



Dave Yost • Auditor of State

VILLAGE OF VERSAILLES
DARKE COUNTY

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Dave Yost • Auditor of State

Village of Versailles
Darke County
177 North Center Street
PO 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 an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your Village 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 adverse 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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Dave Yost
Auditor of State

May 10, 2012, except for information presented in Note 12, for which the date is July 2, 2012

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Versailles
Darke County
177 North Center Street
PO Box 288
Versailles, Ohio 45380

To the Village Council:

We have audited the accompanying financial statements of the Village of Versailles, Darke County, (the Village) as of and for the years ended December 31, 2011 and 2010. 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.

Instead of the combined funds the accompanying financial statements present, GAAP requires presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. 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 GAAP presentation requirements. The Auditor of State permits, but does not require Village to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2011 and 2010 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, 2011 and 2010, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances as of December 31, 2011 and 2010 and the reserves for encumbrances as of December 31, 2010 of Village of Versailles, Darke County, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As described in Note 2, during 2011 the Village of Versailles adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2012, except for information presented in Note 12, for which the date is July 2, 2012, 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 "Dave Yost". The signature is written in a cursive style with a large, looping "Y" and "O".

Dave Yost
Auditor of State

May 10, 2012, except for information presented in Note 12, for which the date is July 2, 2012

**VILLAGE OF VERSAILLES
DARKE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:					
Property and Other Local Taxes	\$77,047	\$61,871	\$17,195		\$156,113
Municipal Income Tax	1,226,089	606,321			1,832,410
Intergovernmental	577,913	558,821		\$540,274	1,677,008
Special Assessments		39,538			39,538
Charges for Services	221,073	350,632	24,744		596,449
Fines, Licenses and Permits	15,067	1,119			16,186
Earnings on Investments	33,243	6,718			39,961
Miscellaneous	18,216	155,806		9,095	183,117
Total Cash Receipts	<u>2,168,648</u>	<u>1,780,826</u>	<u>41,939</u>	<u>549,369</u>	<u>4,540,782</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	458,438	317,076			775,514
Public Health Services	16,332	19,273			35,605
Leisure Time Activities		63,223			63,223
Community Environment	20,375				20,375
Basic Utility Services	158,096	25,131			183,227
Transportation		387,803			387,803
General Government	180,312				180,312
Capital Outlay	385,267	1,560,155		571,140	2,516,562
Debt Service:					
Principal Retirement	351,013		70,795	2,360	424,168
Interest and Fiscal Charges	220,710		87,367		308,077
Total Cash Disbursements	<u>1,790,543</u>	<u>2,372,661</u>	<u>158,162</u>	<u>573,500</u>	<u>4,894,866</u>
Excess of Receipts Over (Under) Disbursements	<u>378,105</u>	<u>(591,835)</u>	<u>(116,223)</u>	<u>(24,131)</u>	<u>(354,084)</u>
Other Financing Receipts (Disbursements):					
Other Debt Proceeds				20,000	20,000
Transfers In		272,379	116,225	15,610	404,214
Transfers Out	(455,214)				(455,214)
Total Other Financing Receipts (Disbursements)	<u>(455,214)</u>	<u>272,379</u>	<u>116,225</u>	<u>35,610</u>	<u>(31,000)</u>
Net Change in Fund Cash Balances	(77,109)	(319,456)	2	11,479	(385,084)
Fund Cash Balances, January 1 (Restated Note 2)	<u>2,674,551</u>	<u>2,285,414</u>	<u>117,147</u>	<u>199,341</u>	<u>5,276,453</u>
Fund Cash Balances, December 31:					
Restricted		1,965,958	117,149	210,820	2,293,927
Unassigned (Deficit)	2,597,442				2,597,442
Fund Cash Balances, December 31	<u>\$2,597,442</u>	<u>\$1,965,958</u>	<u>\$117,149</u>	<u>\$210,820</u>	<u>\$4,891,369</u>

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

**VILLAGE OF VERSAILLES
DARKE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals</u>
	<u>Enterprise</u>	<u>Private Purpose Trust</u>	<u>(Memorandum Only)</u>
Operating Cash Receipts:			
Charges for Services	\$6,117,540		\$6,117,540
Total Operating Cash Receipts	<u>6,117,540</u>		<u>6,117,540</u>
Operating Cash Disbursements:			
Personal Services	806,756		806,756
Employee Fringe Benefits	15,260		15,260
Contractual Services	3,888,987		3,888,987
Supplies and Materials	322,126		322,126
Total Operating Cash Disbursements	<u>5,033,129</u>		<u>5,033,129</u>
Operating Income (Loss)	<u>1,084,411</u>		<u>1,084,411</u>
Non-Operating Receipts (Disbursements):			
Capital Outlay	(1,760,073)		(1,760,073)
Principal Retirement	(192,902)		(192,902)
Interest and Other Fiscal Charges	(73,058)	\$1	(73,057)
Other Debt Proceeds	689,696		689,696
Transfers-in	51,000		51,000
Other Financing Sources	7,360		7,360
Other Financing Uses	(5,233)		(5,233)
Total Non-Operating Receipts (Disbursements)	<u>(1,283,210)</u>	<u>1</u>	<u>(1,283,209)</u>
Net Change in Fund Cash Balances	(198,799)	1	(198,798)
Fund Cash Balances, January 1	<u>4,704,894</u>	<u>691</u>	<u>4,705,585</u>
Fund Cash Balances, December 31	<u>\$4,506,095</u>	<u>\$692</u>	<u>\$4,506,787</u>

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

**VILLAGE OF VERSAILLES
DARKE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Cash Receipts:					
Property and Local Taxes	\$75,839	\$59,624	\$17,201		\$152,664
Municipal Income Tax	1,143,844	553,979			1,697,823
Intergovernmental	471,066	564,355			1,035,421
Special Assessments		45,571			45,571
Charges for Services	222,984	340,311	24,752		588,047
Fines, Licenses and Permits	15,104	1,290			16,394
Earnings on Investments	52,153	5,024			57,177
Miscellaneous	7,002	134,014		\$6,131	147,147
Total Cash Receipts	1,987,992	1,704,168	41,953	6,131	3,740,244
Cash Disbursements:					
Current:					
Security of Persons and Property	420,011	301,135			721,146
Public Health Services	16,024	25,699			41,723
Leisure Time Activities		72,366			72,366
Community Environment	21,785				21,785
Basic Utility Service	181,955	8,839			190,794
Transportation		378,130			378,130
General Government	195,509				195,509
Capital Outlay	78,902	628,095		210	707,207
Debt Service:					
Redemption of Principal	339,795		34,635	37,360	411,790
Interest and Fiscal Charges	231,928		7,318	82,623	321,869
Total Cash Disbursements	1,485,909	1,414,264	41,953	120,193	3,062,319
Total Receipts Over/(Under) Disbursements	502,083	289,904		(114,062)	677,925
Other Financing Receipts / (Disbursements):					
Transfers-In		708,696		249,550	958,246
Transfers-Out	(1,247,306)				(1,247,306)
Total Other Financing Receipts / (Disbursements)	(1,247,306)	708,696		249,550	(289,060)
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(745,223)	998,600		135,488	388,865
Fund Cash Balances, January 1 (Restated Note 2)	3,419,774	1,286,814		181,000	4,887,588
Fund Cash Balances, December 31	<u>\$2,674,551</u>	<u>\$2,285,414</u>		<u>\$316,488</u>	<u>\$5,276,453</u>
Reserve for Encumbrances, December 31	<u>\$290,256</u>	<u>\$236,491</u>	<u>\$0</u>	<u>\$0</u>	<u>\$526,747</u>

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

**VILLAGE OF VERSAILLES
DARKE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND BALANCES (CASH BASIS)- ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Proprietary Fund Types	Fiduciary Fund Types	Totals (Memorandum Only)
	Enterprise	Prive Purpose Trust	
Operating Cash Receipts:			
Charges for Services	\$6,248,915		\$6,248,915
Total Operating Cash Receipts	<u>6,248,915</u>		<u>6,248,915</u>
Operating Cash Disbursements:			
Personal Services	814,379		814,379
Travel / Training	16,942		16,942
Contractual Services	4,152,938		4,152,938
Supplies and Materials	281,628		281,628
Other			
Total Operating Cash Disbursements	<u>5,265,887</u>		<u>5,265,887</u>
Operating Income/(Loss)	<u>983,028</u>		<u>983,028</u>
Non-Operating Cash Receipts (Disbursements):			
Special Assessments	9,066		9,066
Intergovernmental	3,310,851		3,310,851
Other Debt Proceeds	1,840,343		1,840,343
Earnings on Investments		\$3	3
Transfers-in	289,060		289,060
Other Non-Operating Cash Receipts	5,429		5,429
Capital Outlay	(2,678,807)		(2,678,807)
Redemption of Principal	(3,460,288)		(3,460,288)
Interest and Other Fiscal Charges	(91,224)		(91,224)
Other Non-Operating Cash Disbursements	(5,608)		(5,608)
Total Non-Operating Cash Disbursements	<u>(781,178)</u>	<u>3</u>	<u>(781,175)</u>
Net Change in Fund Balances	201,850	3	201,853
Fund Cash Balances, January 1 (Restated Note 2)	<u>4,503,044</u>	<u>688</u>	<u>4,503,732</u>
Fund Cash Balances, December 31	<u>\$4,704,894</u>	<u>\$691</u>	<u>\$4,705,585</u>
Reserve for Encumbrances, December 31	<u>\$200,434</u>	<u>\$0</u>	<u>\$200,434</u>

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, 2011 AND 2010**

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 directs the Village. The Village provides water, sewer and electric utilities, refuse services, park operations, and police, fire and emergency medical services.

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

B. Accounting Basis

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. The Village 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 include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Deposits and Investments

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

The Village values certificates of deposit, and repurchase agreements 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 private-purpose 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.

EMS Fund – This fund receives fees from ambulance runs for operation and upkeep of the Emergency Medical Services operation.

**VILLAGE OF VERSAILLES
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fire Fund – This fund receives property tax money and contract money from various townships which the Village Fire Department covers for the operation and upkeep of the Fire Department.

.5% Income Tax Fund – This fund receives income tax money for the street construction and major repair purposes consisting of storm drainage improvements, sanitary sewer improvements, waterline improvements, and maintenance.

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:

Issue II – The Village received a grant from the State of Ohio for the Northwest Street Project.

4. Debt Service Funds

These funds account for resources the Village accumulates to pay bond and note debt. The Village had the following significant Debt Services Funds:

Fire Truck Debt Service Fund – This fund receives property tax and contract money from various townships which is used to pay the debt of the Fire Truck Bond.

Emergency Services Facility Fund – This fund receives transfers from the General Fund to pay the debt for the new Emergency Services Building.

5. 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 customers to cover water service costs.

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

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

Water Pollution Control Loan Fund – This fund receives loan proceeds from the Ohio Water Development Authority for the construction of a new wastewater treatment plant.

**VILLAGE OF VERSAILLES
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Fiduciary Funds

Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs.

The Village's private purpose trust fund is from proceeds from residents for a bicentennial and tri-centennial celebration for village residents.

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund level of control, and appropriations may not exceed estimated resources. The 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.

3. Encumbrances

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

A summary of 2010 and 2011 budgetary activity appears in Note 4.

F. Fund Balance

For December 31, 2011, fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Non-spendable

The Village classifies assets as *non-spendable* when legally or contractually required to maintain the amounts intact.

2. Restricted

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

**VILLAGE OF VERSAILLES
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Committed

Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

4. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

G. 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.

H. 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. CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE

Restatement of Fund balance: The restatement of the December 31, 2009 fund balance was required between the Special Revenue and Enterprise Funds and the Capital Projects and the Enterprise Funds due to an error in the classification of funds in the prior audit. The reclassification had the following effect on the fund balances as previously reported by the Village:

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Enterprise</u>	<u>Private Purpose Trust</u>
Fund Balance at December 31, 2009	\$3,419,774	\$1,266,710	\$1,052,030	\$0	\$3,652,118	\$688
Change in Fund Classification		20,104	(871,030)		850,926	
Adjusted Fund Balance at December 31, 2009	<u>\$3,419,774</u>	<u>\$1,286,814</u>	<u>\$181,000</u>	<u>\$0</u>	<u>\$4,503,044</u>	<u>\$688</u>

**VILLAGE OF VERSAILLES
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

**2. CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE
(Continued)**

Change in Accounting Principle and Restatement of Net Assets/Fund Equity: For fiscal year 2011, the Village reclassified certain funds as required by the revised fund classification guidance in Governmental Accounting Standard Board (GASB) Statement No. 54. Implementing GASB Statement No. 54 had the following effect on fund balances previously reported:

	<u>Fund Balance at December 31, 2010</u>	<u>GASB 54 Change in Fund Structure</u>	<u>Adjusted Fund Balance at December 31, 2010</u>
Debt Service		\$117,147	\$117,147
Capital Projects	\$316,488	(117,147)	199,341

3. EQUITY IN POOLED DEPOSITS AND INVESTMENTS

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

	<u>2011</u>	<u>2010</u>
Demand deposits	\$ 497,464	\$ 481,348
Certificates of deposit	8,900,692	9,500,690
Total deposits	<u>\$9,398,156</u>	<u>\$9,982,038</u>

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

4. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2011 and 2010 follows:

2011 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 2,168,706	\$ 2,168,648	(\$ 58)
Special Revenue	3,119,343	2,053,205	(1,066,138)
Debt Service	158,164	158,164	
Capital Projects	990,364	584,979	(405,385)
Enterprise	7,621,226	6,865,596	(755,630)
Fiduciary	0	1	1
Total	<u>\$14,057,803</u>	<u>\$11,830,593</u>	<u>(\$2,227,210)</u>

2011 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 2,622,915	\$ 2,269,113	\$ 353,802
Special Revenue	4,239,449	2,674,372	1,565,077
Debt Service	158,164	158,162	2
Capital Projects	1,062,607	868,499	194,108
Enterprise	8,149,456	7,415,311	734,145
Fiduciary	0	0	0
Total	<u>\$16,232,591</u>	<u>\$13,385,457</u>	<u>\$2,847,134</u>

**VILLAGE OF VERSAILLES
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

4. BUDGETARY ACTIVITY (Continued)

2010 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 2,082,571	\$ 1,987,992	(\$ 94,579)
Special Revenue	2,991,861	2,412,864	(578,997)
Debt Service	41,953	41,953	0
Capital Projects	1,800,477	255,681	(1,544,796)
Enterprise	11,707,411	11,703,664	(3,747)
Fiduciary	0	3	3
Total	\$18,624,273	\$16,402,157	(\$2,222,116)

2010 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 3,150,002	\$ 3,023,471	\$ 126,531
Special Revenue	3,251,356	1,650,755	1,600,601
Debt Service	41,953	41,953	0
Capital Projects	1,684,471	120,193	1,564,278
Enterprise	12,134,920	11,702,248	432,672
Fiduciary	0	0	0
Total	\$20,262,702	\$16,538,620	\$3,724,082

5. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted 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 financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

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

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

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

6. 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.

**VILLAGE OF VERSAILLES
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

7. DEBT

Debt outstanding at December 31, 2011 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Elevated Storage Tank Loan - OWDA	\$ 583,242	3.39%
Water Treatment Plant - OWDA	5,853,731	3.26%
Water Treatment Plant - OPWC	506,250	0.00%
Chamber of Commerce Loan	20,000	0.00%
Emergency Services Facility Loan	1,650,000	3.70-5.00%
Fire Truck Loan	155,569	3.32%
Wastewater Treatment Plant - OWDA	3,159,859	1.00%
Wastewater Treatment Plant - OPWC	925,000	0.00%
Total	<u>\$12,853,651</u>	

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 \$832,191 in loans to the Village for this project. The Village will repay the loan in semiannual installments of \$30,945. An amortization schedule for this loan has not been completed by OWDA.

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 \$7,427,745 in loan to the Village for this project. The Village will repay the loan in semiannual installments of \$254,916.

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 the water treatment plant. OPWC approved \$750,000 in interest free loan to the Village for this project. The Village will repay the loan in semiannual installments of \$18,750.

The Chamber of Commerce Loan was issued on March 24, 2011, with a maturity date of March 24, 2016. The Chamber of Commerce Loan is for the extension of a gas line to the Versailles Industrial Park North. The loan will be repaid in five equal annual installments of \$4,000.

The Emergency Services Facility Bonds were issued on June 7, 2007, with a maturity date of December 1, 2036. The bonds were issued for the purpose of constructing, improving, furnishing and equipping an Emergency Services Facility with related facilities and site improvements. The Village will repay the loan in annual installments ranging from \$119,825 to \$110,250.

The Wastewater Treatment Plan Loan with OWDA began on September 2009 and continues through 2012, estimated. OWDA approved up to \$7,820,870 in loan to the Village for this project. The Village also received \$4,473,196 in American Recovery and Reinvestment Act (ARRA) money to offset their loan with OWDA. The Village will begin to repay the loan in semiannual installments beginning July 1, 2012. An amortization schedule will be finalized upon the completion of the project.

The Wastewater Treatment Plant Loan with OPWC was issued on October 19, 2009 for \$1,000,000. The Village will repay the loan in semiannual installments of \$25,000.

The Fire Truck Loan was issued on October 1, 2009 with a maturity date of October 1, 2015 for the purchase of a new truck. The Village will repay the loan in semiannual installments ranging from \$17,175 to \$20,927.

**VILLAGE OF VERSAILLES
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

7. DEBT (Continued)

In additional 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.

Amortization of the above debt, including interest, is scheduled as follows:

<u>Year ending December 31:</u>	<u>Water Treatment Plant Loan (OPWC)</u>	<u>Emergency Services Facilities Bonds</u>	<u>Chamber of Commerce Loan</u>
2012	\$ 50,000	\$119,823	\$ 4,000
2013	50,000	118,123	4,000
2014	50,000	116,403	4,000
2015	50,000	114,663	4,000
2016	50,000	117,923	4,000
2017-2021	250,000	587,508	
2022-2026	250,000	581,338	
2027-2031	175,000	571,430	
2032-2036		559,500	
Total	<u>\$925,000</u>	<u>2,886,711</u>	<u>\$20,000</u>

<u>Year ending December 31:</u>	<u>Water Treatment Plant Loan (OWDA)</u>	<u>Water Treatment Plant Loan (OPWC)</u>	<u>Fire Equipment Series Bonds</u>
2012	\$509,832	\$ 37,500	\$41,854
2013	509,832	37,500	41,854
2014	509,832	37,500	41,854
2015	509,832	37,500	41,854
2016	509,832	37,500	
2017-2021	2,549,161	187,500	
2022-2026	2,294,245	131,250	
2027-2031			
2032-2036			
Total	<u>\$7,392,566</u>	<u>\$506,250</u>	<u>\$167,416</u>

8. RETIREMENT SYSTEMS

The Village's full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). Other 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 these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2011 and 2010, OP&F participants contributed 10% of their wages. For 2011 and 2010, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2011 and 2010, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2011.

**VILLAGE OF VERSAILLES
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

9. 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.

10. Contingent Liabilities

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor.

11. JOINT VENTURES

A. Ohio Municipal Electric Generation Agency (OMEGA JV2)

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 interests, 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 (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 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 revenues 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, 2011 the Village of Versailles has met their debt coverage obligation.

**VILLAGE OF VERSAILLES
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

11. JOINT VENTURES (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 134.081MW is the participants entitlement and 4.569MW 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, which acts as the joint venture's agent. During 2001, AMP 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. On January 3, 2011, AMP redeemed all of the \$31,110,000 OMEGA JV2 Project Distributive Generation Bonds then outstanding by borrowing on AMP's revolving credit facility. As such, the remaining outstanding bond principal of the OMEGA JV2 indebtedness was reduced to zero, with the remaining principal balance now residing on the AMP credit facility. As of December 31, 2011, the outstanding debt was \$23,633,931. The Villages's net obligation for this amount at December 31, 2011 was \$373,416. The net investment in OMEGA JV2 was \$395,893 at December 31, 2011. Complete financial statements for OMEGA JV2 may be obtained from AMP or from the State Auditor's website at www.auditor.state.oh.us.

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2011 are:

<u>Municipality</u>	<u>Percent Ownership</u>	<u>Kw Entitlement</u>	<u>Municipality</u>	<u>Percent Ownership</u>	<u>Kw Entitlement</u>
Hamilton	23.87%	\$ 32,000	Grafton	0.79%	\$ 1,056
Bowling Green	14.32%	19,198	Brewster	0.75%	1,000
Niles	11.49%	15,400	Monroeville	0.57%	764
Cuyahoga Falls	7.46%	10,000	Milan	0.55%	737
Wadsworth	5.81%	7,784	Oak Harbor	0.55%	737
Painesville	5.22%	7,000	Elmore	0.27%	364
Dover	5.22%	7,000	Jackson Center	0.22%	300
Galion	4.29%	5,753	Napoleon	0.20%	264
Amherst	3.73%	5,000	Lodi	0.16%	218
St. Mary's	2.98%	4,000	Genoa	0.15%	199
Montpelier	2.98%	4,000	Pemberville	0.15%	197
Shelby	1.89%	2,536	Lucas	0.12%	161
Versailles	1.24%	1,660	South Vienna	0.09%	123
Edgerton	1.09%	1,460	Bradner	0.09%	119
Yellow Springs	1.05%	1,408	Woodville	0.06%	81
Oberlin	0.91%	1,217	Haskins	0.05%	73
Pioneer	0.86%	1,158	Arcanum	0.03%	44
Seville	0.79%	1,066	Custar	0.00%	4
	<u>95.20%</u>	<u>\$127,640</u>		<u>4.80%</u>	<u>6,441</u>
			Grand Total	<u>100.00%</u>	<u>\$134,081</u>

**VILLAGE OF VERSAILLES
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

11. JOINT VENTURES (Continued)

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

<u>Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2012	\$ 40,913	\$ 22,356	\$ 63,269
2013	43,046	20,208	63,254
2014	45,257	17,948	63,206
2015	47,627	15,572	63,199
2016-2020	196,573	40,478	237,051
Total Gross Liability	<u>\$373,416</u>	<u>\$116,564</u>	<u>\$489,979</u>
Net Obligation	<u>\$373,416</u>		

B. Ohio Municipal Electric Generation Agency (OMEGA JV5)

The Village of Versailles is a Financing Participant with an ownership percentage of 1.10 %, and shares participation with forty-one other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV5). Financing Participants own undivided interests, as tenants in common, without right of partition in the OMEGA JV5 Project.

Pursuant to the OMEGA Joint Venture JV5 Agreement (Agreement), the participants jointly undertook as Financing Participants, the acquisition, construction, and equipping of OMEGA JV5, including such portions of OMEGA JV5 as have been acquired, constructed or equipped by AMP.

OMEGA JV5 was created to construct a 42 Megawatt (MW) run-of-the-river hydroelectric plant (including 40MW of backup generation) and associated transmission facilities (on the Ohio River near the Bellville, West Virginia Locks and Dam) and sells electricity from its operations to OMEGA JV5 Participants.

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (Certificates) from the revenues 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. On dissolution of OMEGA JV5, the net assets will be shared by the financing participants on a percentage of ownership basis. Under the terms of the Agreement each 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 JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2011, Versailles has met their debt coverage obligation.

The Agreement provides that the failure of any JV5 participant to make any payment due by the due date thereof constitutes a default. In the event of a default, OMEGA JV5 may take certain actions including the termination of a defaulting JV5 Participant's entitlement to Project Power. Each Participant may purchase a pro rata share of the defaulting JV5 Participant's entitlement to Project Power, which together with the share of the other non-defaulting JV5 Participants, is equal to the defaulting JV5 Participant's ownership share of the Project, in kilowatts ("Step Up Power") provided that the sum of any such increases shall not exceed, without consent of the non-defaulting JV5 Participant, an accumulated maximum kilowatts equal to 25% of such non-defaulting JV5 Participant's ownership share of the project prior to any such increases.

**VILLAGE OF VERSAILLES
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

11. JOINT VENTURES (Continued)

OMEGA JV5 is managed by AMP, which acts as the joint venture's agent. During 1993 and 2001 AMP issued \$153,415,000 and \$13,899,981 respectively of 30 year fixed rate Beneficial Interest Certificates (Certificates) on behalf of the Financing Participants of OMEGA JV5. The 2001 Certificates accrete to a value of \$56,125,000 on February 15, 2030. The net proceeds of the bond issues were used to construct the OMEGA JV5 Project. On February 17, 2004 the 1993 Certificates were refunded by issuing 2004 Beneficial Interest Refunding Certificates in the amount of \$116,910,000, which resulted in a savings to the membership of \$34,951,833 from the periods 2005 through 2024.

The Village's net investment to date in OMEGA JV5 was \$116,832 at December 31, 2011. Complete financial statements for OMEGA JV5 may be obtained from AMP or from the State Auditor's website at www.auditor.state.oh.us.

12. AMERICAN MUNICIPAL POWER GENERATING STATION PROJECT

The Village of Versailles is a participant in the American Municipal Power Generating Station Project (the "AMPGS Project"). The Village executed a take-or-pay contract on November 1, 2007 in order to participate in the AMPGS Project.

History of the AMPGS Project

In November 2009, the participants of the AMP Generating Station Project (the "AMPGS Project") voted to terminate the development of the pulverized coal power plant in Meigs County, Ohio. The AMPGS Project was to be a 1,000 MW base load, clean-coal technology plant scheduled to go on-line in 2014. This pulverized coal plant was estimated to be a \$3 billion project, but the project's estimated capital costs increased by 37% and the engineer, procure and construct ("EPC") contractor could not guarantee that the costs would not continue to escalate. At the termination date, minimal construction had been performed on the AMPGS Project at the Meigs County site.

At the same time, the participants voted to pursue conversion of the project to a Natural Gas Combined Cycle Plant (the "NGCC Plant") to be developed under a lump-sum-turn-key fixed-price contract that would be open to interested AMP members. The NGCC Plant was planned to be developed on the Meigs County site previously planned for the AMPGS project. In February 2011, development of the NGCC Plant was suspended due to the availability of purchasing the AMP Fremont Energy Center ("AFEC") at a favorable price. AMP intends to develop this site for the construction of a generating asset; however, at December 31, 2011, the type of generating asset has not been determined.

As mentioned above, the AMPGS project participants signed "take or pay" contracts with AMP. As such, the participants of the project are obligated to pay all costs incurred for the project. To date it has not been determined what those total final costs are for the project participants.

As a result of these decisions to date, the AMPGS Project costs have been reclassified out of construction work-in-progress and into plant held for future use or regulatory assets in the combined balance sheet. AMP has reclassified \$34,881,075 of costs to plant held for future use as these costs were determined to be associated with the undeveloped Meigs County site regardless of the determination of which type of generating asset will be developed on the site. The remaining costs previously incurred were determined to be impaired but reclassified as a regulatory asset which is fully recoverable from the AMPGS Project participants as part of their unconditional obligation under the "take or pay" contract. At December 31, 2011 AMP has a regulatory asset of \$86,548,349 for the recovery of these abandoned construction costs. AMP is currently working with the AMPGS project participants to establish a formal plan for the recovery on a participant by participant basis.

**VILLAGE OF VERSAILLES
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

12. AMERICAN MUNICIPAL POWER GENERATING STATION PROJECT (Continued)

AMP has consistently communicated with the AMPGS participants as to the risks and uncertainties with respect to the outstanding potential liability the Village has as a result of the cancellation of the AMPGS Project. Meetings with AMPGS Project participants have been held as necessary to communicate any updates to both costs being incurred and ongoing litigation. At the request of the participants, on November 18, 2011 and December 13, 2011 AMP sent memos to AMPGS participants providing the participant's information identifying their potential AMPGS stranded cost liability and providing options for payment of those stranded costs, if the participant so chose. These memos were not invoices, but provided the participants with information which they could utilize in determining if they wanted to pay down a portion or all of the identified maximum exposure. AMP is holding the AMPGS Project stranded costs on its revolving credit facility and is accruing interest in addition to legal fees being incurred in its case with the EPC contractor. AMP would hold any payments received as a deposit in order to cease interest accruals on that portion paid.

Based on an allocation to Versailles of 5,000 kW and the allocation methodology, both approved as the same by the AMP Board of Trustees, as of December 31, 2011 the Village of Versailles has a potential stranded cost obligation of \$809,968 for the AMPGS Project. The Village of Versailles does not have any payments on deposit with AMP at December 31, 2011.

AMP Fremont Energy Center (AFEC) Development Fee

The AFEC Development Fee is the amount paid by AFEC participants to the AMPGS project as a Development Fee in August, 2011. AFEC participants are a separate group of AMP members that obtained financing for engineering, consulting and other development costs for expertise obtained by AMP for Natural Gas Combined Cycle power plants. This amount is financed by AMP, Inc. and is to be collected through debt service from AFEC participants. The Development Fee paid by all AFEC Participants is credited to the potential AMPGS costs of each AFEC participant that is also an AMPGS participant in proportion to their relative percentage of AFEC (but not less than zero) as approved by the AMP Board (please see Amended Minutes of May 3, 2011). The Village is a participant in the AFEC project and has received a credit to reduce its share of AMPGS potential stranded costs as noted below.

Based on the allocation methodology approved by the AMP Board of Trustees as mentioned above, the Village receives a credit of \$276,398 for being a participant in both projects. This credit is proportionate to its AFEC allocation kW share of 2,640 and the total kW share of those participating in both projects. The Village had not recorded this credit in its financial statements as of December 31, 2011.

Recording of Stranded Costs

The Village has not recorded the stranded cost of \$533,570 for the AMPGS Project on its financial statements.

The Village has requested an invoice from AMP in two equal payments to be paid in 2012 and 2013 as approved by the Village Council at its April 25, 2012 meeting. The Village has also opened purchase order #13776 dated April 26, 2012 for the amount of \$266,785 (half of stranded cost) to obligate the funds in 2012.

The Village believes it has not violated its covenant obligations for its Electric Fund bonds and its debt covenant obligation(s) with Ohio Municipal Electric Generation Agency (OMEGA) Joint Venture 5 & 2.

**VILLAGE OF VERSAILLES
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

12. AMERICAN MUNICIPAL POWER GENERATING STATION PROJECT (Continued)

In making its determination as to how to proceed with the accounting treatment for the potential AMPGS Project liability, the Village has relied upon Sawvel and Associates, Inc, village consultant, Thomas Guillozet, Village Attorney, and information as provided by AMP, as well as the Village's audit committee and Village management.



Dave Yost • Auditor of State

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
177 North Center Street
PO Box 288
Versailles, Ohio 45380

To the Village 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, 2011 and 2010, and have issued our report thereon dated May 10, 2012, except for information presented in Note 12, for which the date is July 2, 2012, wherein we noted the Village adopted the provisions of Government Accounting Standards Board Statement No. 54, *Fund Balance and Governmental Fund Type Definitions* for the year ended December 31, 2011. We also noted the Village prepared its financial statements using accounting practices the Auditor of State prescribes or permits 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 as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness and another deficiency we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-002 described in the accompanying schedule of findings to be a material weakness.

**Internal Control Over Financial Reporting
(Continued)**

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2011-001 described in the accompanying schedule of findings to be a significant deficiency.

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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2011-001 and 2011-002.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated May 10, 2012.

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Village's responses and, accordingly, we express no opinion on them.

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



Dave Yost
Auditor of State

May 10, 2012, except for information presented in Note 12, for which the date is July 2, 2012

**VILLAGE OF VERSAILLES
DARKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010**

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

1. Establishment of Debt Funds- Significant Deficiency/Noncompliance

FINDING NUMBER 2011-01

Ohio Revised Code Section 5705.09(C) states that each subdivision shall establish a Bond Retirement Fund, for the retirement of serial bonds, notes, or certificates of indebtedness. Also, according to the Village's debt covenant for the Fire Truck Bond, the principal and interest are to be paid out of a Debt Service Fund.

The Village did not establish a Debt Service Fund to repay the Fire Truck Bond which resulted in audit adjustments being made to the financial statements for 2010 and 2011 in the amount of \$41,953 and \$41,939 respectively.

The Village should establish a Debt Service Fund to be used to pay the principal and interest for the Fire Truck bond. The establishment of a Debt Service Fund will help ensure that the Village has appropriate funds available to repay the debt. The Village established the Debt Service Fund in 2012 to record the fire truck debt service transactions.

Official's Response:

Funding for the Fire Truck Bond was approved by voters during the 2008 general election by the replacement of the Fire Protection Property Taxes. The funds required to meet debt obligations for the Fire Truck Bond will be forwarded to a specified Fire Truck Debt Fund per the Auditor's recent audit recommendation.

2. Separate Income Tax Fund- Material Weakness/Noncompliance

FINDING NUMBER 2011-02

Ohio Revised Code 5705.10(C) requires that all revenue derived from a special levy shall be credited to a special fund for the purpose for which the levy was made.

The Village has a .5% income tax levy that is to be used for street reconstruction and major repair purposes consisting of storm drainage improvements, sanitary sewer improvements, waterline improvements and maintenance. The Village recorded these revenues and corresponding expenditures in the General Fund which resulted in audit adjustments for 2010 and 2011 to move these into a special revenue fund in the amount of \$553,979 and \$606,321 respectively.

The Village did establish a special revenue fund for the .5% income tax revenues and expenditures on the ledgers in 2012 along with making the audit adjustments as stated above.

Official's Response:

Since the inception of the ½% income tax approved by the voters in 1994, 1999, 2003, and 2008 for street reconstruction and major infrastructure improvements these funds have been placed in the General Fund and used for the sole purpose as committed. The ½% income taxes revenues and expenditures have now been established in a Special Revenue Fund per the State Auditor's recent audit recommendation.

**VILLAGE OF VERSAILLES
DARKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2011 AND 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-01	Recording of Ohio Water Development Authority (OWDA) Loan Proceeds	Yes	



Dave Yost • Auditor of State

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
JULY 17, 2012