)(9) of the Internal Revenue Code and provided sick, accident and other benefits to the employees of the participating school districts. Each participating school district's superintendent is appointed to a Board of Directors which advises the Trustee, National City Bank, concerning aspects of the administration of the Council.

Each school district decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Cooperative is by written application subject to acceptance by the Board of Directors and payment of monthly premiums. Financial information can be obtained from Barbara Coriell, who serves as administrator, at EPC Benefits Office, 1831 Harshman Road, Dayton, Ohio 45424.

The District participates in the Southwestern Ohio Educational Purchasing Cooperation Workers' Compensation Group Rating Program (SOEPC GRP), an insurance purchasing pool. The SOEPC GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the EPC. The Executive Director of the EPC, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the SOEPC GRP to cover the costs of administering the program.

11. RELATED ORGANIZATION

The Worch Memorial Library is a distinct political subdivision of the State of Ohio created under Ohio Rev. Code Chapter 3375. The Library is governed by a Board of Trustees appointed by the Versailles Exempted Village School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the District for operational subsidies. Although the District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Worch Memorial Library, Gail Benesh, Clerk/Treasurer, at 161 East Main Street, Versailles, Ohio 45380.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002
(Continued)**

12. STATUTORY RESERVES

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 and carried forward to be used for the same purposes in future years. Effective April 10, 2001, S.B. No. 345 eliminated the requirement that districts establish and maintain a budget stabilization reserve. The Act provided requirements for the disposition of any budget reserve balance that may have existed at April 10, 2001.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks, capital acquisition, and budget stabilization. Disclosure of this information is required by State statute.

	<u>Textbook Reserve</u>	<u>Capital Maintenance Reserve</u>	<u>Budget Stabilization Reserve</u>
Set-Aside Cash Balance June 30, 2001	\$ 0	\$ 0	\$ 28,112
Current Year Set-Aside Requirement	175,491	175,491	0
Prior Year Carry-over Expenditures	(70,345)	0	0
Elimination of Budget Reserve	0	0	(28,112)
Qualifying Disbursements	<u>(246,707)</u>	<u>(141,855)</u>	<u>(0)</u>
Excess Expenditures Available for Carry-over to Subsequent Year	<u>(141,561)</u>	<u>0</u>	<u>0</u>
Restricted General Fund Balance As of June 30, 2002	<u>\$ 0</u>	<u>\$ 33,636</u>	<u>\$ 0</u>

	<u>Textbook Reserve</u>	<u>Capital Maintenance Reserve</u>
Set-Aside Cash Balance June 30, 2002	\$ 0	\$33,636
Current Year Set-Aside Requirement	194,021	194,021
Prior Year Carry-over Expenditures	(141,561)	0
Qualifying Disbursements	<u>(290,564)</u>	<u>(344,871)</u>
Excess Expenditures Available for Carry-over to Subsequent Year	<u>(238,104)</u>	<u>0</u>
Restricted General Fund Balance As of June 30, 2003	<u>\$ 0</u>	<u>\$ 0</u>

The textbooks and instructional materials set-aside expenditures in excess of the set-aside requirements may be carried forward to offset future years set-aside requirements. The District transferred the restricted portion of the Budget Reserve by the end of fiscal year 2002 to a Bus Purchase reserve fund and subsequently purchased the buses (in accordance with restrictions set by Senate Bill 345), therefore the Budget Stabilization Reserve account no longer applies. The Restricted General Fund Balance represents unspent monies of the required set aside. The District also had funds designated in excess of the required set aside for the Capital Maintenance Reserve fund of \$60,001 as of June 30, 2002 and \$144,150 as of June 30, 2003.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002
(Continued)**

13. CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure 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 District at June 30, 2003 or 2002.

B. Litigation

The District is not part of any legal proceedings.

C. State School Funding Decision

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

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

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**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT
DARKE COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR FISCAL YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
(Passed through Ohio Department of Education)						
Food Distribution Program		10.550		\$43,428		\$43,428
National School Lunch Program	045633-LLP4-2003	10.555	49,972		49,972	
Total U.S. Department of Agriculture - Nutrition Cluster			49,972	43,428	49,972	43,428
U.S. DEPARTMENT OF EDUCATION						
(Passed through Ohio Department of Education)						
Title I, Part A, IASA	045633-C1S1-2003	84.010	81,368		69,653	
Title I, Part A, IASA	045633-C1S1-2002	84.010	13,543		13,543	
Total Title I, Part A, IASA			94,911		83,196	
Title VI-B, Special Education Grants to States	045633-6BSF-2003-P	84.027	108,375		93,699	
Title VI-B, Special Education Grants to States	045633-6BSF-2002-P	88.027	9,940		9,940	
Total Title VI-B			118,315		103,639	
Title VI, Innovative Education Program Strategies	045633-C2S1-2003	84.298	4,136		3,376	
Drug-Free Grants	045633-DRS1-2003	84.186	5,077		1,548	
Technology Literacy Challenge Fund	045633-TJS1-2003	84.318	401			
Reducing Class Size	045633-CRS1-2002	84.340	2,094		2,094	
Title II, Part A Improving Teacher Quality	045633-TRS1-2003	84.367	40,405		34,541	
Assistive Technology Literacy Project	045633-ATS3-2002	84.352A	9,143		7,095	
	045633-ATS2-2002	84.352A	715		715	
Total Literacy Project			9,858		7,810	
Total U.S. Department of Education			275,197		236,204	
Total Federal Assistance			\$325,169	\$43,428	\$286,176	\$43,428

See Accompanying Notes to the Schedule of Federal Awards Expenditures.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2003 AND 2002**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B--NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



Auditor of State Betty Montgomery

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

Versailles Exempted Village School District
Darke County
P.O. Box 313
4 Virginia Street
Versailles, Ohio 45380

To Members of the Board:

We have audited the financial statements of the Versailles Exempted Village School District, Darke County (the District), as of and for the years ended June 30, 2003 and 2002, and have issued our report thereon dated December 8, 2003, wherein we noted that the District has continued to follow the basis of accounting previously prescribed by the Auditor of State rather than accounting principles generally accepted in the United States of America, which is now required. 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 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2003-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated December 8, 2003.

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 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 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. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 8, 2003.

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Versailles Exempted Village School District
Darke 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 management, the Board of Education, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

December 8, 2003



**Auditor of State
Betty Montgomery**

**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Versailles Exempted Village School District
Darke County
P.O. Box 313
4 Virginia Street
Versailles, Ohio 45380

To Members of the Board:

Compliance

We have audited the compliance of Versailles Exempted Village School District, Darke County, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of District's management. Our responsibility is to express an opinion on District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. However, we noted an instance of noncompliance that does not require inclusion in this report that we have reported to the management of the District in a separate letter dated December 8, 2003.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management and the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

December 8, 2003

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT
DARKE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505**

JUNE 30, 2003 AND 2002

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Title I: CFDA # 84.010 & Title VI-B: CFDA # 84.027
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT
DARKE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2003 AND 2002**

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

Finding Number	2003-001
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Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Admin Code Section 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the School District prepares its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The School District should prepare their financial statements in accordance with GAAP.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT
DARKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003 AND 2002**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-10319-001	OAC 117-2-03(B) "annual financial report not filed on a GAAP basis"	No	This finding has not been corrected, the Board is aware of it but has no future plans to prepare GAAP financial statements
2001-10319-002	ORC 5705.39 "appropriations exceeding estimated revenues"	Yes	



**Auditor of State
Betty Montgomery**

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VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT

DARKE 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 29, 2004**