



**Auditor of State
Betty Montgomery**

VILLAGE OF VERSAILLES
DARKE COUNTY

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**Auditor of State
Betty Montgomery**

Village of Versailles
Darke County
P.O. Box 288
Versailles, Ohio 45380

To the Village Council

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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Betty Montgomery
Auditor of State

September 15, 2006

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of Versailles
Darke County
P.O. Box 288
Versailles, Ohio 45380

To the Village Mayor and Council:

We have audited the accompanying financial statements of Village of Versailles, Darke County, (the Village), as of and for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2005 and 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004 the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 2004. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2005 and 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2005 and 2004, or its changes in financial position or cash flows of its proprietary funds for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of Versailles, Darke County, as of December 31, 2005 and 2004, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2005 and 2004. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2006, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we 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

September 15, 2006

**VILLAGE OF VERSAILLES
DARKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$80,342	\$72,921		\$153,263
Municipal Income Taxes	1,672,322			1,672,322
Special Assessments		59,259		59,259
Intergovernmental Receipts	472,326	230,585	\$62,893	765,804
Charges for Services	206,880	62,419		269,299
Fines, Licenses, and Permits	12,922	1,910		14,832
Earnings on Investments	102,784	16,350		119,134
Miscellaneous	8,992	146,055	4,530	159,577
	<u>2,556,568</u>	<u>589,499</u>	<u>67,423</u>	<u>3,213,490</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
Security of Persons and Property	319,943	111,339		431,282
Public Health Services	17,145	20,714		37,859
Leisure Time Activities		15,087		15,087
Community Environment	16,721			16,721
Basic Utility Services	192,844	18,893		211,737
Transportation		428,733		428,733
General Government	145,675			145,675
Debt Service:				
Principal Payments	32,405		60,000	92,405
Interest Payments	29,486		7,200	36,686
Capital Outlay	41,434	910,035	4,840,121	5,791,590
	<u>795,653</u>	<u>1,504,801</u>	<u>4,907,321</u>	<u>7,207,775</u>
Total Cash Disbursements				
Total Receipts Over/(Under) Disbursements	<u>1,760,915</u>	<u>(915,302)</u>	<u>(4,839,898)</u>	<u>(3,994,285)</u>
Other Financing Receipts and (Disbursements):				
Proceeds of Debt			4,675,224	4,675,224
Transfers-In	580	762,502	185,225	948,307
Transfers-Out	(922,700)		(62,893)	(985,593)
Other Financial Uses	(57,744)			(57,744)
	<u>(979,864)</u>	<u>762,502</u>	<u>4,797,556</u>	<u>4,580,194</u>
Total Other Financing Receipts/(Disbursements)				
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	781,051	(152,800)	(42,342)	585,909
Fund Cash Balances, January 1	<u>1,153,230</u>	<u>1,299,693</u>	<u>610,759</u>	<u>3,063,682</u>
Fund Cash Balances, December 31	<u>\$1,934,281</u>	<u>\$1,146,893</u>	<u>\$568,417</u>	<u>\$3,649,591</u>
Reserves for Encumbrances, December 31	<u>\$61,890</u>	<u>\$275,957</u>	<u>\$47,379</u>	<u>\$385,226</u>

**VILLAGE OF VERSAILLES
DARKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Proprietary Fund Types	Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	Agency	
Operating Cash Receipts:				
Charges for Services	\$5,388,563			\$5,388,563
Earnings on Investments		\$5		5
Total Operating Cash Receipts	<u>5,388,563</u>	<u>5</u>		<u>5,388,568</u>
Operating Cash Disbursements:				
Personal Services	718,496			718,496
Fringe Benefits	13,707			13,707
Contractual Services	4,062,814			4,062,814
Supplies and Materials	351,535			351,535
Capital Outlay	199,263			199,263
Total Operating Cash Disbursements	<u>5,345,815</u>			<u>5,345,815</u>
Operating Income/(Loss)	<u>42,748</u>	<u>5</u>		<u>42,753</u>
Non-Operating Cash Receipts:				
Intergovernmental Receipts	70,905			70,905
Special Assessments	12,161			12,161
Other Financial Sources	2,018		\$69,998	72,016
Total Non-Operating Cash Receipts	<u>85,084</u>		<u>69,998</u>	<u>155,082</u>
Non-Operating Cash Disbursements:				
Debt Service	292,461			292,461
Other Financial Uses	2,719		69,998	72,717
Total Non-Operating Cash Disbursements	<u>295,180</u>		<u>69,998</u>	<u>365,178</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(167,348)	5		(167,343)
Transfers-In	<u>37,286</u>			<u>37,286</u>
Net Receipts Over/(Under) Disbursements	(130,062)	5		(130,057)
Fund Cash Balances, January 1	<u>2,244,620</u>	<u>599</u>		<u>2,245,219</u>
Fund Cash Balances, December 31	<u>\$2,114,558</u>	<u>\$604</u>	<u>\$0</u>	<u>\$2,115,162</u>
Reserve for Encumbrances, December 31	<u>\$54,203</u>	<u>\$0</u>	<u>\$0</u>	<u>\$54,203</u>

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

**VILLAGE OF VERSAILLES
DARKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$77,645	\$71,865		\$149,510
Municipal Income Taxes	1,543,097			1,543,097
Special Assessments		55,710		55,710
Intergovernmental Receipts	482,840	207,292		690,132
Charges for Services	202,239	54,240		256,479
Fines, Licenses, and Permits	6,028	313	291	6,632
Earnings on Investments	30,548	9,426		39,974
Miscellaneous	9,184	40,366	2,345	51,895
Total Cash Receipts	<u>2,351,581</u>	<u>439,212</u>	<u>2,636</u>	<u>2,793,429</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	305,111	87,607		392,718
Public Health Services	16,682	19,423		36,105
Leisure Time Activities		30,093		30,093
Community Environment	8,997			8,997
Basic Utility Services	182,955	9,105		192,060
Transportation		309,324		309,324
General Government	148,375			148,375
Debt Service:				
Principal Payments	15,798			15,798
Interest Payments	15,147			15,147
Capital Outlay	275,477	1,365,740	2,483,186	4,124,403
Total Cash Disbursements	<u>968,542</u>	<u>1,821,292</u>	<u>2,483,186</u>	<u>5,273,020</u>
Total Receipts Over/(Under) Disbursements	<u>1,383,039</u>	<u>(1,382,080)</u>	<u>(2,480,550)</u>	<u>(2,479,591)</u>
Other Financing Receipts and (Disbursements):				
Proceeds of Debt			2,366,058	2,366,058
Sale of Fixed Assets			71,511	71,511
Transfers-In		995,265	207,100	1,202,365
Transfers-Out	(1,202,365)			(1,202,365)
Other Financing Uses	(21,096)			(21,096)
Total Other Financing Receipts/(Disbursements)	<u>(1,223,461)</u>	<u>995,265</u>	<u>2,644,669</u>	<u>2,416,473</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>159,578</u>	<u>(386,815)</u>	<u>164,119</u>	<u>(63,118)</u>
Fund Cash Balances, January 1	<u>993,652</u>	<u>1,686,508</u>	<u>446,640</u>	<u>3,126,800</u>
Fund Cash Balances, December 31	<u>\$1,153,230</u>	<u>\$1,299,693</u>	<u>\$610,759</u>	<u>\$3,063,682</u>
Reserves for Encumbrances, December 31	<u>\$91,598</u>	<u>\$210,142</u>	<u>\$6,113</u>	<u>\$307,853</u>

**VILLAGE OF VERSAILLES
DARKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Nonexpendable Trust</u>	<u>Agency</u>	
Operating Cash Receipts:				
Charges for Services	\$5,018,431			\$5,018,431
Earnings on Investment		\$8		8
Miscellaneous	29			29
Total Operating Cash Receipts	5,018,460	8		5,018,468
Operating Cash Disbursements:				
Personal Services	716,968			716,968
Fringe Benefits	13,828			13,828
Contractual Services	3,333,402			3,333,402
Supplies and Materials	366,435			366,435
Capital Outlay	613,205			613,205
Total Operating Cash Disbursements	5,043,838			5,043,838
Operating Income/(Loss)	(25,378)	8		(25,370)
Non-Operating Cash Receipts:				
Intergovernmental Receipts	72,816			72,816
Special Assessments	9,892			9,892
Other Non-Operating Receipts	3,797		\$71,970	75,767
Total Non-Operating Cash Receipts	86,505		71,970	158,475
Non-Operating Cash Disbursements:				
Debt Service	285,964			285,964
Other Non-Operating Cash Disbursements	3,176		71,970	75,146
Total Non-Operating Cash Disbursements	289,140		71,970	361,110
Net Receipts Over/(Under) Disbursements	(228,013)	8		(228,005)
Fund Cash Balances, January 1	2,472,633	591		2,473,224
Fund Cash Balances, December 31	\$2,244,620	\$599	\$0	\$2,245,219
Reserve for Encumbrances, December 31	\$218,936	\$0	\$0	\$218,936

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

**VILLAGE OF VERSAILLES
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Versailles, Darke County, (the Village) as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides water, sewer, electric utilities, refuse services, park operations, and police and fire services.

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

B. Basis of Accounting

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. This basis recognizes receipts when received in cash rather than when earned, and recognizes disbursements 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 adequately disclose material matters the Auditor of State prescribes.

C. Cash and Investments

The Village's accounting basis includes investments as assets. This basis does not report disbursements for investment purchases or receipts for investment sales. The Village reports gains or losses at the time of sale as receipts or disbursements, respectively.

The Village values certificates of deposit at cost.

D. Fund Accounting

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

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

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

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

3. Capital Project Funds

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

**VILLAGE OF VERSAILLES
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

OWDA Fund - This fund receives loan proceeds from the Ohio Water Development Authority for the construction of a new water treatment plant.

Issue II Fund – This fund receives state grant and loans from the Ohio Public Works Commission for street improvements and water treatment plant.

4. Enterprise Funds

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

Water Fund - This fund receives charges for services from residents to cover water service costs.

Sewer Fund - This fund receives charges for services from residents to cover sewer service costs.

Electric Fund - This fund receives charges for services from residents to cover electric service costs.

5. Fiduciary Funds (Trust and Agency Funds)

Trust funds account for resources restricted by legally binding trust agreements. If the agreement requires the Village to maintain the corpus of the trust, the Village classifies the fund as a nonexpendable trust fund. Other trust funds are classified as expendable. Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant fiduciary funds:

Adelphia Cable Fund – This agency fund reflects resources that belong to the cable company from sales. The Village collects and remits to Adelphia on behalf of Village customers.

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund level of control, and appropriations may not exceed estimated resources. Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

**VILLAGE OF VERSAILLES
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2005 and 2004 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2005	2004
Demand deposits	\$14,753	\$58,901
Certificates of deposit	5,750,000	5,250,000
Total deposits	\$5,764,753	\$5,308,901

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2005 and 2004 follows:

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$2,557,059	\$2,557,148	\$89
Special Revenue	1,386,530	1,352,001	(34,529)
Capital Projects	5,262,259	4,927,872	(334,387)
Enterprise	5,513,239	5,510,933	(2,306)
Total	\$14,719,087	\$14,347,954	(\$371,133)

**VILLAGE OF VERSAILLES
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2005 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$3,334,145	\$1,837,987	\$1,496,158
Special Revenue	2,196,566	1,780,758	415,808
Capital Projects	5,615,979	5,017,593	598,386
Enterprise	6,283,668	5,695,198	588,470
Total	<u>\$17,430,358</u>	<u>\$14,331,536</u>	<u>\$3,098,822</u>

2004 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$2,351,581	\$2,351,581	\$0
Special Revenue	1,439,565	1,434,477	(5,088)
Capital Projects	8,618,803	2,647,305	(5,971,498)
Enterprise	5,264,966	5,104,965	(160,001)
Total	<u>\$17,674,915</u>	<u>\$11,538,328</u>	<u>(\$6,136,587)</u>

2004 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$3,135,811	\$2,283,601	\$852,210
Special Revenue	2,546,955	2,031,434	515,521
Capital Projects	8,794,803	2,489,299	6,305,504
Enterprise	6,440,417	5,551,914	888,503
Total	<u>\$20,917,986</u>	<u>\$12,356,248</u>	<u>\$8,561,738</u>

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment is due December 31. The second half payment is due the following June 20.

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

Property owners assess tangible personal property tax. They must file a list of tangible property to the County by each April 30. The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on the Village's behalf.

**VILLAGE OF VERSAILLES
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

5. LOCAL INCOME TAX

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

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

6. DEBT

Debt outstanding at December 31, 2005 was as follows:

	Principal	Interest Rate
Real Estate Note	\$60,000	6.00%
Elevated Storage Tank Loan-OWDA	802,305	3.39%
Water Treatment Plant Loan-OWDA	6,479,570	3.26%
Water Treatment Plant Loan-Issue II	750,000	0.00%
Electric System Bond Anticipation Note	750,000	2.30%
Total	\$8,841,875	

The Real Estate Note was issued on December 14, 2004, with a maturity date of December 14, 2006. The note is for the purchase of 18 acres of land on the edge of the Village.

The Elevated Storage Tank Loan was issued on September 26, 2002 with a maturity date of January 1, 2024. The Ohio Water Development Authority (OWDA) loan is for the construction of a water tower. The OWDA approved up to \$875,311 in loans to the Village for this project. The Village will repay the loans in semiannual installments of \$30,945.

The Water Treatment Plant Loan was issued on October 30, 2003, with a maturity date of January 1, 2026. The Ohio Water Development Authority (OWDA) loan is for the construction of the water treatment plant. The OWDA approved up to \$7,427,902 in loans to the Village for this project. As of December 31, 2005, the entire loan proceeds have not been received by the Village; therefore a repayment schedule has not been developed by the Ohio Water Development Authority.

The Water Treatment Plant Loan was issued on October 1, 2005, with a maturity date of July 1, 2025. Ohio Public Works Commission (OPWC) (Issue II) loan is for the construction of water treatment plant. OPWC approved up to \$750,000 in interest free loans to the Village for this project. As of December 31, 2005, the Village had not made a payment, but the Village will repay the loan in semiannual installments of \$18,750.

The Electric System Bond Anticipation Note was issued on November 25, 2005, and matures on November 25, 2006. The entire note including interest is due on the maturity date. The note is for the upgrading of the electric system throughout the village.

In addition to the debt described above, the OMEGA JV5 Project consists of governmental entities that have joined together to finance a municipal electric generation facility. Bonded debt was issued in the amount of \$153,415,000 for the entire project. The Village pays the principal and interest amounts as invoiced based on their ownership interest in the venture, which changes as new entities join. The debt is repaid through the purchase price of the electricity and is financed through user charges.

**VILLAGE OF VERSAILLES
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

6. DEBT (Continued)

Amortization of the above debt, including interest, follows:

<u>Year ending December 31:</u>	<u>Real Estate Note</u>	<u>Elevated Storage Tank Loan</u>	<u>Water Treatment Plant Loan (OPWC)</u>	<u>Electric System Bond Anticipation Note</u>
2006	\$63,600	\$61,890	\$37,500	\$767,250
2007	0	61,890	37,500	0
2008	0	61,890	37,500	0
2009	0	61,890	37,500	0
2010	0	61,890	37,500	0
2011-2015	0	309,450	187,500	0
2016-2020	0	309,450	187,500	0
2021-2025	0	216,615	187,500	0
Total	<u>\$63,600</u>	<u>\$1,144,965</u>	<u>\$750,000</u>	<u>\$767,250</u>

7. RETIREMENT SYSTEMS

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

The Ohio Revised Code also prescribes contribution rates. For 2005 and 2004, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant wages. OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2005.

8. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles;
- Law Enforcement;
- Inland Marine;
- Boiler;
- Electronic Data Processing; and
- Errors and omissions.

**VILLAGE OF VERSAILLES
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

8. RISK MANAGEMENT (Continued)

Risk Pool Membership

The Village belongs to the Ohio Municipal Joint Self-Insurance Pool, (the "Pool"), an unincorporated non-profit association available to municipal corporations and their instrumentalities. The Plan is a separate legal entity per Section 2744 of the Ohio Revised Code. The Pool provides property and casualty insurance for its members. The Plan pays judgments, settlements and other expenses resulting for covered claims that exceed the members' deductibles.

The Pool cedes certain premiums to reinsurers or excess reinsurers. The Pool is contingently liable should any reinsurer be unable to meet its reinsurance obligations.

The Pool's financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained deficit at December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Assets	\$ 2,241,661	\$2,309,178
Liabilities	<u>(3,457,720)</u>	<u>(3,343,299)</u>
Accumulated deficit	<u>(\$1,216,059)</u>	<u>(\$1,034,121)</u>

9. JOINT VENTURE

The Village of Versailles is a Financing Participant and an Owner Participant with percentages of liability and ownership of 1.58% and 1.24% respectively and shares participation with thirty-five other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency (OMEGA JV2). Owner Participants own undivided interest, as tenants in common, in the OMEGA JV2 Project in the amount of their respective Project Shares. Purchaser Participants agree to purchase the output associated with their respective Project shares, ownership of which is held in trust for such Purchaser Participants.

Pursuant to the OMEGA JV2 Agreement, the participants jointly undertook as either Financing Participants or Non-Financing Participants and as either Owner Participants or Purchaser Participants, the acquisition, construction, and equipping of OMEGA JV2, including such portions of OMEGA JV2 as have been acquired, constructed or equipped by AMP-Ohio and to pay or incur the costs of the same in accordance with the Agreement.

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Distributive Generation Bonds (Bonds) from the revenue of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. Under the terms of the Agreement each Financing Participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV2 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2005, the Village of Versailles has met their debt coverage obligation.

**VILLAGE OF VERSAILLES
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

9. JOINT VENTURE (Continued)

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65 MW of distributed generation of which 134.081 MW is the participants' entitlement and 4.569 MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP-Ohio, which acts as the joint venture's agent. During 2001, AMP-Ohio issued \$50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. The Village's net obligation for these bonds at December 31, 2005, was \$564,221 (Including amounts withheld for Debt Service Reserve, amounts held in the Bond Fund, previous billings to members, interest payable and debt service paid and collected). The net investment in OMEGA JV2 was \$550,217 at December 31, 2005. Complete financial statements for OMEGA JV2 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

The Village's liability for the bonds is disclosed below:

<u>Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2006	\$30,645	\$32,586	\$63,231
2007	31,909	31,360	63,269
2008	33,489	29,765	63,254
2009	35,147	28,090	63,237
2010	36,885	26,333	63,218
2011-2020	491,433	140,958	632,391
Total Gross Liability	<u>659,508</u>	<u>\$289,092</u>	<u>\$948,600</u>
Less: Amounts Held in Reserve	<u>(95,287)</u>		
Net Obligation	<u>\$564,221</u>		

10. CONTINGENT LIABILITIES

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.



**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***

Village of Versailles
Darke County
P.O. Box 288
Versailles, Ohio 45380

To the Village Mayor and Council:

We have audited the financial statements of the Village of Versailles, Darke County, (the Village), as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated September 15, 2006, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures 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

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Village's management dated September 15, 2006, we reported a matter related to noncompliance we deemed immaterial.

Village of Versailles
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 audit committee, management, and Village Council. 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

September 15, 2006



**Auditor of State
Betty Montgomery**

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P.O. Box 1140
Columbus, Ohio 43216-1140

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800-282-0370

Facsimile 614-466-4490

VILLAGE OF VERSAILLES

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
NOVEMBER 9, 2006**