



**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY
REGULAR AUDIT
FOR THE YEAR ENDED JUNE 30, 2006**



**Auditor of State
Betty Montgomery**



Mary Taylor, CPA
Auditor of State

January 8, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

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**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Edon Northwest Local School District
Williams County
802 West Indiana Street
Edon, Ohio 43518-9627

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Edon Northwest Local School District, Williams County, Ohio (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Edon Northwest Local School District, Williams County, Ohio, as of June 30, 2006, and the respective changes in financial position and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

December 21, 2006

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

The discussion and analysis of the financial performance of Edon Northwest Local School District (the District) provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2006 are as follows:

- In total, net assets decreased \$192,977.
- General revenues accounted for \$5,121,763, or 81 percent of all revenues. Program specific revenues in the form of operating grants and contributions accounted for \$1,236,409, or 19 percent of total revenues of \$6,358,172.
- The District's major funds included the General Fund, the Bond Retirement Fund, and the Classroom Facilities Fund. The General Fund had \$4,920,584 in revenues and \$4,992,805 in expenditures and other financing uses. The General Fund's balance decreased \$72,221 from the prior fiscal year. The Bond Retirement Fund had \$401,800 in revenues and \$356,264 in expenditures. The Bond Retirement Fund's balance increased \$45,536 from the prior fiscal year. The Classroom Facilities Fund had \$51,495 in revenues and \$83,163 in expenditures. The Classroom Facilities Fund's balance decreased \$31,668 from the prior fiscal year.
- The revenue generated from the Bond Retirement Fund is used to pay for the current portion of bonded debt.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a financial whole or as an entire operating entity.

The statement of net assets and the statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds, with all other non-major funds presented in total in a single column.

For the District, the General Fund is by far the most significant fund. The General Fund, the Bond Retirement Fund, and the Classroom Facilities Fund are the only three major funds.

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2006. These statements include all assets and liabilities using the accrual basis of accounting similar to which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

These statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, the District discloses a single type of activity:

Governmental Activities - All of the District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities. These services are primarily funded by property tax revenues and from intergovernmental revenues including federal and state grants and other shared revenues.

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the District's major funds. While the District uses many funds to account for its multitude of financial transactions, the fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General Fund, the Bond Retirement Fund, and the Classroom Facilities Fund. While the District uses many funds to account for its financial transactions, these are the most significant.

Governmental Funds - Most of the District's activities are reported in governmental funds which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities on the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to help make this comparison between governmental funds and governmental activities.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the District's programs. These funds use the accrual basis of accounting.

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2006 compared to fiscal year 2005.

Table 1		
Net Assets		
Governmental Activities		
	2006	2005
<u>Assets:</u>		
Current and Other Assets	\$6,953,440	\$7,012,296
Capital Assets, Net	18,658,066	19,140,921
Total Assets	25,611,506	26,153,217
<u>Liabilities:</u>		
Current and Other Liabilities	2,317,536	2,523,852
Long-Term Liabilities	4,406,825	4,549,243
Total Liabilities	6,724,361	7,073,095
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	14,703,066	15,045,921
Restricted	2,004,171	1,920,247
Unrestricted	2,179,908	2,113,954
Total	\$18,887,145	\$19,080,122

Table 2 reflects the changes in net assets for fiscal year 2006 compared to fiscal year 2005. The net decrease in capital assets was attributed to an increase in accumulated depreciation associated with the new District school building. The decrease in current and other liabilities was attributed to a decrease in retainage payable due to the completion of the new District school building; decrease in accrued wages and benefits due to a decrease in the number of pay periods accrued; and a decrease in accounts payable.

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

**Table 2
Change in Net Assets
Governmental Activities**

	<u>2006</u>	<u>2005</u>
<u>Revenues:</u>		
Program Revenues:		
Charges for Services and Sales	\$752,301	\$647,962
Operating Grants, Contributions and Interest	476,556	469,311
Capital Grants and Contributions	7,552	
Total Program Revenues	<u>1,236,409</u>	<u>1,117,273</u>
General Revenues:		
Property Taxes	1,847,744	1,826,384
Grants and Entitlements	3,045,591	3,167,867
Gifts and Donations	13,482	17,497
Investment Earnings	179,004	119,246
Miscellaneous	35,942	147,823
Total General Revenues	<u>5,121,763</u>	<u>5,278,817</u>
Total Revenues	<u>6,358,172</u>	<u>6,396,090</u>
<u>Expenses:</u>		
Instruction	3,202,101	4,466,956
Support Services:		
Pupils	239,701	608,952
Instructional Staff	322,485	240,288
Board of Education	16,053	16,957
Administration	572,203	621,749
Fiscal	264,800	240,142
Business	14,240	45,993
Operation and Maintenance of Plant	718,289	949,136
Pupil Transportation	321,491	486,950
Central	56,322	55,979
Non-Instructional	325,255	181,236
Extracurricular Activities	291,111	308,315
Interest and Fiscal Charges	207,098	211,778
Total Expenses	<u>6,551,149</u>	<u>8,434,431</u>
Decrease in Net Assets	<u>(\$192,977)</u>	<u>(\$2,038,341)</u>

“Charges for Services” program revenues increased primarily due to increase in open enrollment tuition in the General fund. Total expenses decreased 22% mainly due to a decrease in noncapital expenses related the construction of the new District school building as well as the loss on the sale of the old K-12 school buildings and personal property reported in 2005.

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

**Table 3
Governmental Activities**

	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
Instruction	\$3,202,101	\$2,329,948	\$4,466,956	\$3,709,861
Support Services:				
Pupils	239,701	235,940	608,952	605,269
Instructional Staff	322,485	315,360	240,288	233,163
Board of Education	16,053	16,053	16,957	16,957
Administration	572,203	567,203	621,749	616,749
Fiscal	264,800	264,800	240,142	240,142
Business	14,240	14,240	45,993	45,993
Operation and Maintenance of Plant	718,289	718,289	949,136	948,353
Pupil Transportation	321,491	321,491	486,950	486,950
Central	56,322	47,322	55,979	46,979
Non-Instructional	325,255	65,938	181,236	(76,488)
Extracurricular Activities	291,111	211,058	308,315	231,452
Interest and Fiscal Charges	207,098	207,098	211,778	211,778
Total Expenses	\$6,551,149	\$5,314,740	\$8,434,431	\$7,317,158

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 73 percent of instruction activities is supported through taxes and other general revenues. For all governmental activities, support from general revenues is 80 percent. The remaining 20 percent is derived from tuition and fees, specific grants, and donations.

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's major governmental funds are the General Fund, the Bond Retirement Fund, and the Classroom Facilities Fund. Total governmental funds had revenues and other financing sources of \$6,246,805 and expenditures and other financing uses of \$6,260,150.

The General Fund's net negative change in fund balance of \$72,221 was primarily attributed to reduction in capital expenditures on the District's new school building which exceeded the increases in salaries and benefits. There was also a 2.5% decrease in revenues. The Bond Retirement's net positive change of \$45,536 in fund balance was primarily attributed to an increase in property taxes while debt payment expenditures remained approximately the same. The Classroom Facilities Fund's net negative change of \$31,668 in fund balance was primarily attributed to a decrease in capital expenditures for the construction of the District's new school building.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2006, the District amended its General Fund budget as needed.

Final expenditures and other financing uses were budgeted at \$7,972,841 while actual expenditures and other financing uses were \$5,134,996. The \$2,837,845 difference is primarily due to a conservative "worst case scenario" approach. The District over-appropriates in case significant, unexpected expenditures arise during the fiscal year.

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the District had \$18,658,066 invested in capital assets (net of accumulated depreciation) for governmental activities.

As of June 30, 2006, the District still had \$72,822 in contractual commitments on its new K-12 district school building.

For further information regarding the District's capital assets, see the notes to the basic financial statements.

Debt

At June 30, 2006, the District had \$3,955,000 in school improvement general obligation bonds for building improvements to the former high school/middle school building and the new District school building. The bonds were issued for a twenty-three year period, with final maturity on December 1, 2019 and December 1, 2024 respectively. The bonds are being retired through two individual Bond Retirement Debt Service Funds.

At June 30, 2006, the District's overall legal debt margin was \$1,720,039, with an un-voted debt margin of \$63,056.

For further information regarding the District's debt, see the notes to the basic financial statements.

Current Issues

The District is holding its own in the state of a declining economy and uncertainty in State funding. Edon Northwest Area is a small rural community of 3,200 people in Northwest Ohio. It has a number of small and medium businesses with agriculture having a contributing influence on the economy.

The District is currently operating in the second year of the state biennium budget. 34 percent of District revenue sources is from local funds, 48 percent is from state funds, and the remaining 6 percent is from federal funds. The total expenditure per pupil was calculated at \$7,994.

In November 2005, the District renewed a five-year, three mill permanent improvement levy. This levy provides a source of revenue to handle permanent improvements for the District. This frees General Fund revenue to be used for the operation of the District. However, future finances are not without challenges as our community changes and state funding is revised. Some of these challenges are in the future of state funding for schools in light of the DeRolph court case and the long term effects of public utility deregulation, as well as the reduction of personal property for business inventory.

On August 22, 2006, the District issued School Improvement Refunding Bonds in the amount of \$2,450,000 to refund the original 2001 bond issue at a lower interest rate. The new bond issue was current interest bonds and these bonds will mature in December 2024. The original \$2,450,000 term bonds outstanding at June 30, 2006 were defeased.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Laura Sauber, Treasurer, Edon Northwest Local School District, 802 W Indiana Street, Edon, Ohio 43518-9627.

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Statement of Net Assets
June 30, 2006**

		Governmental Activities
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$	4,856,459
Cash and Cash Equivalents with Escrow Agents		166,002
Materials and Supplies Inventory		33,761
Accounts Receivable		2,464
Intergovernmental Receivable		32,141
Prepaid Items		11,113
Taxes Receivable		1,851,500
Non-Depreciable Capital Assets		248,018
Depreciable Capital Assets, net		18,410,048
Total Assets		<u>25,611,506</u>
LIABILITIES:		
Accounts Payable		4,222
Accrued Wages and Benefits		423,482
Intergovernmental Payable		114,441
Matured Compensated Absences Payable		34,776
Retainage Payable		166,002
Deferred Revenue		1,574,613
Long-Term Liabilities:		
Due Within One Year		145,000
Due in More Than One Year		4,261,825
Total Liabilities		<u>6,724,361</u>
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt		14,703,066
Restricted for Debt Service		468,483
Restricted for Capital Outlay		1,433,229
Restricted for Other Purposes		102,459
Unrestricted		2,179,908
Total Net Assets	\$	<u>18,887,145</u>

See Accompanying Notes to the Basic Financial Statements

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2006**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions		Capital Grants and Contributions
				Governmental Activities	
Governmental Activities:					
Instruction:					
Regular	\$ 2,441,422	\$ 504,541	\$ 79,246	\$ 7,552	\$ (1,850,083)
Special	566,143		280,814		(285,329)
Vocational	191,176				(191,176)
Adult/Continuing	356				(356)
Other	3,004				(3,004)
Support Services:					
Pupils	239,701		3,761		(235,940)
Instructional Staff	322,485		7,125		(315,360)
Board of Education	16,053				(16,053)
Administration	572,203		5,000		(567,203)
Fiscal	264,800				(264,800)
Business	14,240				(14,240)
Operation and Maintenance of Plant	718,289				(718,289)
Pupil Transportation	321,491				(321,491)
Central	56,322		9,000		(47,322)
Operation of Non-Instructional Services	325,255	167,707	91,610		(65,938)
Extracurricular Activities	291,111	80,053			(211,058)
Debt Service:					
Interest and Fiscal Charges	207,098				(207,098)
Totals	\$ 6,551,149	\$ 752,301	\$ 476,556	\$ 7,552	(5,314,740)
General Revenues:					
Taxes:					
Property Taxes, Levied for General Purposes				\$ 1,343,300	
Property Taxes, Levied for Capital Outlay				110,901	
Property Taxes, Levied for Debt Service				367,822	
Property Taxes, Levied for Other				25,721	
Grants and Entitlements not Restricted to Specific Programs				3,045,591	
Gifts and Donations				13,482	
Investment Earnings				179,004	
Miscellaneous				35,942	
Total General Revenues				5,121,763	
Change in Net Assets				(192,977)	
Net Assets Beginning of Year				19,080,122	
Net Assets End of Year				\$ 18,887,145	

See Accompanying Notes to the Basic Financial Statements

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2006**

	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>Classroom Facilities Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Current Assets:					
Equity in Pooled Cash and Cash Equivalents	\$ 2,897,858	\$ 433,140	\$ 1,269,672	\$ 255,789	\$ 4,856,459
Cash and Cash Equivalents with Escrow Agents			166,002		166,002
Materials and Supplies Inventory	24,699			9,062	33,761
Intergovernmental Receivable				32,141	32,141
Accounts Receivable	1,550			914	2,464
Prepaid Items	11,113				11,113
Taxes Receivable	1,351,371	359,741		140,388	1,851,500
Total Assets	<u>\$ 4,286,591</u>	<u>\$ 792,881</u>	<u>\$ 1,435,674</u>	<u>\$ 438,294</u>	<u>\$ 6,953,440</u>
Liabilities					
Accounts Payable	4,222				4,222
Accrued Wages and Benefits	382,898			40,584	423,482
Intergovernmental Payable	101,941			12,500	114,441
Matured Compensated Absences Payable	34,776				34,776
Retainage Payable			166,002		166,002
Deferred Revenue	1,268,087	345,130		144,108	1,757,325
	<u>1,791,924</u>	<u>345,130</u>	<u>166,002</u>	<u>197,192</u>	<u>2,500,248</u>
Fund Balances					
Reserved:					
Reserved for Encumbrances	75,458		16,576	30,162	122,196
Reserved for Inventory	24,699			9,062	33,761
Reserved for Prepaid Items	11,113				11,113
Reserved for Property Taxes	83,284	14,611		8,767	106,662
Unreserved, Undesignated, Reported in:					
General Fund	2,300,113				2,300,113
Special Revenue Funds				75,978	75,978
Debt Service Funds		433,140			433,140
Capital Projects Funds			1,253,096	117,133	1,370,229
Total Fund Balances	<u>2,494,667</u>	<u>447,751</u>	<u>1,269,672</u>	<u>241,102</u>	<u>4,453,192</u>
Total Liabilities and Fund Balances	<u>\$ 4,286,591</u>	<u>\$ 792,881</u>	<u>\$ 1,435,674</u>	<u>\$ 438,294</u>	<u>\$ 6,953,440</u>

See Accompanying Notes to the Basic Financial Statements

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2006**

Total Governmental Fund Balances	\$	4,453,192
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Amounts reported for governmental activities on the statement of net assets are different because of the following:

Capital assets used in governmental activities are not financial resources; therefore, they are not reported in the funds.		18,658,066
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Other long-term assets are not available to pay for current period expenditures; therefore, they are deferred in the funds:

Property Taxes Receivable	\$	170,225	
Intergovernmental Receivable		12,487	
			182,712

Some liabilities are not due and payable in the current period; therefore, they are not reported in the funds:

General Obligation Bonds Payable		(3,955,000)	
Compensated Absences Payable		(451,825)	
			(4,406,825)

Net Assets of Governmental Activities	\$	<u><u>18,887,145</u></u>
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See Accompanying Notes to the Basic Financial Statements

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006**

	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>Classroom Facilities Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:					
Property and Other Local Taxes	\$ 1,252,781	\$ 353,401		\$ 129,718	\$ 1,735,900
Intergovernmental	3,023,401	48,399		454,176	3,525,976
Interest	126,162		\$ 51,495	1,347	179,004
Tuition and Fees	473,404			15,023	488,427
Rent	2,500				2,500
Extracurricular Activities	2,688			89,205	91,893
Gifts and Donations	3,711			9,771	13,482
Customer Sales and Services	1,099			168,382	169,481
Miscellaneous	34,838			1,104	35,942
Total Revenues	<u>4,920,584</u>	<u>401,800</u>	<u>51,495</u>	<u>868,726</u>	<u>6,242,605</u>
EXPENDITURES:					
Current:					
Instruction:					
Regular	2,113,337			65,183	2,178,520
Special	292,787			253,582	546,369
Vocational	160,973			616	161,589
Adult/Continuing	356				356
Other	3,004				3,004
Support Services:					
Pupils	207,369			23,513	230,882
Instructional Staff	179,308			38,171	217,479
Board of Education	16,053				16,053
Administration	555,968			15,200	571,168
Fiscal	266,693	9,166		5,969	281,828
Business	3,694			5,000	8,694
Operation and Maintenance of Plant	646,404		4,179	60,630	711,213
Pupil Transportation	321,805			59	321,864
Central	45,265		1,562	9,495	56,322
Operation of Non-Instructional Services	322			261,146	261,468
Extracurricular Activities	172,971			73,315	246,286
Capital Outlay	2,296		77,422	16,039	95,757
Debt Service:					
Principal		140,000			140,000
Interest		207,098			207,098
Total Expenditures	<u>4,988,605</u>	<u>356,264</u>	<u>83,163</u>	<u>827,918</u>	<u>6,255,950</u>
Excess of Revenues Over (Under) Expenditures	<u>(68,021)</u>	<u>45,536</u>	<u>(31,668)</u>	<u>40,808</u>	<u>(13,345)</u>
OTHER FINANCING SOURCES AND USES:					
Transfers In				4,200	4,200
Transfers Out	(4,200)				(4,200)
Total Other Financing Sources and Uses	<u>(4,200)</u>			<u>4,200</u>	
Net Change in Fund Balances	(72,221)	45,536	(31,668)	45,008	(13,345)
Fund Balance at Beginning of Year	2,566,888	402,215	1,301,340	196,094	4,466,537
Fund Balance at End of Year	<u>\$ 2,494,667</u>	<u>\$ 447,751</u>	<u>\$ 1,269,672</u>	<u>\$ 241,102</u>	<u>\$ 4,453,192</u>

See Accompanying Notes to the Basic Financial Statements

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement Activities
For the Fiscal Year Ended June 30, 2006**

Net Change in Fund Balances - Total Governmental Funds \$ (13,345)

Amounts reported for governmental activities on the statement of activities are different because of the following:

Governmental funds report capital outlay as expenditures; however, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current year.

Capital Outlay - Depreciable Capital Assets	\$	263,747	
Depreciation		<u>(670,154)</u>	(406,407)

The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds; however, the cost of the capital assets is removed from the capital asset account on the statement of net assets and is offset against the proceeds from the sale of capital assets resulting in a loss on disposal of capital assets on the statement of activities.

Gain (Loss) on Disposal of Capital Assets			(76,448)
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Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:

Intergovernmental		3,723	
Delinquent Property Taxes		<u>111,844</u>	115,567

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of activities.			140,000
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Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payable representing contractually required pension contributions, do not require the use of current financial resources; therefore, they are not reported as expenditures in the governmental funds:

Intergovernmental Payable		45,238	
Compensated Absences Payable		<u>2,418</u>	47,656
Change in Net Assets of Governmental Activities	\$	<u><u>(192,977)</u></u>	

See Accompanying Notes to the Basic Financial Statements

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual Comparison
GENERAL FUND
For the Fiscal Year Ended June 30, 2006**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
REVENUES:				
Property and Other Local Taxes	\$ 1,229,262	\$ 1,229,262	\$ 1,281,292	52,030
Intergovernmental	3,252,934	3,164,233	3,023,401	(140,832)
Interest	87,000	87,000	126,162	39,162
Tuition and Fees	382,000	382,000	476,436	94,436
Rent	200	200	2,500	2,300
Extracurricular Activities	3,500	3,500	2,664	(836)
Gifts and Donations	12,000	12,000	3,711	(8,289)
Customer Sales and Services	1,300	1,300	1,099	(201)
Miscellaneous	38,500	38,500	32,909	(5,591)
Total Revenues	<u>5,006,696</u>	<u>4,917,995</u>	<u>4,950,174</u>	<u>32,179</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	2,568,475	2,568,689	2,135,863	432,826
Special	255,300	351,110	293,711	57,399
Vocational	184,404	194,204	166,601	27,603
Adult/Continuing	2,000	2,000	356	1,644
Other	70,000	70,000	2,812	67,188
Support Services:				
Pupils	228,500	295,000	206,433	88,567
Instructional Staff	215,000	250,508	177,050	73,458
Board of Education	26,000	26,000	16,308	9,692
Administration	960,289	960,839	563,640	397,199
Fiscal	292,032	292,032	254,511	37,521
Business	74,000	74,000	3,694	70,306
Operation and Maintenance of Plant	940,270	939,470	651,876	287,594
Pupil Transportation	581,184	579,483	370,072	209,411
Central	119,203	144,203	47,876	96,327
Operation of Non-Instructional Services	3,000	3,000	315	2,685
Extracurricular Activities	196,000	196,000	171,820	24,180
Capital Outlay	863,960	693,527	67,858	625,669
Total Expenditures	<u>7,579,617</u>	<u>7,640,065</u>	<u>5,130,796</u>	<u>2,509,269</u>
Excess of Expenditures Over Revenues	<u>(2,572,921)</u>	<u>(2,722,070)</u>	<u>(180,622)</u>	<u>2,541,448</u>
Other Financing Sources and Uses:				
Transfers In	47,304	47,537		(47,537)
Proceeds from Sale of Fixed Assets	1,000	1,000		(1,000)
Refund of Prior Year Expenditures	5,000	5,000	3,432	(1,568)
Transfers Out	(46,437)	(50,870)	(4,200)	46,670
Refund of Prior Year Receipts	(1,000)	(1,000)		1,000
Advances Out		(45,000)		45,000
Other Financing Uses	(235,906)	(235,906)		235,906
Total Other Financing Sources and Uses	<u>(230,039)</u>	<u>(279,239)</u>	<u>(768)</u>	<u>278,471</u>
Net Change in Fund Balance	<u>(2,802,960)</u>	<u>(3,001,309)</u>	<u>(181,390)</u>	<u>2,819,919</u>
Fund Balance at Beginning of Year	2,864,976	2,864,976	2,864,976	
Prior Year Encumbrances Appropriated	136,335	136,335	136,335	
Fund Balance (Deficit) at End of Year	<u>\$ 198,351</u>	<u>2</u>	<u>\$ 2,819,921</u>	<u>\$ 2,819,919</u>

See Accompanying Notes to the Basic Financial Statements

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006**

	<u>Agency Fund</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ <u>22,708</u>
Total Assets	<u>22,708</u>
Liabilities	
Undistributed Monies	<u>22,708</u>
Total Liabilities	\$ <u><u>22,708</u></u>

See Accompanying Notes to the Basic Financial Statements

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Edon Northwest Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Edon Northwest Local School District is a local school district as defined by §3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District. The Board oversees the operations of the District's two instructional/support facilities staffed by 29 non-certified and 47 certified full-time teaching personnel who provide services to 654 students and other community members.

The Reporting Entity

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

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

The District is associated with eight organizations, which are defined as jointly governed organizations and group purchasing pools. These organizations include the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Northwest Ohio Educational Research Council, Inc., the Northwest Ohio Special Education Regional Resource Center, the Northwest Ohio Regional Professional Development Center, the Northern Buckeye Education Council's Employee Insurance Benefits Program, and the Northern Buckeye Education Council Workers' Compensation Group Rating Plan. These organizations are presented in Notes 16 and 17 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the District's accounting policies.

A. Basis of Presentation

The District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

B. Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The General Fund, Bond Retirement Fund, and the Classroom Facilities Fund are the District's major governmental funds:

General Fund - The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund is available to the District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Bond Retirement Fund - The Bond Retirement Fund is used to account for the accumulation of resources for, and the payment of long-term debt principal, interest, and related costs.

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Classroom Facilities Fund - The Classroom Facilities Fund is used to account for the revenues and expenditures related to the construction of new school buildings.

The other governmental funds of the District account for grants and other resources, and capital projects of the District whose uses are restricted to a particular purpose.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary funds of the District consist of Agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's Agency funds account for various student managed activities.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) of total net assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred revenue.

Expenditures/Expenses

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The primary level of budgetary control is at the object level within the General Fund and the fund level for all other funds. Any budgetary modifications at this level may only be made by the Board of Education. Budgetary allocations at the object level within the General Fund and the function and object level in all other funds are made by the Treasurer.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

F. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

During fiscal year 2006, investments were limited to federal agency securities, commercial paper, and Star Ohio. Except for non-participating investment contracts, investments are reported at fair value, which is based on quoted market prices. Non-participating investment contracts, such as non-negotiable certificates of deposit, are valued at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2006.

As authorized by Ohio statutes, the Board of Education has specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2006 amounted to \$126,162 of which \$42,238 was assigned from other District funds.

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

For presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

G. Inventory

On the government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On the fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consist of expendable supplies held for consumption, donated foods, and purchased foods. The cost of inventory items is recorded as an expenditure when purchased.

H. Capital Assets

General capital assets are those assets not specifically related to activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District's capitalization threshold is one thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, other than land and construction in progress, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	15 - 30 years
Buildings and Building Improvements	30 - 50 years
Furniture and Fixtures	5 - 20 years
Vehicles	5 - 15 years
Equipment	10 years

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "mature compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term loans are recognized as a liability on the governmental fund financial statements when due.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

L. Prepaid Items

Certain payments to vendors reflect the cost applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year for which services are consumed.

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

M. Fund Balance Reserves

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

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

N. Interfund Assets/Liabilities

On the fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables." Interfund balances within governmental activities are eliminated on the government-wide statement of net assets.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

O. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

P. Pass-Through Grants

The Special Education Preschool Grant special revenue fund is a pass-through grant in which the Northwest Ohio Educational Service Center is the primary recipient. In accordance with GASB Statement 24, "Accounting and Financial Reporting of Certain Grants and Other Financial Assistance," the secondary recipients should report monies spent on their behalf by the primary recipient as revenue and operating expenses.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2006.

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

3. CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2006, the District has implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation." GASB Statement No. 46 defines enabling legislature and specifies how new assets should be reported in the financial statements when there are changes in legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation. The implementation of GASB Statement No. 46 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

4. ACCOUNTABILITY

Fund balances at June 30, 2006, included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Special Education Grants to States Fund	\$286
Title I Grants to Local Educational Agencies Fund	572
Education Technology State Grants Fund	103

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

5. BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual Comparison presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and fund financial statements are the following:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

5. BUDGETARY BASIS OF ACCOUNTING – (Continued)

Net Change in Fund Balance Major Governmental Fund	
GAAP Basis	(\$72,221)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2005, Received In Cash FY 2006	117,856
Accrued FY 2006, Not Yet Received in Cash	(88,266)
Expenditure Accruals:	
Accrued FY 2005, Paid in Cash FY 2006	(552,279)
Accrued FY 2006, Not Yet Paid in Cash	491,457
Encumbrances Outstanding at Year End (Budget Basis)	(77,937)
Budget Basis	(\$181,390)

6. DEPOSITS AND INVESTMENTS

Monies held by the District are classified by State statute into three categories.

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

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

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

Interim monies held by the District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

6. DEPOSITS AND INVESTMENTS – (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase must exceed the principal value of the agreement by at least 2% and be marked to market daily, and the term of the agreement must not exceed thirty days.
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer’s investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

At year end, the District had \$100 in undeposited cash on hand which is included as part of “Equity in Pooled Cash and Cash Equivalents.”

Investments

As of June 30, 2006, the District had the following investments and maturities.

<u>Investment Type</u>	<u>Investment Maturities</u>			
	<u>Balance at Fair Value</u>	<u>6 months or less</u>	<u>7 to 12 Months</u>	<u>13 to 18 Months</u>
Federal Home Loan Mortgage Association (FHLMC) Discount Notes	\$581,615	\$581,615		
Federal Home Loan Bank (FHLB) Discount Notes	164,432	164,432		
Federal Home Loan Bank (FHLB) Bonds	300,000			\$300,000
Federal National Mortgage Association (FNMA) Discount Notes	457,585		\$457,585	
United States Treasury Money Market Fund	1,489	1,489		
STAR Ohio	2,581,344	2,581,344		
Total Investments	<u>\$4,086,465</u>	<u>\$3,328,880</u>	<u>\$457,585</u>	<u>\$300,000</u>

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

6. DEPOSITS AND INVESTMENTS – (Continued)

Interest Rate Risk - The District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2% and be marked to market daily.

Credit Risk – The following investments carry the highest ratings by Moody’s and Standard and Poor’s:

<u>Investment Type</u>	<u>Moody's</u>	<u>Standard & Poor's</u>
Federal Home Loan Mortgage Association (FHLMC) Discount Notes	P-1	A-1+
Federal Home Loan Bank (FHLB) Discount Notes	P-1	A-1+
Federal Home Loan Bank (FHLB) Bonds	Aaa	AAA
Federal National Mortgage Association (FNMA) Discount Notes	P-1	A-1+
United States Treasury Money Market Fund	Aaa	AAAm
STAR Ohio		AAAm

Ohio Law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market mutual fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The District has no investment policy that would further limit its investment choices.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal National Mortgage Association Notes, Federal Home Loan Mortgage Corporation Notes, and the Federal Home Loan Bank Notes are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty’s trust department or agent but not in the District’s name. The District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk - The District places no limit on the amount it may invest in any one issuer, however state statute limits investments in commercial paper and bankers’ acceptances to 25% of the interim monies available for investment at any one time. The District’s investments in Federal Home Loan Mortgage Association Discount Notes, Federal Home Loan Bank Discount Notes, Federal Home Loan Bank Bonds, and Federal National Mortgage Association Discount Notes, United States Treasury Money Market Fund, and Star Ohio represent 14%, 4%, 7%, 11%, 1%, and 63%, respectively, of the District’s total investments

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

7. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2006 represent the collection of calendar year 2005 taxes. Real property taxes for 2006 were levied after April 1, 2005, on the assessed values as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2006 were levied after April 1, 2005, on the assessed values as of December 31, 2004, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2006 (other than public utility property) represent the collection of calendar year 2006 taxes. Tangible personal property taxes for 2006 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Williams County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which were measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2006 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue.

The amount available as an advance at June 30, 2006, was \$83,284 in the General Fund, \$14,611 in the Debt Service Fund, \$7,306 in the Capital Projects Fund, and \$1,461 in the Special Revenue Fund. The amount available as an advance at June 30, 2005, was \$111,795 in the General Fund, \$15,159 in the Debt Service Fund, \$9,474 in the Capital Projects Fund, and \$3,790 in the Special Revenue Fund.

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

7. PROPERTY TAXES – (Continued)

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$44,905,570	73%	\$45,538,850	72%
Industrial/Commercial	4,639,070	8%	4,931,620	8%
Public Utility	2,788,850	5%	2,568,190	4%
Tangible Personal	8,805,770	14%	10,017,330	16%
Total Assessed Value	<u>\$61,139,260</u>	<u>100%</u>	<u>\$63,055,990</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$49.10		\$49.10	

8. RECEIVABLES

Receivables at June 30, 2006, consisted of property, accounts (rent and student fees), and intergovernmental. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Special Education Grants to States Fund	\$5,826
Title I Grants to Local Education Agencies Fund	17,564
Education Technology State Grants Fund	1,187
Food Service Fund	7,564
Total Intergovernmental Receivables	<u>\$32,141</u>

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

9. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance at 6/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/06</u>
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$248,018			\$248,018
Total Nondepreciable Capital Assets	<u>248,018</u>			<u>248,018</u>
Depreciable Capital Assets				
Buildings and Building Improvements	18,163,776	\$114,082	(\$56,206)	18,221,652
Furniture, Fixtures, and Equipment	1,503,735	91,940	(77,988)	1,517,687
Vehicles	993,351	57,725	(80,814)	970,262
Total Depreciable Capital Assets	<u>20,660,862</u>	<u>263,747</u>	<u>(215,008)</u>	<u>20,709,601</u>
Less Accumulated Depreciation				
Buildings and Building Improvements	(349,829)	(459,472)		(809,301)
Furniture, Fixtures, and Equipment	(758,846)	(123,778)	59,646	(822,978)
Vehicles	(659,284)	(86,904)	78,914	(667,274)
Total Accumulated Depreciation	<u>(1,767,959)</u>	<u>(670,154)</u>	<u>138,560</u>	<u>(2,299,553)</u>
Depreciable Capital Assets, Net	<u>18,892,903</u>	<u>(406,407)</u>	<u>(76,448)</u>	<u>18,410,048</u>
Governmental Activities Capital Assets, Net	<u>\$19,140,921</u>	<u>\$(406,407)</u>	<u>(\$76,448)</u>	<u>\$18,658,066</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$261,139
Special	15,035
Vocational	31,443
Support Services:	
Pupil	8,882
Instructional Staff	53,366
Administration	20,267
Fiscal	5,214
Business	5,546
Operation and Maintenance of Plant	57,406
Pupil Transportation	69,574
Non-Instructional Services	64,922
Extracurricular	77,360
Total Depreciation Expense	<u>\$670,154</u>

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

10. RISK MANAGEMENT

A. Employee Insurance Benefits Program

The District participates in the Northern Buckeye Education Council Employee Insurance Benefits Program (the Program), a public entity shared risk pool consisting of districts within Defiance, Fulton, Henry, and Williams counties and other eligible governmental entities. The District pays monthly premiums to the Northern Buckeye Education Council for the benefits offered to its employees, which includes health, dental, and life insurance plans. The Northern Buckeye Education Council is responsible for the management and operations of the program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for any claims not processed and paid and any related administrative costs.

B. Workers' Compensation Group Program

The District participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool (Note 17). The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

Participation in the Plan is limited to educational entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment, or other fees and perform its obligations in accordance with the terms of the agreement.

C. Comprehensive

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are 90 percent coinsured. Settled claims have not exceeded the amount of commercial coverage in any of the past three years and there has been no significant reduction in the amount of insurance coverage's from last year.

11. DEFINED PENSION BENEFIT PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides basic retirement benefits and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

11. DEFINED PENSION BENEFIT PLANS – (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005 (the most recent information available), 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$101,157, \$93,116, and \$106,022, respectively; 61 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. The unpaid contributions for fiscal year 2006 are \$51,617.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. Benefits are increased annually by 3% of the original base amount for DB plan participants. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined plan.

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

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

11. DEFINED PENSION BENEFIT PLANS – (Continued)

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the lapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

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

For the fiscal year ended June 30, 2006, plan members are required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent. For fiscal year 2005 (the most recent information available), the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$351,604, \$338,359, and \$630,018, respectively; 86 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. The unpaid contribution for fiscal year 2006 is \$51,691.

12. POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit Plan and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care costs in the form of monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently at 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2005 (the most recent information available), the board allocated employer contributions equal to 1% of covered payroll to Health Care Stabilization Fund. For the District, this amount was \$27,046. The balance in the Health Care Stabilization Fund was \$3.3 billion on June 30, 2005.

For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000. There were 115,395 eligible benefit recipients.

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

12. POSTEMPLOYMENT BENEFITS – (Continued)

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

After the allocation for the basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2005 (the most recent information available), the allocation rate is 3.43%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2005, the minimum pay has been established as \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2005 (the most recent information available) were \$178,221,113. The target level for the health care fund is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide health care reserve equal to at least 150% of estimated annual net claim costs.

The number of participants currently receiving health care benefits is approximately 58,123.

For the District, the amount to fund post employment benefits including the surcharge, as of June 30, 2006 equaled \$44,409.

13. COMPENSATED ABSENCES

Employees earn vacation at rates specified under State of Ohio law and based on credited service. Eleven employees with one or more years of service are entitled to vacation ranging from 10 to 20 days. Certain employees are permitted to carry over vacation leave earned in the current year into the next year.

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rata basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to thirty percent of their accumulated sick leave balance, which cannot exceed 210 days. The maximum payout is 63 days.

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

14. LONG-TERM OBLIGATIONS

During the year ended June 30, 2006, the following changes occurred in obligations reported in the Government-Wide Financial Statements:

	<u>Balance at 06/30/05</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at 06/30/06</u>	<u>Amount Due In one Year</u>
General Obligation Bonds:					
Serial – Series 1997, 4 - 5.1%	\$100,000		\$30,000	\$70,000	\$35,000
Term – Series 1997, 5.35 - 6%	700,000			700,000	
Serial – Series 2001, 3 - 4%	845,000		110,000	735,000	110,000
Term – Series 2001, 5.25 - 5.5%	2,450,000			2,450,000	
Compensated Absences	454,243		2,418	451,825	
Total Long-Term Obligations	<u>\$4,549,243</u>		<u>\$142,418</u>	<u>\$4,406,825</u>	<u>\$145,000</u>

Debt outstanding at June 30, 2006 consisted of 1997 general obligation bonds totaling \$770,000 and 2001 general obligation bonds totaling \$3,185,000. The 1997 bonds were issued in August 1997 and will mature in December 2019 and the 2001 bonds were issued in October 2001 and will mature in December 2024.

School Improvement Bonds - 1997

The District issued \$950,000 in voted general obligation bonds to finance the construction of an addition to the former Edon building. The bonds were issued on April 12, 1997. The bond issued included \$250,000 in serial bonds and \$700,000 in term bonds. The bonds will be retired with a voted property tax levy from the Debt Service fund.

The serial bonds shall bear interest at the rates per year and will mature in the principal amounts and on the following dates:

<u>Maturity Date (December 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2006	35,000	5.00%
2007	35,000	5.10%

The term bonds maturing on December 1, 2019, are subject to mandatory sinking fund redemption in part by lot and are redeemed pursuant to mandatory sinking fund requirements at a redemption price of 100% of the principal amount redeemed, plus interest accrued to the redemption date, on the applicable mandatory redemption dates and in the principal amounts payable on those dates set forth in the Certificate of Award.

<u>Maturity Date (December 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2012	\$225,000	5.35%
2019	475,000	6.00%

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

14. LONG-TERM OBLIGATIONS – (Continued)

School Improvement Bonds - 2001

The District issued \$3,600,000 in voted general obligation bonds for the purpose of constructing, renovation, and improving existing school facilities and related site development. The bonds were issued on October 15, 2001. The bond issued included \$1,150,000 in serial bonds and \$2,450,000 in term bonds. The bonds will be retired with a voted property tax levy from the Debt Service fund.

The serial bonds shall bear interest at the rates per year and will mature in the principal amounts and on the following dates:

<u>Maturity Date (December 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2006	110,000	3.25%
2007	115,000	3.50%
2008	120,000	3.70%
2009	125,000	4.00%
2010	130,000	4.00%
2011	135,000	4.00%

The term bonds maturing on December 1, 2019 are subject to mandatory sinking fund redemption in part by lot and are redeemed pursuant to mandatory sinking fund requirements at a redemption price of 100% of the principal amount redeemed, plus interest accrued to the redemption date, on the applicable mandatory redemption dates and in the principal amounts payable on those dates set forth in the Certificate of Award.

<u>Maturity Date (December 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2012	\$140,000	5.50%
2013	145,000	5.50%
2014	155,000	5.50%
2015	160,000	5.50%
2016	170,000	5.50%
2017	180,000	5.50%
2018	185,000	5.50%
2019	195,000	5.50%
2020	205,000	5.50%
2021	215,000	5.50%
2022	220,000	5.25%
2023	230,000	5.25%
2024	250,000	5.25%

Total expenditures for interest toward the school improvement bonds for the period ended June 30, 2005, was \$207,097

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

14. LONG-TERM OBLIGATIONS – (Continued)

The scheduled payments of principal and interest on debt outstanding at June 30, 2006 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$145,000	\$202,050	\$347,050
2008	150,000	196,482	346,483
2009	120,000	190,288	350,288
2010	125,000	183,428	348,428
2011	130,000	176,054	351,054
2012-2016	960,000	735,875	1,750,875
2017-2021	1,410,000	412,563	1,642,563
2022-2025	915,000	99,363	1,014,363
Total	<u>\$3,955,000</u>	<u>\$2,196,101</u>	<u>\$6,151,101</u>

15. SET-ASIDE CALCULATIONS AND FUND RESERVES

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

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside Cash Balance as of June 30, 2005	(\$38,546)	
Current Year Set-aside Requirement	100,091	\$100,091
Current Year Offsets		(148,352)
Qualifying Disbursements	(81,845)	
Total	<u>(\$20,300)</u>	<u>(\$48,261)</u>
Cash Balance Carried Forward to FY 2007	<u>(\$20,300)</u>	

The District had qualifying cash disbursements during the fiscal year that reduced the textbook set aside amount below zero. This amount may be used to reduce the set-aside requirement in future fiscal years.

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

16. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Computer Association

The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public districts within the boundaries of Defiance, Fulton, Henry, and Williams counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. NWOCA is governed by the Northern Buckeye Education Council and its participating members. All payments made by the District for services received are made to the Northern Buckeye Education Council. Financial information can be obtained from Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, and Williams counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. The District paid \$33,061 for services received through NBEC. To obtain financial information write to the Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

C. Four County Career Center

The Four County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the educational service centers from the counties of Defiance, Fulton, Henry, and Williams; one representative from each of the city districts; one representative from each of the exempted village districts; and one additional representative from Fulton County Educational Service Center. The Four County Career Center possesses its own budgeting and taxing authority. No payments were made by the District to the Four County Career Center in fiscal year 2006. To obtain financial information write to the Four County Career Center, Lois Knuth, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

D. Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village districts, five local districts, and five city districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

16. JOINTLY GOVERNED ORGANIZATIONS – (Continued)

E. Northwest Ohio Special Education Regional Resource Center

The Northwest Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to provide services to families, educators, and agencies regarding educational law and curriculum and instruction for students with disabilities. The SERRC serves a thirteen county area in Northwest Ohio. The Governing Board consists of superintendents from each of the cooperating School Districts, the fiscal agent superintendent, two parents of children with disabilities, one superintendent of a county board of MR/DD, one representative from a chartered non-public school, one representative from the University of Toledo, one representative from Bowling Green State University, one representative from a community school, and any other representatives from other agencies as designated by the Governing Board or the Ohio Department of Education. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Dave Michel, Eastwood Local School District, 4800 Sugar Ridge Road, Pemberville, Ohio 43450.

F. Northwest Ohio Regional Professional Development Center

The Northwest Ohio Regional Professional Development Center (RPDC) is a jointly governed organization among the school districts in Defiance, Erie, Fulton, Henry, Lucas, Ottawa, Sandusky, Williams, and Wood counties. The RPDC focuses on the implementation of academic content standards and the deployment of State initiatives. All activities reflect definition of high quality professional development, including job-embedded, connected to strategic goals, sustained, intensive skill building, and measurement of impact on student learning. The Center is governed by a fifteen member board made up of representatives from the participating school districts, the business community, and two institutions of higher learning. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Northwest Ohio Regional Professional Development Center, 414 Emerald Street, 2nd Floor, Toledo, Ohio 43602.

17. GROUP PURCHASING POOLS

A. NBEC Employee Insurance Benefits Program

Northern Buckeye Education Council Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams counties. The Pool is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NBEC for employee insurance benefits during fiscal year ending June 30, 2006 were \$545,982. Financial information can be obtained from Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. NBEC Workers' Compensation Group Rating Plan

The District participates in a group-rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Education Council and the participating members of the WCGRP. The Executive Director of the NBEC coordinates the management and administration of the program. During fiscal year ending June 30, 2006, the District paid an enrollment fee of \$621 to the WCGRP to cover the costs of administering the program.

**EDON NORTHWEST LOCAL SCHOOL DISTRICT
WILLIAMS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

18. CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2006.

B. Litigation

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

19. INTERFUND TRANSFERS

During the year ended June 30, 2006, the General fund transferred \$4,200 to the Uniform School Supply fund which is an Other Non-Major Governmental fund. This transfer was made to move unrestricted balances to support programs and projects accounted for in other funds.

20. CONTRACTUAL COMMITMENTS

As of June 30, 2006, the District had the following contractual purchase commitments:

<u>Company</u>	<u>Amount Remaining</u>
Feters Construction	\$65,000
L.R. Babcock	7,822
Total	<u>\$72,822</u>

21. SUBSEQUENT EVENTS

On August 22, 2006, the District issued School Improvement Refunding Bonds in the amount of \$2,450,000 to refund the original 2001 bond issue (described in Note 14) at a lower interest rate. The new bond issue was current interest bonds and these bonds will mature in December 2024. The original \$2,450,000 term bonds outstanding at June 30, 2006, were defeased.

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**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**

Edon Northwest Local School District
Williams County
802 West Indiana Street
Edon, Ohio 43518-9627

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Edon Northwest Local School District, Williams County (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated December 21, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

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

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

Edon Northwest Local School District
Williams 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 the Board of Education. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

December 21, 2006



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

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800-282-0370

Facsimile 614-466-4490

EDON NORTHWEST LOCAL SCHOOL DISTRICT

WILLIAMS COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 11, 2007**