



**Auditor of State  
Betty Montgomery**



**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

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## **Auditor of State Betty Montgomery**

### **INDEPENDENT ACCOUNTANTS' REPORT**

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

To the Members of the Board:

We have audited the accompanying financial statements of Versailles Exempted Village School District, Darke County, (the District), as of and for the years ended June 30, 2005 and 2004. 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Ohio Administrative Code Section 117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 1, the accompanying financial statements and notes have been prepared on an accounting basis not in accordance with these generally accepted accounting principles. The accompanying financial statements and notes omit entity wide statements, and assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the accompanying financial statements do not present fairly the financial position, results of operations, and cash flows, where applicable, of the District as of and for the years ended June 30, 2005 and 2004, in accordance with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

**Betty Montgomery**  
Auditor of State

February 3, 2006

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Governmental Fund Types</u>				<b>Total (Memorandum Only)</b>
	<b>General Fund</b>	<b>Special Revenue</b>	<b>Debt Service</b>	<b>Capital Projects</b>	
<b>Cash Receipts:</b>					
From Local Sources:					
Taxes	\$2,848,877				\$2,848,877
Tuition	112,570				112,570
Earnings on Investments	55,291				55,291
Extracurricular Activities		\$184,425			184,425
Classroom Materials and Fees	11,905				11,905
Other Local Revenues	7,352	19,406			26,758
Intergovernmental - State	6,133,808	60,619		\$782	6,195,209
Intergovernmental - Federal	15,694	318,251			333,945
<b>Total Cash Receipts</b>	<b>9,185,497</b>	<b>582,701</b>		<b>782</b>	<b>9,768,980</b>
<b>Cash Disbursements:</b>					
Current:					
Instruction:					
Regular	4,746,223	119,913		3,184	4,869,320
Special	672,431	112,867			785,298
Vocational	546,004			782	546,786
Support Services:					
Pupils	330,134	220,800			550,934
Instructional Staff	485,924	7,653			493,577
Board of Education	14,582				14,582
Administration	984,963	20,450			1,005,413
Fiscal	248,116				248,116
Operation and Maintenance of Plant	596,117			65,499	661,616
Pupil Transportation	468,234	180			468,414
Central	7,910	8,471			16,381
Extracurricular Activities	257,040	195,637			452,677
Building Acquisition & Construction	35,800				35,800
<b>Total Cash Disbursements</b>	<b>9,393,478</b>	<b>685,971</b>		<b>69,465</b>	<b>10,148,914</b>
Excess of Cash Receipts Over (Under) Cash Disbursements	(207,981)	(103,270)		(68,683)	(379,934)
<b>Other Financing Sources (Uses):</b>					
Refund of Prior Years Expenditures	16,305	9,983			26,288
Sale of Assets	4,010				4,010
Operating Transfers In		15,000		75,000	90,000
Advances In	1,190	64,477			65,667
Operating Transfers Out	(90,000)				(90,000)
Advances Out	(64,477)	(1,190)			(65,667)
Refund of Prior Year Receipts	(17,316)				(17,316)
<b>Total Other Financing Sources (Uses)</b>	<b>(150,288)</b>	<b>88,270</b>		<b>75,000</b>	<b>12,982</b>
Excess of Cash Receipts and Other Financing Sources Over (Under) Disbursements and Other Uses	(358,269)	(15,000)		6,317	(366,952)
Fund Cash Balances, July 1	4,297,501	124,809	\$2,755	25,114	4,450,179
Fund Cash Balances, June 30	3,939,232	109,809	2,755	31,431	4,083,227
Reserve for Encumbrances	\$366,735	\$17,747	\$0	\$15,627	\$400,109

See Accompanying Notes to the Financial Statements.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN FUND CASH BALANCES  
PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Proprietary Fund Type</u>		<u>Fiduciary Fund Type</u>	<b>Total (Memorandum Only)</b>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>				
Earnings on Investment		\$2,410		\$2,410
Sales/Charges for Services	\$359,014			359,014
Extracurricular Activities		505	\$157,215	157,720
Miscellaneous	234	901,738	3,745	905,717
Total Operating Cash Receipts	<u>359,248</u>	<u>904,653</u>	<u>160,960</u>	<u>1,424,861</u>
<b>Operating Cash Disbursements:</b>				
Personal Services	237,470			237,470
Contract Services	5,470	143,631	15,927	165,028
Materials and Supplies	203,829		108,378	312,207
Capital Outlay			137	137
Other Expenses	469	1,247,886	14,286	1,262,641
Total Operating Cash Disbursements	<u>447,238</u>	<u>1,391,517</u>	<u>138,728</u>	<u>1,977,483</u>
Operating Loss	<u>(87,990)</u>	<u>(486,864)</u>	<u>22,232</u>	<u>(552,622)</u>
<b>Non-operating Cash Receipts:</b>				
Grants	54,477			54,477
Refund of Prior Year Expenditures			10	10
Total Non-operating Cash Receipts	<u>54,477</u>		<u>10</u>	<u>54,487</u>
Receipts Over (Under) Disbursements	(33,513)	(486,864)	22,242	(498,135)
Fund Cash Balances, July 1	<u>82,771</u>	<u>490,158</u>	<u>74,818</u>	<u>647,747</u>
Fund Cash Balances, June 30	<u>49,258</u>	<u>3,294</u>	<u>97,060</u>	<u>149,612</u>
Reserve for Encumbrances	<u>\$7,002</u>	<u>\$0</u>	<u>\$14,117</u>	<u>\$21,119</u>

*See Accompanying Notes to the Financial Statements.*



**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<b>Fund Types/Fund</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance Favorable/ (Unfavorable)</b>
<b>Governmental:</b>			
General Fund	\$9,100,168	\$9,207,002	\$106,834
Special Revenue Funds	665,600	672,161	6,561
Capital Projects Funds	75,782	75,782	
<b>Proprietary:</b>			
Enterprise Funds	406,316	413,725	7,409
Internal Service	904,186	904,653	467
<b>Fiduciary:</b>			
Agency Funds	153,415	160,970	7,555
Total (Memorandum Only)	<u>\$11,305,467</u>	<u>\$11,434,293</u>	<u>\$128,826</u>

*See Accompanying Notes to the Financial Statements.*

VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY

COMBINED STATEMENT OF DISBURSEMENTS AND  
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Fund Types/Fund	Prior Year Carryover Appropriations	2005 Appropriations	Total	Actual 2005 Disbursements	Encumbrances Outstanding At June 30, 2005	Total	Variance Favorable/ (Unfavorable)
<b>Governmental:</b>							
General Fund	\$231,465	\$10,616,391	\$10,847,856	\$9,565,271	\$366,735	\$9,932,006	\$915,850
Special Revenue Funds	24,725	730,135	754,860	687,161	17,747	704,908	49,952
Capital Projects Funds	16,210	78,767	94,977	69,465	15,627	85,092	9,885
<b>Proprietary:</b>							
Enterprise Funds	4,026	469,725	473,751	447,238	7,002	454,240	19,511
Internal Service Funds		1,393,585	1,393,585	1,391,517		1,391,517	2,068
<b>Fiduciary:</b>							
Agency Funds	6,703	183,482	190,185	138,728	14,117	152,845	37,340
Total (Memorandum Only)	<u>\$283,129</u>	<u>\$13,472,085</u>	<u>\$13,755,214</u>	<u>\$12,299,380</u>	<u>\$421,228</u>	<u>\$12,720,608</u>	<u>\$1,034,606</u>

See Accompanying Notes to the Financial Statements.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

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

**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

Versailles Exempted Village School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by State statute and federal guidelines.

The District was established through the consolidation of existing land areas and school districts. The School District serves an area of approximately 80 square miles. It is located in Darke County, and includes all of the Villages of Versailles, Yorkshire, and North Star and portions of surrounding Townships. It is staffed by 58 non-certificated employees, 99 certificated employees who provide services to 1427 students and other community members. The School District currently operates three instructional buildings, one administrative building, and leases facilities from St. Denis Catholic Church.

**A. Reporting Entity:**

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure 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 Versailles Exempted Village School District, this includes general operations, food service, preschool and student related activities.

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. The School District has no component units.

The School District participates in three jointly governed organizations, one related organization, and two insurance purchasing pools. These organizations are discussed in Note 9 to the financial statements. These organizations are:

**Jointly Governed Organizations:**

Metropolitan Dayton Educational Cooperative Association (for transmission of reports)  
Southwestern Ohio Educational Purchasing Council  
Southwestern Ohio Instructional Technology Association

**Related Organization:**

Worch Memorial Library

**Insurance Purchasing Pools:**

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan  
Southwestern Ohio Educational Purchasing Council Medical Benefits Plan

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

The School District chose to prepare its financial statements and notes in accordance with the 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 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, in accordance with the basis of accounting described in the preceding paragraph.

**B. Fund Accounting**

The School District uses funds to report on 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 District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording receipts and disbursements in accordance with special restrictions or limitations. For financial statement presentation purposes, the various funds of the District are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

**1. Governmental Fund Types:**

Governmental funds are those through which most governmental functions of the School District are financed. The following are the School District's governmental fund types.

**General Fund** - The General Fund is the general 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** - 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 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** - The capital projects funds are used to account for financial resources to be used for the acquisition of equipment and for the acquisition or construction of major capital facilities (other than those financed by proprietary or trust funds).

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2. 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 Fund** - The enterprise fund is used to account for School District activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**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.

**3. 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. The School District's fiduciary funds include agency 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 appropriations 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 primary level of budgetary control is at the fund, function, objective level for the General Fund, and fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

**1. Tax Budget:**

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the ensuing fiscal year starting July 1. The budget includes proposed expenditures and the means for financing for all funds. Public hearings are 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 Darke County Budget Commission for rate determination.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2. Estimated Resources:**

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County 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 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. 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 fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amount in the final amended certificate issued during fiscal year 2005.

**3. 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 at the fund, function, object level for the General fund and the fund level for all other funds, which are the legal levels of budgetary control. 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 that alter the total of any fund, function, object appropriation in the General Fund, or alter the total fund level of appropriations for all other funds, must be approved 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 fiscal year, two 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. Formal budgetary integration is employed as a management control device during the fiscal year for all funds other than agency funds, consistent with statutory provisions.

**4. 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 in order to reserve that portion of applicable appropriation and to determine and maintain legal compliance. Expenditures plus encumbrances may not legally exceed appropriations.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**5. Lapsing of Appropriations:**

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 appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

**D. Cash and Investments**

To improve cash management, all cash received by the School District is pooled. Monies for all funds, including proprietary funds, are maintained in this account or are temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records.

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

All other interfund transfers are reported as operating transfers.

**H. Total Columns on Financial Statements**

Total columns on the financial statements are captioned "Total – (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**3. 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 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 accounts, including passbook accounts.

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

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) 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).



**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**3. DEPOSITS AND INVESTMENTS (Continued)**

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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

As of June 30, 2005, the District had \$3,400 in undeposited cash on hand which is included in the fund balance.

**A. Deposits**

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of the School District's cash and deposits is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third parties of the financial institution.

At fiscal year-end, the carrying amount of the School District's deposits was \$954,474 and the bank balance was \$1,123,724. Of the bank balance, \$100,000 was covered by federal depository insurance and \$1,023,724 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name, non-compliance with federal requirements would potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

**B. Investments**

As of June 30, 2005, the School District's only investment was STAR Ohio. The investment is an internal investment pool. The carrying and fair value of the investment was \$3,274,965 with an average maturity.

**Interest Rate Risk** – As a means of limiting its exposure to fair value losses caused by rising interest rates, investment made by the Treasurer must mature within five (5) years, unless they are matched to a specific obligation or debt of the School District.

**Credit Risk** – STAR Ohio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that would further limit its investment choices.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**4. PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis, while the School District operates on a fiscal year 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 taxes are levied April 1 on the assessed value listed as of the prior January 1, the lien date.

Public utility property taxes attached as a lien on December 31 of the prior fiscal year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All real property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value.

Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true value. Real property taxes are payable annually or semi-annually. If paid annually, 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. The School District receives property taxes from Shelby and Darke Counties.

The Counties' 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, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

	<b>2004 Second- Half Collections</b>		<b>2005 First- Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential and Other Real Estate	\$105,298,730	87.59%	\$107,477,640	87.35%
Public Utility – Personal	63,600	.05%	64,590	.05%
Tangible Personal Property	14,852,560	12.36%	15,503,900	12.60%
Total Assessed Value	<u>\$120,214,890</u>	<u>100.00%</u>	<u>\$123,046,130</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$44.08		\$40.18	

**5. INCOME TAX**

The School District levies a voted tax of .75 percent for general obligations on the income of residents and estates. The .75 percent tax was effective January 1, 2005 and the levy period is for four-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.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**6. RISK MANAGEMENT**

**A. Property and Liability**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal 2005, the School District contracted with Phelan Insurance Agency of Versailles, Ohio to provide insurance for those risks. The coverage provide by Phelan Insurance Agency as follows:

Insurance coverage provided includes the following:

Property (\$5,000 deductible, subject to scheduled limits)	\$18,431,609
Boiler and Machinery (\$5,000 deductible)	1,000,000
Auto Liability/Physical Damage (\$1,000 deductible)	1,000,000
General Liability	2,000,000
Educator's Legal Liability (\$1,000 deductible, \$2,500 for Employment practices)	1,000,000
Umbrella Coverage	2,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in coverage from previous year.

**B. Self Insurance**

The District was self insured for employee health care benefits during fiscal 2005. 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. The self insurance program was terminated during fiscal 2005. A comparison of Self Insurance Fund cash balance and estimated liability as of June 30, follows:

	<u>2004</u>	<u>2005</u>
Cash	\$488,979	\$ 0
Estimated Liabilities	174,137	0

**C. Medical Benefits**

Effective June 1, 2005, the School District jointed in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 9). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the School District by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan. Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**6. RISK MANAGEMENT (Continued)**

**D. Workers' Compensation**

For fiscal year 2005, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 9). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the 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 GRP. Each participant pays its workers' compensation premium to the State based on the rate for the 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 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 GRP. Participation in the GRP is limited to School Districts that can meet the GRP's selection criteria. The firm of Integrated Comp Inc. provides administrative, cost control, and actuarial services to the GRP.

**7. 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 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, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 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, 2005, 2004, and 2003 were \$125,191, \$107,368 and \$60,028 respectively; 48.5 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

**B. State Teachers Retirement System of Ohio**

The School District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DC plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC plan and the DB plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions to the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a bi-weekly basis. 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.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years.

The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31<sup>st</sup> year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service credit over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.8 and 3307.89 of the Revised Code. For members who select the DC plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. 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.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the lapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit 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 members who die before retirement may qualify for survivor benefits. A death benefits of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

For the year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$679,764, \$679,290, and \$620,525, respectively; 83.2 percent has been contributed for 2005 and 100 percent for 2004 and 2003.

**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 of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2005, all members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**8. POST-EMPLOYMENT BENEFITS**

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), 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 Part B premiums.

Pursuant to the Revised Code, State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$52,290 for fiscal year 2005.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premiums. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

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, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease from 4.91 in fiscal year 2004. 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 2005, the minimum pay was established at \$27,400.

For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$57,577.

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 fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health care cost of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim cost. SERS has approximately 58,123 participants currently receiving health care benefits.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**9. JOINTLY GOVERNED ORGANIZATIONS, RELATED ORGANIZATION AND INSURANCE  
PURCHASING POOLS**

**A. Jointly Governed Organizations**

**Metropolitan Dayton Education Cooperative Association** - The School 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 area 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 seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts with the exception of the Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. During fiscal year 2005, the School District paid \$46,245 to MDECA. Financial information can be obtained from Jerry Woodyard, who serves as Director, at 225 Linwood Street, Dayton, Ohio 45405.

**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 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. Any district withdrawing from the SOEPC forfeits 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 2005, the School District paid \$50,734 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

**Southwestern Ohio Instructional Technology Association** - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under section 1702.01 of the Ohio Revised Code. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs.

The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members. One at-large higher education representative is elected by higher education SOITA members from within the State assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2005, the School District paid \$2,444 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Dave Gibson, who serves as Director, 150 East Sixth Street, Franklin, Ohio 45005.



**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**9. JOINTLY GOVERNED ORGANIZATIONS, RELATED ORGANIZATION AND INSURANCE PURCHASING POOLS (Continued)**

**B. Related Organization**

**Worch Memorial Library** – 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 Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the School 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.

**C. Insurance Purchasing Pools**

**Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan** - The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an eleven member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member School Districts. The Chief Administrator of GRP serves as the coordinator of the program. Each fiscal year, the participating School Districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**Southwestern Ohio Educational Purchasing Council Medical Benefits Plan** – Effective June 1, 2005, the School District joined the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP). The MBP's business and affairs are conducted by an eleven member committee consisting of various EPC representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each fiscal year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**10. SET-ASIDE DISCLOSURE**

The School District is required by State statute to annually set aside in the General Fund an amount based upon a statutory formula for the acquisition and construction of capital improvements and an equal amount for the purchase of textbooks and other instructional materials. Amounts not spent by fiscal year-end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end and carried forward to be used for the same purposes in future fiscal years. Based upon legislative changes, this is the only money still required to be set aside for this purpose.

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

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**10. SET-ASIDE DISCLOSURE (Continued)**

	<b>Textbooks</b>	<b>Capital Improvements</b>
Set-Aside Reserve Balance as of June 30, 2004	(\$280,466)	\$68,076
Current Fiscal Year Set-aside Requirement	203,248	203,248
Qualifying Off Sets	-0-	(75,000)
Qualifying Disbursements	(236,910)	(153,357)
Excess Expenditures Available for Carry-over to Subsequent Year	(\$314,128)	\$42,967

**11. CONTINGENCIES**

**A. Grants**

The School 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 are 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, 2005

**B. Litigation**

There are currently no matters in litigation with the School District as defendant.

**12. COMPLIANCE**

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, the School District chose to prepare its financial statements and notes in accordance with the 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. The accompanying financial statements omit assets, liabilities, net assets/fund balances and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Governmental Fund Types</u>				<b>Total (Memorandum Only)</b>
	<u>General Fund</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>					
From Local Sources:					
Taxes	\$2,893,821				\$2,893,821
Tuition	(73,026)				(73,026)
Earnings on Investments	49,035				49,035
Extracurricular Activities		\$269,418			269,418
Classroom Materials and Fees	10,772				10,772
Other Local Revenues	5,429	25,749			31,178
Intergovernmental - State	5,843,351	73,965		\$29,425	5,946,741
Intergovernmental - Federal	16,126	334,248			350,374
<b>Total Cash Receipts</b>	<b>8,745,508</b>	<b>703,380</b>		<b>29,425</b>	<b>9,478,313</b>
<b>Cash Disbursements:</b>					
Current:					
Instruction:					
Regular	4,255,044	116,828		26,241	4,398,113
Special	662,430	125,470			787,900
Vocational	536,289				536,289
Support Services:					
Pupils	287,107	198,868			485,975
Instructional Staff	444,811	12,456			457,267
Board of Education	24,202				24,202
Administration	900,114	3,550			903,664
Fiscal	269,747				269,747
Operation and Maintenance of Plant	561,204	1,374		126,498	689,076
Pupil Transportation	342,290	265			342,555
Central	10,524	6,704			17,228
Extracurricular Activities	252,652	246,834			499,486
Building Acquisition & Construction	33,917				33,917
<b>Total Cash Disbursements</b>	<b>8,580,331</b>	<b>712,349</b>		<b>152,739</b>	<b>9,445,419</b>
Excess of Cash Receipts Over (Under) Cash Disbursements	165,177	(8,969)		(123,314)	32,894
<b>Other Financing Sources (Uses):</b>					
Operating Transfers In	1,000,000			49,500	1,049,500
Advances In		1,190			1,190
Operating Transfers Out	(50,000)			(1,000,000)	(1,050,000)
Advances Out	(1,190)				(1,190)
Refund of Prior Year Expenditures	9,298				9,298
<b>Total Other Financing Sources (Uses)</b>	<b>958,108</b>	<b>1,190</b>		<b>(950,500)</b>	<b>8,798</b>
Excess of Cash Receipts and Other Financing Sources Over (Under) Disbursements and Other Uses	1,123,285	(7,779)		(1,073,814)	41,692
Fund Cash Balances, July 1 -	3,174,216	132,588	\$2,755	1,098,928	4,408,487
Fund Cash Balances, June 30	4,297,501	124,809	2,755	25,114	4,450,179
Reserve for Encumbrances	\$231,465	\$24,725	\$0	\$16,210	\$272,400

See Accompanying Notes to the Financial Statements.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN FUND CASH BALANCES  
PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Proprietary Fund Type</u>		<u>Fiduciary Fund Type</u>	<b>Total (Memorandum Only)</b>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>				
Earnings on Investment		\$6,508		\$6,508
Sales/Charges for Services	\$366,623			366,623
Extracurricular Activities		1,972	\$143,797	145,769
Miscellaneous	308	749,883	3,425	753,616
Total Operating Cash Receipts	<u>366,931</u>	<u>758,363</u>	<u>147,222</u>	<u>1,272,516</u>
<b>Operating Cash Disbursements:</b>				
Personal Services	224,257			224,257
Contract Services	13,233	144,431	17,084	174,748
Materials and Supplies	196,106		119,292	315,398
Capital Outlay	55		930	985
Other Expenses	678	816,831	15,331	832,840
Total Operating Cash Disbursements	<u>434,329</u>	<u>961,262</u>	<u>152,637</u>	<u>1,548,228</u>
Operating Loss	<u>(67,398)</u>	<u>(202,899)</u>	<u>(5,415)</u>	<u>(275,712)</u>
<b>Non-operating Cash Receipts:</b>				
Grants	54,260			54,260
Total Non-operating Cash Receipts	<u>54,260</u>			<u>54,260</u>
Receipts Over (Under) Disbursements Before Interfund Transfers	(13,138)	(202,899)	(5,415)	(221,452)
Operating Transfer In			500	500
Net Excess of Revenue Over/(Under) Expense	(13,138)	(202,899)	(4,915)	(220,952)
Fund Cash Balances, July 1	<u>95,909</u>	<u>693,057</u>	<u>79,733</u>	<u>868,699</u>
Fund Cash Balances, June 30	<u>82,771</u>	<u>490,158</u>	<u>74,818</u>	<u>647,747</u>
Reserve for Encumbrances	<u>\$4,026</u>	<u>\$0</u>	<u>\$6,703</u>	<u>\$10,729</u>

See Accompanying Notes to the Financial Statements.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

<b>Fund Types/Fund</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance Favorable/ (Unfavorable)</b>
<b>Governmental:</b>			
General Fund	\$9,637,290	\$9,754,806	\$117,516
Special Revenue Funds	704,633	704,570	(63)
Capital Projects Funds	78,925	78,925	
<b>Proprietary:</b>			
Enterprise Funds	421,191	421,191	
Internal Service	755,293	758,363	3,070
<b>Fiduciary:</b>			
Agency Funds	141,544	147,722	6,178
Total (Memorandum Only)	<u>\$11,738,876</u>	<u>\$11,865,577</u>	<u>\$126,701</u>

*See Accompanying Notes to the Financial Statements.*

VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY

COMBINED STATEMENT OF DISBURSEMENTS AND  
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Fund Types/Fund	Prior Year Carryover Appropriations	2004 Appropriations	Total	Actual 2004 Disbursements	Encumbrances Outstanding At June 30, 2004	Total	Variance Favorable/ (Unfavorable)
<b>Governmental:</b>							
General Fund	\$276,568	\$9,456,040	\$9,732,608	\$8,631,521	\$231,465	\$8,862,986	\$869,622
Special Revenue Funds	41,914	740,390	782,304	712,349	24,725	737,074	45,230
Capital Projects Funds	48,370	1,125,444	1,173,814	1,152,739	16,210	1,168,949	4,865
<b>Proprietary:</b>							
Enterprise Funds	30,206	462,517	492,723	434,329	4,026	438,355	54,368
Internal Service Funds		1,082,700	1,082,700	961,262		961,262	121,438
<b>Fiduciary:</b>							
Agency Funds	22,952	166,095	189,047	152,637	6,703	159,340	29,707
Total (Memorandum Only)	<u>\$420,010</u>	<u>\$13,033,186</u>	<u>\$13,453,196</u>	<u>\$12,044,837</u>	<u>\$283,129</u>	<u>\$12,327,966</u>	<u>\$1,125,230</u>

See Accompanying Notes to the Financial Statements.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

Versailles Exempted Village School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by State statute and federal guidelines.

The District was established through the consolidation of existing land areas and school districts. The School District serves an area of approximately 80 square miles. It is located in Darke County, and includes all of the Villages of Versailles, Yorkshire, and North Star and portions of surrounding Townships. It is staffed by 57 non-certificated employees, 97 certificated employees who provide services to 1413 students and other community members. The School District currently operates three instructional building, one administrative building, and leases facilities from St. Denis Catholic Church.

**Reporting Entity:**

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure 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 Versailles Exempted Village School District, this includes general operations, food service, preschool and student related activities.

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. The School District has no component units.

The School District participates in three jointly governed organizations, one related organization, and two insurance purchasing pools. These organizations are discussed in Note 8 to the financial statements. These organizations are:

**Jointly Governed Organizations:**

- Metropolitan Dayton Educational Cooperative Association (for transmission of reports)
- Southwestern Ohio Educational Purchasing Council
- Southwestern Ohio Instructional Technology Association

**Related Organization:**

- Worch Memorial Library

**Insurance Purchasing Pools:**

- Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan
- Ohio School Insurance Plan

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

The School District chose to prepare its financial statements and notes in accordance with the 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 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, in accordance with the basis of accounting described in the preceding paragraph.

**B. Fund Accounting**

The School District uses funds to report on 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 District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording receipts and disbursements in accordance with special restrictions or limitations. For financial statement presentation purposes, the various funds of the District are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

**1. Governmental Fund Types:**

Governmental funds are those through which most governmental functions of the School District are financed. The following are the School District's governmental fund types.

**General Fund** - The General Fund is the general 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** - 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 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** - The capital projects funds are used to account for financial resources to be used for the acquisition of equipment and for the acquisition or construction of major capital facilities (other than those financed by proprietary or trust funds).



**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2. 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 Fund** - The enterprise fund is used to account for School District activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**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.

**3. 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. The School District's fiduciary funds include agency 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 appropriations 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 primary level of budgetary control is at the fund, function, objective level for the General Fund, and fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

**1. Tax Budget:**

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the ensuing fiscal year starting July 1. The budget includes proposed expenditures and the means for financing for all funds. Public hearings are 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 Darke County Budget Commission for rate determination.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2. Estimated Resources:**

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County 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 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. 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 fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amount in the final amended certificate issued during fiscal year 2004.

**3. 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 at the fund, function, object level for the General fund and the fund level for all other funds, which are the legal levels of budgetary control. 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 that alter the total of any fund, function, object appropriation in the General Fund, or alter the total fund level of appropriations for all other funds, must be approved 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 fiscal year, two 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. Formal budgetary integration is employed as a management control device during the fiscal year for all funds other than agency funds, consistent with statutory provisions.

**4. 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 in order to reserve that portion of applicable appropriation and to determine and maintain legal compliance. Expenditures plus encumbrances may not legally exceed appropriations.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**5. Lapsing of Appropriations:**

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 appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

**D. Cash and Investments**

To improve cash management, all cash received by the School District is pooled. Monies for all funds, including proprietary funds, are maintained in this account or are temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records.

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

All other interfund transfers are reported as operating transfers.

**H. Total Columns on Financial Statements**

Total columns on the financial statements are captioned "Total – (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**3. 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 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 accounts, including passbook accounts.

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

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) 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).

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**3. DEPOSITS AND INVESTMENTS (Continued)**

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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

As of June 30, 2004, the District had \$3,450 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 No. 3, *“Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements”*.

**Deposits:** At fiscal year-end, the carrying amount of the State District’s deposits was \$2,725,089 and the bank balance was \$2,822,078. Of the bank balance, \$100,000 was covered by federal depository insurance and \$2,722,078 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution’s trust department in the School District’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 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 \$2,369,387 at June 30, 2004. 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 TAXES**

Property taxes are levied and assessed on a calendar year basis, while the School District operates on a fiscal year 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 taxes are levied April 1 on the assessed value listed as of the prior January 1, the lien date.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**4. PROPERTY TAXES (Continued)**

Public utility property taxes attached as a lien on December 31 of the prior fiscal year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All real property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value.

Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true value. Real property taxes are payable annually or semi-annually. If paid annually, 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. The School District receives property taxes from Shelby and Darke Counties.

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

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

	<b>2003 Second- Half Collections</b>		<b>2004 First- Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential and Other Real Estate	\$103,399,860	86.78%	\$105,298,730	87.59%
Public Utility – Real	61,510	.05%	63,600	.05%
Tangible Personal Property	15,695,180	13.17%	14,852,560	12.36%
Total Assessed Value	<u>\$119,156,550</u>	<u>100.00%</u>	<u>\$120,214,890</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$44.08		\$44.08	

**5. RISK MANAGEMENT**

**A. Property and Liability**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District joined together with other School Districts in Ohio to participate in Ohio School Plan, an insurance purchasing pool (See Note 8), for general liability coverage. The School District contracted with Phelan Insurance Agency of Versailles, Ohio for all other coverage. Coverage provide by Phelan Insurance Agency as follows:

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**5. RISK MANAGEMENT (Continued)**

Insurance coverage provided includes the following:

Property (\$5,000 deductible, subject to scheduled limits)	\$16,155,858
Boiler and Machinery (\$5,000 deductible)	1,000,000
Auto Liability/Physical Damage (\$1,000 deductible)	1,000,000
General Liability	2,000,000
Educator's Legal Liability (\$2,500 deductible, \$2,500 for Employment practices)	1,000,000
Umbrella Coverage	2,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in coverage from previous 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>2004</u>
Cash	\$691,444	\$488,979
Estimated Liabilities	100,101	174,137

**C. Workers' Compensation**

For fiscal year 2005, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 8). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the 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 GRP. Each participant pays its workers' compensation premium to the State based on the rate for the 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 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 GRP. Participation in the GRP is limited to School Districts that can meet the GRP's selection criteria. The firm of Integrated Comp Inc. provides administrative, cost control, and actuarial services to the GRP.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**6. 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 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, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to 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, 2004, 2003, and 2002 were \$107,368, \$60,028, and \$56,649 respectively; 47.8 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

**B. State Teachers Retirement System of Ohio**

The School District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DC plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC plan and the DB plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions to the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a bi-weekly basis. 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.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; (iii) 30 years of service credit regardless of age.



**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**6. DEFINED BENEFIT PENSION PLANS (Continued)**

The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years.

The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31<sup>st</sup> year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service credit over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.8 and 3307.89 of the Revised Code. For members who select the DC plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the lapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**6. DEFINED BENEFIT PENSION PLANS (Continued)**

A Defined Benefit 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 members who die before retirement may qualify for survivor benefits. A death benefits of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

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

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$679,290, \$620,525, and \$434,700 respectively; 83.8 percent has been contributed for 2004 and 100 percent for 2003 and 2002.

**C. Social Security System**

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

**7. POST-EMPLOYMENT BENEFITS**

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), 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 Part B premiums.

Pursuant to the Revised Code, State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$52,253 for fiscal year 2004.

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

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**7. POST-EMPLOYMENT BENEFITS (Continued)**

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premiums. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease from 5.83 in fiscal year 2003. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400.

For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$85,053.

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 fund is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**8. JOINTLY GOVERNED ORGANIZATIONS, RELATED ORGANIZATION AND INSURANCE PURCHASING POOLS**

**A. Jointly Governed Organizations**

**Metropolitan Dayton Education Cooperative Association** - The School 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 area 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 seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts with the exception of the Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. During fiscal year 2004, the School District paid \$44,125 to MDECA. Financial information can be obtained from Jerry Woodyard, who serves as Director, at 225 Linwood Street, Dayton, Ohio 45405.

**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 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.

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**8. JOINTLY GOVERNED ORGANIZATIONS, RELATED ORGANIZATION AND INSURANCE  
PURCHASING POOLS (Continued)**

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. Any district withdrawing from the SOEPC forfeits 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 2004, the School District paid \$57,032 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

**Southwestern Ohio Instructional Technology Association** - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under section 1702.01 of the Ohio Revised Code. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs.

The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members. One at-large higher education representative is elected by higher education SOITA members from within the State assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2004, the School District paid \$2,526 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Dave Gibson, who serves as Director, 150 East Sixth Street, Franklin, Ohio 45005.

**B. Related Organization**

**Worch Memorial Library** – 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 Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the School 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  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**8. JOINTLY GOVERNED ORGANIZATIONS, RELATED ORGANIZATION AND INSURANCE PURCHASING POOLS (Continued)**

**C. Insurance Purchasing Pools**

**Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan** - The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an eleven member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member School Districts. The Chief Administrator of GRP serves as the coordinator of the program. Each fiscal year, the participating School Districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**Ohio School Insurance Plan** – The School District participates in the Ohio School Insurance Plan (OSIP), an insurance purchasing pool. The School Plan (OSIP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSIP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSIP's business and affairs are conducted by a fifteen member Board of Directors consisting of school district superintendent and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylent Group, Inc. Hylent Group, Inc. is the Administrator of the OSIP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSIP and member schools.

**9. SET-ASIDE DISCLOSURE**

The School District is required by State statute to annually set aside in the General Fund an amount based upon a statutory formula for the acquisition and construction of capital improvements and an equal amount for the purchase of textbooks and other instructional materials. Amounts not spent by fiscal year-end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end and carried forward to be used for the same purposes in future fiscal years. Based upon legislative changes, this is the only money still required to be set aside for this purpose.

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

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set-Aside Reserve Balance as of June 30, 2003	(\$238,104)	\$0
Current Fiscal Year Set-aside Requirement	201,355	201,355
Qualifying Off Sets	-0-	(49,500)
Qualifying Disbursements	<u>(243,717)</u>	<u>(83,779)</u>
Excess Expenditures Available for Carry-over to Subsequent Year	<u>(\$280,466)</u>	<u>\$68,076</u>

**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**10. CONTINGENCIES**

**A. Grants**

The School 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 are 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, 2005.

**B. Litigation**

There are currently no matters in litigation with the School District as defendant.

**11. COMPLIANCE**

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, the School District chose to prepare its financial statements and notes in accordance with the 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. The accompanying financial statements omit assets, liabilities, net assets/fund balances and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.



## Auditor of State Betty Montgomery

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

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

To the Members of the Board:

We have audited the financial statements of Versailles Exempted Village School District, Darke County, (the District), as of and for the years ended June 30, 2005 and 2004, and have issued our report thereon dated February 3, 2006, wherein we noted the financial statements do not present fairly the financial position, results of operations, and cash flows, where applicable, of the District in accordance with accounting principles generally accepted in the United State of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated February 3, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001. In a separate letter to the District's management dated February 3, 2006, we reported other matters related to noncompliance we deemed immaterial.

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Versailles Exempted Village School District  
Darke County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

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

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

**Betty Montgomery**  
Auditor of State

February 3, 2006



**VERSAILLES EXEMPTED VILLAGE SCHOOL DISTRICT  
DARKE COUNTY**

**SCHEDULE OF FINDINGS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

<b>FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2005-001**

**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 Versailles Exempted Village School District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the District prepared 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 District should prepare their annual financial reports in accordance with generally accepted accounting principles.





**Auditor of State  
Betty Montgomery**

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**VERSAILLES EXEMPTED 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  
MARCH 9, 2006**