

**EDGEWOOD CITY SCHOOL DISTRICT**

Basic Financial Statements

Year Ended June 30, 2006

With

Independent Auditors' Report





Mary Taylor, CPA  
Auditor of State

Board of Education  
Edgewood City School District  
3500 Busenbark Road  
Trenton, Ohio 45067

We have reviewed the *Independent Auditors' Report* of the Edgewood City School District, Butler County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Edgewood City School District is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

May 28, 2008

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# EDGEWOOD CITY SCHOOL DISTRICT

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Clark, Schaefer, Hackett & Co.  
CERTIFIED PUBLIC ACCOUNTANTS  
BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' REPORT**

To the Board of Education  
Edgewood City School District:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Edgewood City School District (the School District) as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 basic 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 the School District as of June 30, 2006, and the respective changes in financial position thereof 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 January 10, 2008 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Clark, Schaefer, Hachell & Co.*

Middletown, Ohio  
January 10, 2008



**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

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

The management's discussion and analysis of the Edgewood City School District's (the "District") financial performance 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 the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities increased \$1,456,519 which represents a 22.32% increase from 2005.
- General revenues accounted for \$29,201,808 in revenue or 90.79% of all revenues. Program specific revenue in the form of charges for services and sales, grants and contributions accounted for \$2,961,046 or 9.21% of total revenues of \$32,162,854.
- The District had \$30,706,335 in expenses related to governmental activities; only \$2,961,046 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$29,201,808 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$26,707,886 in revenues and other financing sources and \$26,461,620 in expenditures. During fiscal 2006, the general fund's fund balance increased \$246,266 from \$728,700 to \$974,966.
- The District's other major governmental fund the debt service fund had \$2,817,730 in revenues and \$2,324,338 in expenditures. During fiscal 2006, the debt service fund's fund balance increased \$493,392 from \$1,865,536 to \$2,358,928.

**Using these Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *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 the next 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 nonmajor funds presented in total in one column. In the case of the District, the general fund and debt service fund are by far the most significant funds, and the only governmental funds reported as major funds.

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

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

**Reporting the District as a Whole**

***Statement of Net Assets and the Statement of Activities***

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change 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 Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

**Reporting the District's Most Significant Funds**

***Fund Financial Statements***

The analysis of the District's major governmental funds begins on page 10. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and debt service fund.

***Governmental Funds***

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

***Reporting the District's Fiduciary Responsibilities***

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

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

*Notes to the Basic Financial Statements*

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-48 of this report.

**The District as a Whole**

The Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2006 and 2005.

	<b>Net Assets</b>	
	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 21,005,018	\$ 19,789,808
Capital assets	<u>26,804,598</u>	<u>26,901,753</u>
Total assets	<u>47,809,616</u>	<u>46,691,561</u>
<b><u>Liabilities</u></b>		
Current liabilities	16,303,852	15,889,865
Long-term liabilities	<u>23,523,673</u>	<u>24,276,124</u>
Total liabilities	<u>39,827,525</u>	<u>40,165,989</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	5,399,829	4,471,395
Restricted	2,825,203	2,086,637
Unrestricted (deficit)	<u>(242,941)</u>	<u>(32,460)</u>
Total net assets	<u>\$ 7,982,091</u>	<u>\$ 6,525,572</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$7,982,091.

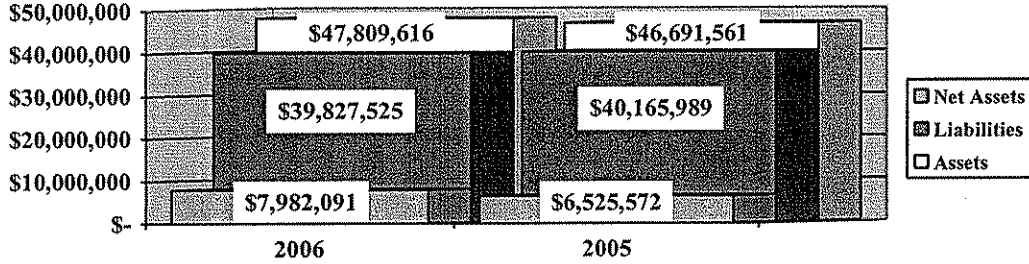
At year-end, capital assets represented 56.07% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$5,399,829. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$2,825,203, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$242,941.

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

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

**Governmental Activities**



The table below shows the change in net assets for fiscal years 2006 and 2005.

**Change in Net Assets**

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<b>Revenues</b>		
Program revenues:		
Charges for services and sales	\$ 1,299,758	\$ 1,414,301
Operating grants and contributions	1,661,288	1,661,937
Capital grants and contributions	-	27,615
General revenues:		
Property taxes	13,223,439	10,246,788
Payments in-lieu of taxes	-	1,115,077
Grants and entitlements	14,661,640	14,486,018
Investment earnings	286,547	146,955
Other	<u>1,030,182</u>	<u>189,786</u>
Total revenues	\$ <u>32,162,854</u>	\$ <u>29,288,477</u>

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

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

**Change in Net Assets**

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 12,797,188	\$ 13,007,387
Special	3,118,588	2,772,142
Other	42,235	13,834
Support services:		
Pupil	2,436,469	2,012,094
Instructional staff	2,194,415	2,080,955
Board of education	177,038	144,883
Administration	1,932,806	1,972,300
Fiscal	816,984	739,536
Business	149,607	158,258
Operations and maintenance	2,449,836	2,209,775
Pupil transportation	1,382,344	900,848
Central	215,264	169,966
Operations of non-instructional services	20,492	29,428
Extracurricular activities	551,872	511,280
Food service operations	1,260,975	1,197,059
Interest and fiscal charges	<u>1,160,222</u>	<u>1,059,862</u>
Total expenses	<u>30,706,335</u>	<u>28,979,607</u>
Change in net assets	1,456,519	308,870
Net assets at beginning of year (restated)	<u>6,525,572</u>	<u>6,216,702</u>
Net assets at end of year	<u>\$ 7,982,091</u>	<u>\$ 6,525,572</u>

**Governmental Activities**

Net assets of the District's governmental activities increased \$1,456,519. Total governmental expenses of \$30,706,335 were offset by program revenues of \$2,961,046 and general revenues of \$29,201,808. Program revenues supported 9.64% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 86.70% of total governmental revenue. Real estate property is reappraised every six years.

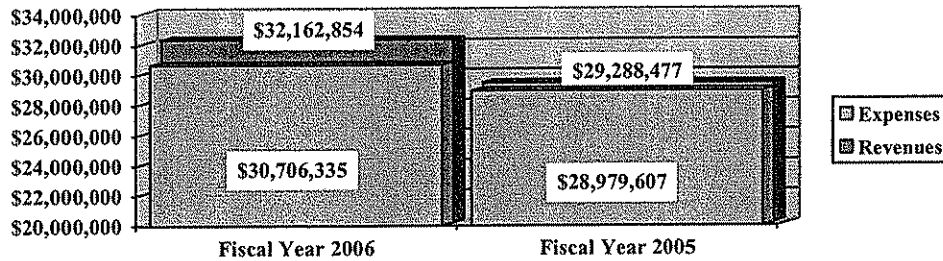
The District's financial condition has improved moderately in recent years, primarily due to increased financial support from the state. Future increases in state funding are projected to be more inflationary rather than the significant increases seen over the past several years. The District is projecting a decrease in state funding for future years.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2006 and 2005.

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

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

**Governmental Activities - Revenues and Expenses**



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted state grants and entitlements.

**Governmental Activities**

	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
<b>Program expenses</b>				
Instruction:				
Regular	\$ 12,797,188	\$ 12,396,472	\$ 13,007,387	\$ 12,555,068
Special	3,118,588	2,839,761	2,772,142	2,476,496
Other	42,235	42,130	13,834	13,834
Support services:				
Pupil	2,436,469	1,773,144	2,012,094	1,472,142
Instructional staff	2,194,415	1,999,366	2,080,955	1,844,955
Board of education	177,038	176,597	144,883	144,883
Administration	1,932,806	1,889,572	1,972,300	1,948,292
Fiscal	816,984	815,059	739,536	739,536
Business	149,607	149,237	158,258	158,258
Operations and maintenance	2,449,836	2,425,428	2,209,775	2,200,497
Pupil transportation	1,382,344	1,375,870	900,848	891,508
Central	215,264	133,181	169,966	140,125
Operation of non-instructional services	20,492	20,475	29,428	28,623
Food service operations	1,260,975	81,470	1,197,059	(3,699)
Extracurricular activities	551,872	467,305	511,280	205,374
Interest and fiscal charges	1,160,222	1,160,222	1,059,862	1,059,862
<b>Total</b>	<u>\$ 30,706,335</u>	<u>\$ 27,745,289</u>	<u>\$ 28,979,607</u>	<u>\$ 25,875,754</u>

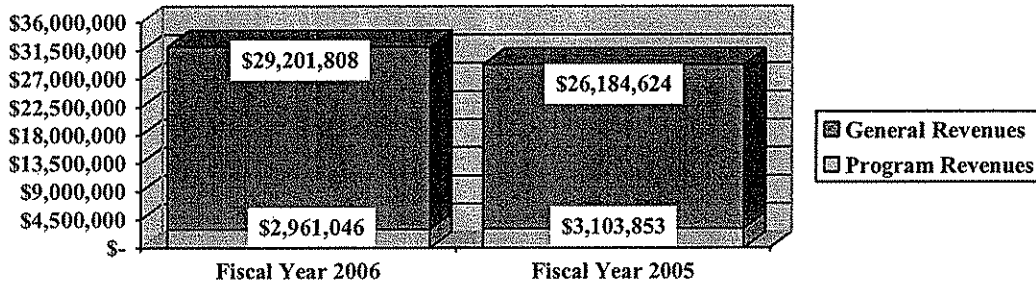
The dependence upon tax and other general revenues for governmental activities is apparent, 95.74% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 90.36%. The District's taxpayers, as a whole, are by far the primary support for District's students.

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

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

The graph below presents the District's governmental activities revenue for fiscal years 2006 and 2005.

**Governmental Activities - General and Program Revenues**

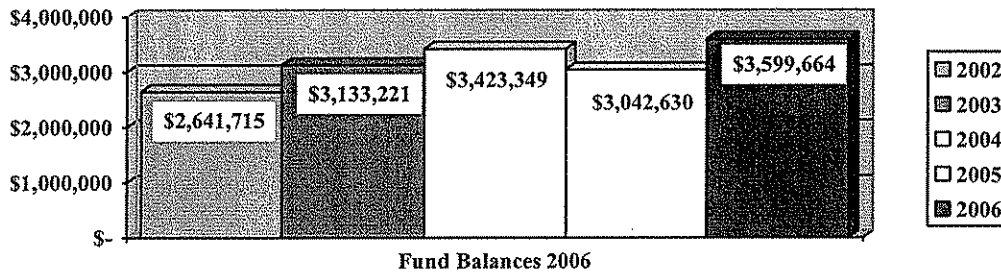


**The District's Funds**

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$3,599,664, which is higher than last year's total of \$3,042,630. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance June 30, 2006	Fund Balance June 30, 2005	Increase (Decrease)	Percentage Change
General	\$ 974,966	\$ 728,700	\$ 246,266	33.80 %
Debt service	2,358,928	1,865,536	493,392	26.45 %
Other Governmental	265,770	448,394	(182,624)	(40.73) %
<b>Total</b>	<b>\$ 3,599,664</b>	<b>\$ 3,042,630</b>	<b>\$ 557,034</b>	<b>18.31 %</b>

**Governmental Activities - Fund Balance**



**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

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

***General Fund***

The District's general fund balance increased \$246,266. The increase in fund balance can be attributed to general fund revenues increasing 5.22% and still being more than increased expenditures less the capital outlay which was from a capital lease. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 10,550,639	\$ 9,008,834	\$ 1,541,805	17.11 %
Tuition	53,930	40,119	13,811	34.43 %
Earnings on investments	268,129	113,563	154,566	136.11 %
Intergovernmental	14,197,775	14,102,414	95,361	0.68 %
Other revenues	<u>823,089</u>	<u>1,343,285</u>	<u>(520,196)</u>	<u>(38.73) %</u>
Total	<u>\$ 25,893,562</u>	<u>\$ 24,608,215</u>	<u>\$ 1,285,347</u>	<u>5.22 %</u>
<b><u>Expenditures</u></b>				
Instruction	\$ 14,521,973	\$ 14,119,210	\$ 402,763	2.85 %
Support services	10,419,647	9,525,524	894,123	9.39 %
Operation of non-instructional services	6,541	12,731	(6,190)	(48.62) %
Extracurricular activities	399,015	436,178	(37,163)	(8.52) %
Capital outlay	814,324	303,803	510,521	168.04 %
Debt service	<u>300,120</u>	<u>93,545</u>	<u>206,575</u>	<u>220.83 %</u>
Total	<u>\$ 26,461,620</u>	<u>\$ 24,490,991</u>	<u>\$ 1,970,629</u>	<u>8.05 %</u>

***Debt Service Fund***

The District's debt service fund, fund balance increased by \$493,392.

***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 2006, the District amended its general fund budget several times. For the general fund, final budgeted revenues and other financing sources were \$25,722,087, which was lower than the original budgeted revenues estimate of \$26,756,959. Actual revenues and other financing sources for fiscal 2006 was \$25,899,102. This represents a \$177,015 increase over final budgeted revenues. This increase is primarily due to conservative estimates for the final budgeted amounts.

General fund final appropriations (appropriated expenditures plus other financing uses) of \$28,117,257 were higher than the original budgeted appropriations estimate of \$26,804,678. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$26,127,499, which was \$1,989,758 less than the final budget appropriations.



**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

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

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2006, the District had \$26,804,598 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2006 balances compared to 2005:

	<b>Capital Assets at June 30 (Net of Depreciation)</b>	
	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Land	\$ 183,689	\$ 183,689
Land improvements	418,997	422,921
Building and improvements	24,024,286	25,032,172
Furniture and equipment	1,405,138	624,823
Vehicles	<u>772,488</u>	<u>638,148</u>
<b>Total</b>	<b><u>\$ 26,804,598</u></b>	<b><u>\$ 26,901,753</u></b>

The overall decrease in capital assets of \$97,155 is primarily due to depreciation expense of \$1,340,454 exceeding capital outlays of \$1,243,299 in fiscal 2006.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

***Debt Administration***

At June 30, 2006, the District had \$21,728,535 in general obligation bonds outstanding. Of this total, \$1,590,000 is due within one year and \$20,138,535 is due within greater than one year. The following table summarizes the bonds outstanding.

	Governmental Activities	Governmental Activities
	<u>2006</u>	<u>2005</u>
General obligation bonds:		
Refunding bonds	\$ 16,075,000	\$ 17,655,000
Capital appreciation bonds	4,048,555	4,048,555
Accreted interest on bonds	<u>1,604,980</u>	<u>1,228,918</u>
<b>Total</b>	<b><u>\$ 21,728,535</u></b>	<b><u>\$ 22,932,473</u></b>

See Note 11 to the basic financial statements for additional information on the District's debt administration.

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

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

**Current Financial Related Activities**

Our District relies heavily upon property taxes, state funding, entitlements and grants. An increase in property tax was realized in calendar year 2006 due to the passage of an emergency levy of 6.9 mills August 2, 2005 and due to new construction growth. Additional property tax revenue was realized in our inside millage for calendar year 2006 because of the triennial update in tax year 2005. However, the future financial stability of the district is not without challenges.

We have made the necessary cuts in the past few years in our operating expenses to counter school funding challenges, increased enrollment, and the loss of four levies. The district has placed four 6.9 mill levies in recent months on the ballot and they have been defeated each time. Finally, in August 2005 we passed an emergency levy for five years and it will generate \$2,500,000 annually in new property taxes.

Enrollment continues to increase for the District creating yet another tough challenge. Enrollment increases are projected in FY07-FY09 of at least 75 students per year. These increases are impacting the capacity of our current school buildings. If these increases continue, the District will be faced with asking the voters to approve a bond levy for the building of a new school. And again, with yet another building, the District will face challenges with more operating expenses to pass to the voters.

The last and most concerning challenge is state funding. The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." Since 1997, the state has directed its tax revenue growth towards school districts with low property tax wealth. On September 6, 2001, the Ohio Supreme Court issued its opinion regarding the state's school funding plan and granted a motion for reconsideration on November 2, 2001. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's school funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient..." For fiscal years 2006 and 2007, the State passed the biennium budget HB66 which has impacted our district in many ways. The District is currently trying to determine what effect this budget and the Supreme Courts prior decisions will have on its future state funding and its financial operations.

The District does not anticipate a significant growth in state revenue. The concern is that, to meet requirements of the court, the state is requiring redistribution of commercial and industrial property tax. With approximately eight percent of taxes paid for the District coming from businesses and industry, this could have an impact on the residential taxpayers. With the passage of the emergency levy in August 2005, the District does see a positive outlook on our five-year forecast with regards to a positive carryover.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Mr. Randy Stiver, Treasurer, Edgewood City School District, 3500 Busenbark Road, Trenton, Ohio, 45067-9798.

BASIC  
FINANCIAL STATEMENTS

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

**STATEMENT OF NET ASSETS  
JUNE 30, 2006**

	<u>Governmental Activities</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 6,536,635
Receivables:	
Taxes . . . . .	13,850,293
Accounts . . . . .	4,026
Intergovernmental . . . . .	427,323
Unamortized bond issuance costs. . . . .	164,922
Prepayments . . . . .	6,633
Materials and supplies inventory. . . . .	15,186
Capital assets:	
Land . . . . .	183,689
Depreciable capital assets, net . . . . .	26,620,909
Capital assets, net. . . . .	<u>26,804,598</u>
 Total assets . . . . .	 <u>47,809,616</u>
 <b>Liabilities:</b>	
Accounts payable . . . . .	118,285
Accrued wages and benefits . . . . .	2,373,892
Pension obligation payable. . . . .	663,682
Intergovernmental payable . . . . .	227,119
Deferred revenue . . . . .	12,786,215
Accrued interest payable . . . . .	134,659
Long-term liabilities:	
Due within one year. . . . .	1,964,432
Due within more than one year . . . . .	21,559,241
Total liabilities . . . . .	<u>39,827,525</u>
 <b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	5,399,829
Restricted for:	
Capital projects . . . . .	251,225
Debt service. . . . .	2,364,817
Locally funded programs. . . . .	9,421
State funded programs. . . . .	20,757
Federally funded programs. . . . .	55,760
Other purposes . . . . .	123,223
Unrestricted (deficit). . . . .	<u>(242,941)</u>
 Total net assets. . . . .	 <u>\$ 7,982,091</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 12,797,188	\$ 341,359	\$ 59,357	\$ (12,396,472)
Special . . . . .	3,118,588	7,014	271,813	(2,839,761)
Other . . . . .	42,235	105	-	(42,130)
Support services:				
Pupil . . . . .	2,436,469	4,765	658,560	(1,773,144)
Instructional staff . . . . .	2,194,415	14,950	180,099	(1,999,366)
Board of education . . . . .	177,038	441	-	(176,597)
Administration . . . . .	1,932,806	26,730	16,504	(1,889,572)
Fiscal . . . . .	816,984	1,925	-	(815,059)
Business . . . . .	149,607	370	-	(149,237)
Operations and maintenance . . . . .	2,449,836	24,408	-	(2,425,428)
Pupil transportation . . . . .	1,382,344	3,450	3,024	(1,375,870)
Central . . . . .	215,264	340	81,743	(133,181)
Operation of non-instructional services . . . . .	20,492	17	-	(20,475)
Food service operations . . . . .	1,260,975	789,317	390,188	(81,470)
Extracurricular activities . . . . .	551,872	84,567	-	(467,305)
Interest and fiscal charges . . . . .	1,160,222	-	-	(1,160,222)
<b>Total governmental activities . . . . .</b>	<b>\$ 30,706,335</b>	<b>\$ 1,299,758</b>	<b>\$ 1,661,288</b>	<b>(27,745,289)</b>

<b>General Revenues:</b>	
Property taxes levied for:	
General purposes . . . . .	10,835,023
Debt service . . . . .	2,388,416
Grants and entitlements not restricted to specific programs . . . . .	14,661,640
Investment earnings . . . . .	286,547
Miscellaneous . . . . .	1,030,182
<b>Total general revenues . . . . .</b>	<b>29,201,808</b>
Change in net assets . . . . .	1,456,519
<b>Net assets at beginning of year . . . . .</b>	<b>6,525,572</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 7,982,091</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 3,437,820	\$ 2,303,100	\$ 672,492	\$ 6,413,412
<b>Receivables:</b>				
Taxes . . . . .	11,537,333	2,312,960	-	13,850,293
Accounts . . . . .	3,886	-	140	4,026
Intergovernmental . . . . .	-	-	427,323	427,323
Interfund loans . . . . .	305,403	-	-	305,403
Prepayments . . . . .	6,633	-	-	6,633
Materials and supplies inventory . . . . .	-	-	15,186	15,186
<b>Restricted assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	123,223	-	-	123,223
<b>Total assets . . . . .</b>	<b>\$ 15,414,298</b>	<b>\$ 4,616,060</b>	<b>\$ 1,115,141</b>	<b>\$ 21,145,499</b>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 88,703	\$ -	\$ 29,582	\$ 118,285
Accrued wages and benefits . . . . .	2,220,199	-	153,693	2,373,892
Compensated absences payable . . . . .	36,483	-	-	36,483
Pension obligation payable . . . . .	617,165	-	46,517	663,682
Intergovernmental payable . . . . .	214,566	-	12,553	227,119
Interfund loan payable . . . . .	-	-	305,403	305,403
Deferred revenue . . . . .	11,262,216	2,257,132	301,623	13,820,971
<b>Total liabilities . . . . .</b>	<b>14,439,332</b>	<b>2,257,132</b>	<b>849,371</b>	<b>17,545,835</b>
<b>Fund Balances:</b>				
Reserved for encumbrances . . . . .	43,512	-	45,674	89,186
Reserved for BWC refunds . . . . .	123,223	-	-	123,223
Reserved for materials and supplies inventory . . . . .	-	-	15,186	15,186
Reserved for property tax unavailable for appropriation . . . . .	275,117	55,828	-	330,945
Reserved for debt service . . . . .	-	2,303,100	-	2,303,100
Reserved for prepayments . . . . .	6,633	-	-	6,633
<b>Unreserved, undesignated (deficit), reported in:</b>				
General fund . . . . .	526,481	-	-	526,481
Special revenue funds . . . . .	-	-	(36,127)	(36,127)
Capital projects funds . . . . .	-	-	241,037	241,037
<b>Total fund balances . . . . .</b>	<b>974,966</b>	<b>2,358,928</b>	<b>265,770</b>	<b>3,599,664</b>
<b>Total liabilities and fund balances . . . . .</b>	<b>\$ 15,414,298</b>	<b>\$ 4,616,060</b>	<b>\$ 1,115,141</b>	<b>\$ 21,145,499</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2006

<b>Total governmental fund balances</b>		\$ 3,599,664
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		26,804,598
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 733,133	
Intergovernmental revenue	301,623	
Total		1,034,756
Unamortized bond issuance costs are not recognized in the funds.		164,922
Unamortized deferred charges on refundings are not recognized in the funds.		796,343
Unamortized premiums on bond issuances are not recognized in the funds.		(328,081)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation current interest bonds	16,075,000	
General obligation capital appreciation bonds	5,653,535	
Capital lease obligation	251,215	
Lease purchase agreement	1,029,999	
Compensated absences	945,703	
Accrued interest payable	134,659	
Total		(24,090,111)
<b>Net assets of governmental activities</b>		<b>\$ 7,982,091</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 10,550,639	\$ 2,353,865	\$ -	\$ 12,904,504
Tuition . . . . .	53,930	-	-	53,930
Transportation fees . . . . .	6,595	-	-	6,595
Earnings on investments . . . . .	268,129	-	18,418	286,547
Charges for services . . . . .	-	-	789,317	789,317
Extracurricular . . . . .	3,654	-	180,451	184,105
Classroom materials and fees . . . . .	-	-	265,811	265,811
Other local revenues . . . . .	812,840	-	217,342	1,030,182
Intergovernmental - State . . . . .	14,127,479	463,865	150,885	14,742,229
Intergovernmental - Federal . . . . .	70,296	-	1,322,143	1,392,439
<b>Total revenue . . . . .</b>	<b>25,893,562</b>	<b>2,817,730</b>	<b>2,944,367</b>	<b>31,655,659</b>
<b>Expenditures:</b>				
Instruction:				
Regular . . . . .	11,710,321	-	434,537	12,144,858
Special . . . . .	2,770,091	-	285,492	3,055,583
Other . . . . .	41,561	-	-	41,561
Support Services:				
Pupil . . . . .	1,695,525	-	701,595	2,397,120
Instructional staff . . . . .	1,946,729	-	216,291	2,163,020
Board of education . . . . .	174,214	-	-	174,214
Administration . . . . .	1,829,719	-	53,819	1,883,538
Fiscal . . . . .	759,856	37,748	-	797,604
Business . . . . .	146,353	-	-	146,353
Operations and maintenance . . . . .	2,370,218	-	20,168	2,390,386
Pupil transportation . . . . .	1,362,758	-	676	1,363,434
Central . . . . .	134,275	-	81,476	215,751
Operation of non-instructional services . . . . .	6,541	-	13,162	19,703
Food service operations . . . . .	-	-	1,212,244	1,212,244
Extracurricular activities . . . . .	399,015	-	91,352	490,367
Capital outlay . . . . .	814,324	-	-	814,324
Debt service:				
Principal retirement . . . . .	259,913	1,580,000	-	1,839,913
Interest and fiscal charges . . . . .	40,207	706,590	-	746,797
<b>Total expenditures . . . . .</b>	<b>26,461,620</b>	<b>2,324,338</b>	<b>3,110,812</b>	<b>31,896,770</b>
Excess of revenue over (under) expenditures.	(568,058)	493,392	(166,445)	(241,111)
<b>Other financing sources:</b>				
Inception of lease purchase agreement . . . . .	814,324	-	-	814,324
Total other financing sources . . . . .	814,324	-	-	814,324
Net change in fund balances . . . . .	246,266	493,392	(166,445)	573,213
<b>Fund balances at beginning of year . . . . .</b>	<b>728,700</b>	<b>1,865,536</b>	<b>448,394</b>	<b>3,042,630</b>
<b>Decrease in reserve for inventory . . . . .</b>	<b>-</b>	<b>-</b>	<b>(16,179)</b>	<b>(16,179)</b>
<b>Fund balances at end of year . . . . .</b>	<b>\$ 974,966</b>	<b>\$ 2,358,928</b>	<b>\$ 265,770</b>	<b>\$ 3,599,664</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**Net change in fund balances - total governmental funds** \$ 573,213

*Amounts reported for governmental activities in the statement of activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$1,340,454) exceeds capital outlays (\$1,243,299) in the current period. (97,155)

Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed. (16,179)

The inception of a lease purchase agreement is recorded as an other financing source in the funds; however they have no effect on the statement of activities. (814,324)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 507,195

Repayment of bond, capital lease, and lease purchase principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 1,839,913

In the statement of activities, interest is accrued on outstanding bonds, capital leases, and lease purchases; whereas in governmental funds, interest is reported as an expenditure when due. The following items resulted in increased interest being reported in the statement of activities:

Increase in accrued interest payable	\$	(6,988)
Accreted interest on capital appreciation bonds		(376,062)
Amortization of bond issuance costs		(8,246)
Amortization of bond premiums		16,404
Amortization of deferred charge on refunding		(38,533)

Total (413,425)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use current financial resources and therefore are not reported as expenditures in governmental funds. (122,719)

**Change in net assets of governmental activities** \$ 1,456,519

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 10,826,222	\$ 10,407,499	\$ 10,479,122	\$ 71,623
Tuition . . . . .	55,716	53,561	53,930	369
Transportation fees . . . . .	6,814	6,550	6,595	45
Earnings on investments . . . . .	262,812	252,647	254,386	1,739
Extracurricular . . . . .	3,775	3,629	3,654	25
Other local revenues . . . . .	823,012	791,181	796,626	5,445
Intergovernmental - State . . . . .	14,595,423	14,030,921	14,127,479	96,558
Intergovernmental - Federal . . . . .	72,625	69,816	70,296	480
<b>Total revenue . . . . .</b>	<b>26,646,399</b>	<b>25,615,804</b>	<b>25,792,088</b>	<b>176,284</b>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	13,337,959	13,991,095	12,144,494	1,846,601
Special . . . . .	2,635,536	2,764,594	2,733,284	31,310
Other . . . . .	42,822	44,919	39,057	5,862
Support Services:				
Pupil . . . . .	1,645,978	1,726,579	1,669,436	57,143
Instructional staff . . . . .	1,893,777	1,986,512	1,985,090	1,422
Board of education . . . . .	161,775	169,697	174,500	(4,803)
Administration . . . . .	1,929,942	2,024,448	1,831,911	192,537
Fiscal . . . . .	731,377	767,191	762,125	5,066
Business . . . . .	152,712	160,190	147,204	12,986
Operations and maintenance . . . . .	2,313,809	2,427,112	2,412,591	14,521
Pupil transportation . . . . .	1,265,839	1,327,825	1,323,810	4,015
Central . . . . .	168,283	176,524	130,607	45,917
Operation of non-instructional services . . . . .	6,603	6,926	7,015	(89)
Extracurricular activities . . . . .	374,938	393,298	408,501	(15,203)
Debt service:				
Principal retirement . . . . .	27,646	29,000	29,000	-
Interest and fiscal charges . . . . .	20,350	21,347	20,607	740
<b>Total expenditures . . . . .</b>	<b>26,709,346</b>	<b>28,017,257</b>	<b>25,819,232</b>	<b>2,198,025</b>
Excess of revenues over (under) expenditures . . . . .	(62,947)	(2,401,453)	(27,144)	2,374,309
<b>Other financing sources (uses):</b>				
Sale of capital assets . . . . .	1,550	1,490	1,500	10
Advances in . . . . .	96,713	92,972	93,612	640
Advances (out) . . . . .	(95,332)	(100,000)	(308,267)	(208,267)
Refund of prior year expenditure . . . . .	12,297	11,821	11,902	81
<b>Total other financing sources (uses) . . . . .</b>	<b>15,228</b>	<b>6,283</b>	<b>(201,253)</b>	<b>(207,536)</b>
Net change in fund balance . . . . .	(47,719)	(2,395,170)	(228,397)	2,166,773
<b>Fund balance at beginning of year . . . . .</b>	<b>3,490,750</b>	<b>3,490,750</b>	<b>3,490,750</b>	<b>-</b>
<b>Prior year encumbrances appropriated . . . . .</b>	<b>216,717</b>	<b>216,717</b>	<b>216,717</b>	<b>-</b>
<b>Fund balance at end of year . . . . .</b>	<b>\$ 3,659,748</b>	<b>\$ 1,312,297</b>	<b>\$ 3,479,070</b>	<b>\$ 2,166,773</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2006

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 5,597	\$ 36,636
Total assets . . . . .	<u>5,597</u>	<u>\$ 36,636</u>
<b>Liabilities:</b>		
Accounts payable . . . . .	-	\$ 2,326
Due to students . . . . .	-	34,310
Total liabilities . . . . .	<u>-</u>	<u>\$ 36,636</u>
<b>Net Assets:</b>		
Held in trust for scholarships . . . . .	<u>5,597</u>	
Total net assets . . . . .	<u>\$ 5,597</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<b>Private-Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Gifts and contributions . . . . .	\$ 193
Total additions. . . . .	193
<b>Deductions:</b>	
Scholarships awarded . . . . .	953
Change in net assets . . . . .	(760)
<b>Net assets at beginning of year . . . . .</b>	<b>6,357</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 5,597</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

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

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

The Edgewood City School District (the "District") was formed on February 14, 1968 with the consolidation of Trenton City School District and Shiloh Local School District. Today, the District operates under current standards prescribed by the Ohio State Board of Education, as provided in division (D) of Section 3301.07, and Section 119.01 of the Ohio Revised Code.

The District operates under a locally elected five-member board form of government and provides educational services as authorized by its charter or further mandated by state and/or federal agencies. This Board controls the District's instructional and support facilities, staffed by 250 certified full-time teaching and administrative personnel and 140 non-certified personnel, who provide services to approximately 3,789 students and other community members.

The District ranks as the 117th largest by enrollment among the 615 public school districts in the state. It currently operates 3 elementary schools, 1 middle school, and 1 comprehensive high school.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (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. The District's significant accounting policies are described below.

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity", and as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic 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. For 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; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or (4) 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. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

*JOINTLY GOVERNED ORGANIZATIONS*

Southwest Ohio Computer Association (SWOCA)

SWOCA is a jointly governed organization among a three-county consortium of Ohio school districts. The jointly governed organization was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions of the member districts. Each of the governments of these schools supports SWOCA based upon a per pupil charge, dependent upon the software package utilized.

The governing board of SWOCA is comprised of the superintendent of each of the member districts, plus one representative from the fiscal agent. The degree of control exercised by any participating school district is limited to its representation on the Board.

Financial information can be obtained from K. Michael Crumley, who serves as Director, at 3603 Hamilton-Middletown Road, Hamilton, Ohio 45011.

Butler Technology & Career Development Schools

The Technology & Career Development Schools is a vocational school district, and is a separate body politic and corporate, established by the Ohio Revised Code (ORC) to provide for the vocational and special education needs of its students. The Technology & Career Development School accepts non-tuition students from the District as a member school; however, it is considered a separate political subdivision and is not considered to be part of the District.

*PUBLIC ENTITY RISK POOLS*

Ohio School Boards Association 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 Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program. See Note 12.B. for additional information.

**B. Basis of Presentation and Measurement Focus**

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.

**EDGEWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of 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 not classified as program revenues are presented as general revenues of the District.

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.

Fund Financial Statements - Fund financial statements report detailed information about the District. 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, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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.

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

**C. 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 also use the accrual basis of accounting.

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. Available means that the resources will be collected within the current fiscal year or are expected to be collected 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. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

**EDGEWOOD CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

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, interest, tuition, grants, student fees and rentals.

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 also been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

**D. Fund Accounting**

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The District has no proprietary funds.

*GOVERNMENTAL FUNDS*

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses 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 following are the District's major governmental funds:



**EDGEWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

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 balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Debt Service Fund - This fund is used to account for the accumulation of resources and payment of general obligation bond and note principal and interest and certain long-term obligations from governmental resources when the government is obligated in some manner for payment.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities; (b) food service and uniform school supplies operations; and (c) grants and other resources whose use is restricted to a particular purpose.

*FIDUCIARY FUNDS*

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

**E. Budgets**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The specific timetable for fiscal year 2006 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Butler County Budget Commission for tax rate determination.

**EDGEWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final Amended Certificates issued for fiscal year 2006.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.
6. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
8. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2006.
9. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the fund level.

**F. Cash and Investments**

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

**EDGEWOOD CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

During fiscal 2006, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). 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.

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$268,129, which includes \$105,695 assigned from other District funds.

For presentation on the basic financial statements, investments of the cash management pool are considered to be cash equivalents. Investments not part of the cash management pool with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at year-end is provided in Note 4.

**G. Inventory**

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method on the statement of activities and the purchase method on the governmental fund statements.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

**H. Capital Assets**

General capital assets 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 in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of two-thousand five hundred 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.

**EDGEWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	25 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	5 - 10 years

**I. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the statement of net assets.

**J. Compensated Absences**

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the financial statement date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty or greater with at least ten years of service or any age with 20 years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2006, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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 due. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**K. 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, 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. Bonds are recognized as a liability on the fund financial statements when due.

**L. 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, materials and supplies inventory, prepayments, debt service, property taxes unavailable for appropriation, and Bureau of Workers' Compensation (BWC) refunds. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

**M. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist 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.

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

**N. Prepayments**

Certain payments to vendors reflect the costs 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 in which services are consumed.

**EDGEWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**O. Estimates**

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

**P. Restricted Assets**

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set-aside for Bureau of Workers' Compensation (BWC) refunds. See Note 17 for details.

**Q. Interfund Activity**

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 and are eliminated on the Statement of Activities. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Changes in Accounting Principles**

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34, establishing accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. This statement also requires governments to disclose in the notes to the basic financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46, and GASB Statement No. 47 did not have an effect on the fund balances and net assets of the District as previously reported at June 30, 2005.

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

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

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

**B. Deficit Fund Balances**

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

<u>Nonmajor Governmental Funds</u>	<u>Deficit</u>
Food Service	\$ 45,323
IDEA Part B Grants	180,397
Title I Disadvantaged Children	36,078
Title V Innovative Education Program	139
Drug Free School Grant	4,128
IDEA Preschool-Handicapped	2,633
Improving Teacher Quality	32,051
Miscellaneous Federal Grants	30,965

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 result from adjustments for accrued liabilities.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current 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 deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

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

**EDGEWOOD CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**A. Cash on Hand**

At year-end, the District had \$62 in undeposited cash on hand, which is included in the basic financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."



**EDGEWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**B. Deposits with Financial Institutions**

At June 30, 2006, the carrying amount of all District deposits was \$1,281,251. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$100,000 of the District's bank balance of \$1,728,819 was covered by the Federal Deposit Insurance Corporation, while \$1,628,819 was exposed to custodial risk as discussed below.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

The District does not have a deposit policy specifically addressing its depository accounts with financial institutions.

**C. Investments**

Investments are made in order to seek preservation of capital in the portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. The portfolio is managed in such a way as to equal or exceed the market average rate of return. The portfolio remains sufficiently liquid to enable the District to meet reasonably anticipated operational requirements.

The District may invest in those instruments defined in Chapter 135 ORC and other relevant sections of the Ohio Revised Code at a price not exceeding their fair market value. Cash flow requirements are considered in determining the term of an investment. Provided these requirements have been satisfied, maturity length is determined by market conditions and interest rate forecasts. Investments of the District are diversified to eliminate the risk of loss resulting from over concentration of assets in a specific investment instrument. All investments and deposits are collateralized pursuant to the Ohio Revised Code.

In addition to these policies, all relevant sections of the Ohio Revised Code are adhered to at all times.

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

<u>Investment</u>	<u>Fair Market Value</u>	<u>Investment Maturities</u> 6 months or less
STAR Ohio	\$ 5,297,555	\$ 5,297,555
Total	<u>\$ 5,297,555</u>	<u>\$ 5,297,555</u>

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

**EDGEWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

*Credit Risk:* Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 5,297,555	100.00%
Total	<u>\$ 5,297,555</u>	<u>100.00%</u>

**D. Reconciliation of Cash and Investments to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and Investments per Note Disclosure</u>	
Carrying amount of deposits	\$ 1,281,251
Investments	5,297,555
Cash on hand	<u>62</u>
Total	<u>\$ 6,578,868</u>
<u>Cash and Investments per Statement of Net Assets</u>	
Governmental activities	\$ 6,536,635
Private-purpose trust funds	5,597
Agency funds	<u>36,636</u>
Total	<u>\$ 6,578,868</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund loans consisted of the following, as reported in the fund financial statements at June 30, 2006:

<u>Interfund loans receivable in the General fund from:</u>	<u>Amount</u>
Nonmajor governmental funds	\$ 305,403

The balance in the general fund represents interfund loans due from other funds that are expected to be repaid within the next fiscal year. The loans will be repaid once the anticipated revenues are received.

**EDGEWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 6 - 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 collections are received by the District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility and tangible personal property located in the District. Property tax revenue received during calendar 2006 for real and public utility property taxes represents collections of calendar 2005 taxes. Property tax payments received during calendar 2006 for tangible personal property (other than public utility property) are for calendar 2006 taxes.

2006 real property taxes are levied after April 1, 2005 on the assessed value listed as of the prior January 1, 2005, the lien date. Assessed values are established by state law at thirty-five percent of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true values; public utility real property is assessed at thirty-five percent of true value. 2006 public utility property taxes became a lien January 1, 2005, are levied after April 1, 2005 and are collected in 2006 with real property taxes.

2006 tangible personal property taxes are levied after April 1, 2005, on the values as of January 1, 2005. Collections are made in 2006. In prior years, tangible personal property assessments were twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Tangible personal property tax is being phased out - the assessment percentage for property, including inventory, is 18.75% for 2006. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008, and zero for 2009.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The full tax rate for the District for the year ended June 30, 2006 was \$46.59 per \$1,000.00 of assessed value for general operations, and \$6.00 per \$1,000.00 of assessed valuation for debt service. The assessed values of real and tangible personal property for tax year 2006 are as follows:

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Real estate property	\$ 274,073,880	74.28	\$ 305,142,870	77.07
Public utility personal property	43,329,060	11.74	43,884,720	11.08
Tangible personal property	<u>51,543,833</u>	<u>13.98</u>	<u>46,906,599</u>	<u>11.85</u>
Total assessed valuation	<u>\$ 368,946,773</u>	<u>100.00</u>	<u>\$ 395,934,189</u>	<u>100.00</u>

**EDGEWOOD CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 6 - PROPERTY TAXES - (Continued)**

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or 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. This year, the June 2006 tangible personal property tax settlement was not received until July of 2006.

The Butler County Treasurer collects property tax on behalf of the District. The County Auditor periodically remits to the District its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August. The amounts 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, personal property and public utility taxes, which became measurable as of June 30, 2006. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less the amount available intended to finance the current year) is therefore offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006 was \$275,117 in the general fund and \$55,828 in the debt service fund. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2005 was \$203,600 in the general fund and \$49,709 in the debt service fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2006 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. 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 receivables reported on the Statement of Net Assets follows:

**Governmental Activities:**

Taxes	\$ 13,850,293
Accounts	4,026
Intergovernmental	<u>427,323</u>
Total	<u>\$ 14,281,642</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

**EDGEWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 8 - CAPITAL ASSETS**

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

	Balance			Balance
<u>Governmental Activities:</u>	<u>06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>06/30/06</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 183,689	\$ -	\$ -	\$ 183,689
<i>Total capital assets, not being depreciated</i>	<u>183,689</u>	<u>-</u>	<u>-</u>	<u>183,689</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	522,437	14,200	-	536,637
Buildings and improvements	34,154,075	-	-	34,154,075
Equipment and furniture	1,646,120	1,024,999	-	2,671,119
Vehicles	1,293,145	204,100	-	1,497,245
<i>Total capital assets, being depreciated</i>	<u>37,615,777</u>	<u>1,243,299</u>	<u>-</u>	<u>38,859,076</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(99,516)	(18,124)	-	(117,640)
Buildings and improvements	(9,121,903)	(1,007,886)	-	(10,129,789)
Equipment and furniture	(1,021,297)	(244,684)	-	(1,265,981)
Vehicles	(654,997)	(69,760)	-	(724,757)
<i>Total accumulated depreciation</i>	<u>(10,897,713)</u>	<u>(1,340,454)</u>	<u>-</u>	<u>(12,238,167)</u>
<b>Total capital assets, net</b>	<u><b>\$ 26,901,753</b></u>	<u><b>\$ (97,155)</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 26,804,598</b></u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 1,148,136
Special	3,089
<u>Support Services:</u>	
Pupil	223
Instructional staff	35,406
Administration	9,559
Fiscal	546
Operations and maintenance	16,842
Pupil transportation	74,781
Other non-instructional services	470
Extracurricular activities	38,197
Food service operations	13,205
<b>Total depreciation expense</b>	<u><b>\$ 1,340,454</b></u>

**EDGEWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE**

In prior fiscal years, the District entered into leases for copiers and fitness equipment. These lease agreements meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statement.

Capital assets consisting of copiers and fitness equipment have been capitalized in the amount of \$459,590. This amount represents the present values of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2006 totaled \$52,588 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2006:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2007	\$ 72,188
2008	72,188
2009	72,188
2010	<u>72,188</u>
Total minimum lease payments	288,752
Less: amount representing interest	<u>(37,537)</u>
Total	<u>\$ 251,215</u>

**NOTE 10 - LEASE-PURCHASE AGREEMENTS**

On June 30, 2004, the District entered into a \$439,000 lease-purchase agreement with Columbus Regional Airport Authority to finance the construction, enlarging or other improvement, furnishing and equipping, lease and eventual acquisition, of various building improvements on District sites. The source of revenue to fund the principal and interest payments is derived from general operating revenues of the District. During fiscal year 2006, the District made \$29,000 in principal payments and \$21,326 in interest payments on the lease-purchase agreement.

On December 29, 2005, the District entered into an \$814,324 lease-purchase agreement with Apple Computer, Inc. to finance the acquisition of computer equipment. The source of revenue to fund the principal and interest payments is derived from general operating revenues of the District. During fiscal year 2006, the District made \$178,325 in principal payments on the lease-purchase agreement. No interest payments were scheduled or required in fiscal 2006.

A liability in the amount of the present value of minimum lease payments has been recorded in the governmental activities of the District.

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreements and the present value of the minimum lease payments as of June 30, 2006.

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

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

**NOTE 10 - LEASE-PURCHASE AGREEMENTS - (Continued)**

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2007	\$ 227,202
2008	226,741
2009	226,228
2010	226,667
2011	47,683
2012 - 2016	234,270
2017	<u>46,251</u>
Total minimum lease payments	1,235,042
Less: amount representing interest	<u>(205,043)</u>
Total	<u>\$ 1,029,999</u>

**NOTE 11 - LONG-TERM OBLIGATIONS**

A. The District's long-term obligations during the year consisted of the following:

	<u>Balance</u>				<u>Balance</u>	<u>Amount Due</u>
	<u>6/30/05</u>	<u>Increases</u>	<u>Decreases</u>		<u>6/30/06</u>	<u>Within</u>
						<u>One Year</u>
<b>Governmental Activities:</b>						
<u>G.O. Bonds - Series 1999</u>						
Capital Appreciation Bonds	\$ 1,848,576	\$ -	\$ -		\$ 1,848,576	\$ -
Accreted Interest on Bonds	1,210,876	266,539	-		1,477,415	-
Current Interest Refunding Bonds	4,815,000	-	(605,000)		4,210,000	625,000
<u>G.O. Refunding Bonds - Series 2005</u>						
Current Interest Bonds	12,840,000	-	(975,000)		11,865,000	965,000
Capital Appreciation Bonds	2,199,979	-	-		2,199,979	-
Accreted Interest on Bonds	18,042	109,523	-		127,565	-
Lease Purchase Agreements	423,000	814,324	(207,325)		1,029,999	177,106
Capital lease obligations	303,803	-	(52,588)		251,215	56,389
Compensated Absences	1,107,239	175,652	(300,705)		982,186	140,937
Total	<u>\$ 24,766,515</u>	<u>\$ 1,366,038</u>	<u>\$ (2,140,618)</u>		23,991,935	<u>\$ 1,964,432</u>
Unamortized premium on refunding bonds					328,081	
Unamortized deferred charges on refunding bonds					<u>(796,343)</u>	
Total Long-Term Liabilities on Statement of Net Assets					<u>\$ 23,523,673</u>	

**EDGEWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)**

General Obligation Bonds - Series 1999: On May 27, 1999, the District issued general obligation improvement and refunding bonds, which included both current interest and capital appreciation bonds, in order to make major improvements and additions to three of the District's facilities. During fiscal 2005, the current interest improvement bonds were advance refunded and are considered defeased in-substance. The current interest refunding bonds and the capital appreciation improvement bonds will be retired from the debt service fund with revenue generated from a 6.25 mill bonded debt levy.

General Obligation Bonds - Series 2005: On March 15, 2005, the District issued general obligation refunding bonds, which included both current interest and capital appreciation bonds, in order to advance refund \$15,040,000 of the General Obligation Bonds - Series 1999 improvement bonds. The proceeds from the issuance were used to purchase securities, which were placed in an irrevocable trust in order to provide resources for all future debt service payments on the advance refunded debt. This advance refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net assets.

The advance refunding issue is comprised of both current interest bonds, par value \$12,840,000, and capital appreciation bonds, par value \$2,199,979. The average interest rate on the current interest bonds is 3.90%. The capital appreciation bonds mature December 1, 2016 and December 1, 2017 (effective interest rate 4.878%) at a redemption price equal to 100% of the principal, plus accreted interest to the redemption date. The present value (as of the issue date) reported on the statement of net assets at June 30, 2006 is \$2,199,979. Total accreted interest of \$127,565 has been included on the statement of net assets.

Lease Purchase Agreements: See Note 10 for details.

Capital Lease Obligations: See Note 9 for details.

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salary is paid, primarily the general fund.



**EDGEWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)**

B. Principal and interest requirements to retire the long-term obligations outstanding at June 30, 2006 are as follows:

Year Ended	<u>General Obligation Bonds - Series 1999</u>					
	<u>Current Interest Refunding Bonds</u>			<u>Capital Appreciation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 625,000	\$ 190,570	\$ 815,570	\$ -	\$ -	\$ -
2008	655,000	163,695	818,695	-	-	-
2009	685,000	134,875	819,875	-	-	-
2010	715,000	104,050	819,050	-	-	-
2011	750,000	71,160	821,160	-	-	-
2012 - 2016	<u>780,000</u>	<u>36,660</u>	<u>816,660</u>	<u>1,848,576</u>	<u>4,636,424</u>	<u>6,485,000</u>
Total	<u>\$ 4,210,000</u>	<u>\$ 701,010</u>	<u>\$ 4,911,010</u>	<u>\$ 1,848,576</u>	<u>\$ 4,636,424</u>	<u>\$ 6,485,000</u>

Year Ended	<u>General Obligation Refunding Bonds - Series 2005</u>					
	<u>Current Interest Bonds</u>			<u>Capital Appreciation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 965,000	\$ 492,102	\$ 1,457,102	\$ -	\$ -	\$ -
2008	1,035,000	463,152	1,498,152	-	-	-
2009	1,110,000	432,102	1,542,102	-	-	-
2010	565,000	393,252	958,252	-	-	-
2011	620,000	373,477	993,477	-	-	-
2012 - 2016	1,055,000	1,651,140	2,706,140	-	-	-
2017 - 2021	3,160,000	1,320,865	4,480,865	2,199,979	1,755,021	3,955,000
2022 - 2026	<u>3,355,000</u>	<u>479,305</u>	<u>3,834,305</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 11,865,000</u>	<u>\$ 5,605,395</u>	<u>\$ 17,470,395</u>	<u>\$ 2,199,979</u>	<u>\$ 1,755,021</u>	<u>\$ 3,955,000</u>

**C. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 0.1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2006 are a legal voted debt margin of \$17,813,622 (including available funds of \$2,303,100), a legal unvoted debt margin of \$395,934.

**EDGEWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 12 - RISK MANAGEMENT**

- A. The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries to employees and natural disasters. During fiscal year 2006, the District purchased commercial coverage for property and general liability insurance, including boilers and machinery valued at \$71,195,904 with a \$1,000,000 single occurrence limit and a \$1,000 deductible.

Professional liability is protected by the Selective Insurance Company of South Carolina with a \$4,000,000 annual aggregate/\$2,000,000 single occurrence limit and a \$1,000 per claim deductible. Vehicles are covered by Selective Insurance Company of South Carolina and hold a \$500 deductible for comprehensive and a \$500 deductible for collision.

Fleet and property/casualty insurance are purchased through commercial carriers and traditionally funded, as are all benefit plans offered to employees.

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in amounts of insurance coverage from fiscal 2005.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 14. As such, no funding provisions are required by the District.

**B. OSBA Group Workers' Compensation Rating Program**

For fiscal year 2006, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

**EDGEWOOD CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 13 - PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, [www.ohsers.org](http://www.ohsers.org), under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District 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 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2006, 2005, and 2004 were \$406,443, \$494,280, and \$492,142, respectively. 52.96 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$191,193 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

**B. State Teachers Retirement System**

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

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

**EDGEWOOD CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 13 - PENSION PLANS - (Continued)**

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon 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 fund pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$1,754,104, \$1,811,735, and \$1,745,947, respectively. 81.88 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$317,857 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2006 were \$15,269 made by the District and \$33,696 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/ STRS. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**NOTE 14 - POSTEMPLOYMENT BENEFITS**

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$134,931 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282.743 million and STRS had 119,184 eligible benefit recipients.

**EDGEWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)**

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$184,670 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006 were \$158.751 million. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million, which is about 221 percent of next years projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 59,492 participants currently receiving health care benefits.

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance 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 and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) 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 the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

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

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

**Net Change in Fund Balance**

	<u>General Fund</u>
Budget basis	\$ (228,397)
Net adjustment for revenue accruals	101,474
Net adjustment for expenditure accrals	(695,988)
Net adjustment for other financing sources/uses	1,015,577
Adjustment for encumbrances	53,600
GAAP basis	\$ 246,266

**NOTE 16 - CONTINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**B. Litigation**

The District has lawsuits outstanding, but management does not believe that potential losses, if any, will be material to the financial statements.

**NOTE 17 - STATUTORY RESERVES**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2006, the reserve activity was as follows:

	<u>Instructional Materials</u>	<u>Capital Maintenance</u>	<u>BWC Refunds</u>
Set-aside balance as of June 30, 2005	\$ (798,176)	\$(16,415,341)	\$ 123,223
Current year set-aside requirement	489,571	489,571	-
Current year qualifying expenditures	(745,773)	(486,093)	-
Total	\$ (1,054,378)	\$(16,411,863)	\$ 123,223
Set-aside balance carried forward to FY2007	\$ (1,054,378)	\$(16,411,863)	\$ 123,223

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

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

**NOTE 17 - STATUTORY RESERVES - (Continued)**

The District had qualifying disbursements during the year that reduced the instructional materials set-aside amount below zero; this extra amount is being carried forward to reduce the set-aside requirements of future years.

The negative carry over for capital acquisition from the previous fiscal year is a result of debt proceeds for the construction and renovation of school buildings. The resulting negative balance may be carried forward to reduce the requirements for qualifying disbursements in future years.

A schedule of the governmental fund restricted assets at June 30, 2006 follows:

Amount restricted for BWC refunds	<u>\$ 123,223</u>
Total restricted assets	<u>\$ 123,223</u>

**EDGEWOOD CITY SCHOOL DISTRICT**

Schedule of Prior Audit Findings

Year Ended June 30, 2006

The prior audit disclosed no instances of noncompliance with requirements of major federal programs. In addition, no reportable conditions or material weaknesses with respect to internal controls over compliance for major federal programs were reported in the prior year.



**EDGEWOOD CITY SCHOOL DISTRICT**

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

<u>Federal Grantor/Program Title</u>	<u>Pass Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Federal Revenues</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture:</u>				
<i>(Passed through Ohio Department of Education)</i>				
Food Donation	N/A	10.550	\$ 42,723	43,723
Nutrition Cluster:				
School Breakfast Program	05PU	10.553	45,159	45,159
National School Lunch Program	LLP4	10.555	<u>235,086</u>	<u>235,086</u>
Nutrition Cluster Total			<u>280,245</u>	<u>280,245</u>
Child and Adult Care Food Program	CCMO	10.558	<u>1,768</u>	<u>1,768</u>
Total U.S. Department of Agriculture			<u>324,736</u>	<u>325,736</u>
<u>U.S. Department of Education:</u>				
<i>(Passed through Ohio Department of Education)</i>				
Title I Grants to Local Educational Agencies	C1S1	84.010	90,936	110,827
Special Education Cluster:				
Special Education - Grants to States	6BSF	84.027	711,074	840,237
Special Education - Preschool Grants	PGS1/PGD7	84.173	<u>8,878</u>	<u>11,423</u>
Special Education Cluster Total			<u>719,952</u>	<u>851,660</u>
Emergency Response Crisis Management	n/a	84.184	5,508	35,825
Safe and Drug-Free Schools and Communities - State Grants	DRS1	84.186	6,374	10,042
State Grants for Innovative Programs	C2S1	84.298	22,996	22,996
Education Technology State Grants	TJS1	84.318	2,125	2,125
Improving Teacher Quality State Grants	TRS1	84.367	<u>64,660</u>	<u>95,985</u>
Total U.S. Department of Education			912,551	1,129,460
<u>U.S. Department of Health and Human Services</u>				
<i>(Passed through the Ohio Department of Mental Retardation and Developmental Disabilities)</i>				
Community Alternative Funding System (CAFS)	n/a	93.778	58,813	58,813
State Children's Health Insurance Program (SCHIP)	n/a	93.767	<u>11,484</u>	<u>11,484</u>
Total U.S. Department of Health and Human Services			<u>70,297</u>	<u>70,297</u>
<u>Institute of Museum and Library Services</u>				
<i>(Passed through the State Library of Ohio)</i>				
Library Services and Technology Act	n/a	45.310	-	<u>72,862</u>
Total Institute of Museum and Library Services			-	<u>72,862</u>
Total Federal Awards			\$ <u>1,307,584</u>	<u>1,598,355</u>

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The schedule of expenditures of federal awards is a summary of the activity of the School District's federal award programs. The schedule has been prepared on the cash basis of accounting.

**NOTE B - FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Education  
Edgewood City School District:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Edgewood City School District (the School District) as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the School District in a separate letter dated January 10, 2008.

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

*Clark, Scharfer, Hooked & Co.*

Middletown, Ohio  
January 10, 2008

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education  
Edgewood City School District:

**Compliance**

We have audited the compliance of Edgewood City School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Edgewood City School District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, Edgewood City School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

## Internal Control over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

*Clark, Scharfer, Hackett & Co.*

Middletown, Ohio  
January 10, 2008

**EDGEWOOD CITY SCHOOL DISTRICT**

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

**Section I - Summary of Auditors' Results**

**Financial Statements**

Type of report issued on financial statements:	unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	none
Reportable condition(s) identified not considered to be material weakness(es)?	none
Noncompliance material to financial statements noted?	none

**Federal Awards**

Internal Control over major programs:	
Material weakness(es) identified?	none
Reportable condition(s) identified not considered to be material weakness(es)?	none
Type of auditors' report issued on compliance for major programs:	unqualified
Any audit findings that are required to be reported in accordance with Circular A-133, Section .510(a)?	none
Identification of major programs:	
<i>Special Education Cluster:</i>	
<i>CFDA 84.027 – Special Education - Grants to States</i>	
<i>CFDA 84.173 – Special Education - Preschool Grants</i>	
Dollar threshold to distinguish between Type A and Type B Programs:	\$300,000
Auditee qualified as low-risk auditee?	yes

**Section II - Financial Statement Findings**

None.

**Section III - Federal Award Findings and Questioned Costs**

None.



**Mary Taylor, CPA**  
Auditor of State

**EDGEWOOD CITY SCHOOL DISTRICT**

**BUTLER 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  
JUNE 10, 2008**