



**Auditor of State
Betty Montgomery**

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Coldwater Exempted Village School District
Mercer County
310 North Second Street
Coldwater, Ohio 45828

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Coldwater Exempted Village School District, Mercer County, (the School District), as of and for the fiscal 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

Ohio Administrative Code § 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Coldwater Exempted Village School District, Mercer County, as of June 30, 2006, and the respective changes in cash financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2006, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

November 9, 2006

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

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

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

Financial Highlights

Key financial highlights for 2006 are as follows:

- General Receipts accounted for \$12,360,758 in receipts or 80% of all receipts. Program specific receipts in the form of charges for services, grants, and contributions accounted for \$3,113,551 or the other 20% of total receipts of \$15,474,309.
- Total program disbursements were \$22,333,900.
- Outstanding bonded debt decreased from \$11,254,855 to \$10,806,298 through the payment of loan and bond principal amounts.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Coldwater Exempted Village School District as a whole 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 School District, presenting both an aggregate view of the School 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 School District's most significant funds with all other non-major funds presented in total in one column. In the case of the Coldwater Exempted Village School District, the general fund is by far the most significant fund.

Basis of Accounting

The School District has elected to present its financial statements on a cash basis of accounting. This cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions.

Essentially, the only assets reported on this strictly cash receipt and disbursement basis presentation in a statement of net assets will be cash and cash equivalents. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

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

Reporting the School 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 School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2006?" The Statement of Net Assets and the Statement of Activities answer this question.

These two statements report the School District's *net assets* and *changes in those assets*. This change in net assets is important because it tells the reader that, for the School District as a whole, the *financial position* of the School 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 School District's property tax base, current property tax laws in Ohio which restrict receipt growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, Governmental Activities include the School District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 13. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds include the General Fund, Building Fund, and the OSFC Building Fund.

Governmental Funds - Most of the School 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 a cash basis of accounting. Receipts are recognized when received in cash and disbursements are recognized when paid. The governmental fund statements provide a detailed short-term view of the School District's general government 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.

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

The School District is the trustee, or fiduciary, for some of its scholarship and foundation programs. This activity is presented as a private purpose trust fund. The School District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The School District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 16 and 17. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

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

The School District as a Whole

Table 1 provides a summary of the School District's net assets for 2006 and 2005:

**(Table 1)
Net Assets – Cash Basis
(Restated)**

	2006	2005
	Governmental Activities	Governmental Activities
Assets		
Cash and Cash Equivalents	\$ 8,203,415	\$ 5,544,731
Cash with Escrow Agents	0	309,762
Investments	0	9,208,513
Total Assets	\$ 8,203,415	\$15,063,006
Net Assets		
Restricted:		
Capital Outlay	\$ 4,873,500	\$12,282,820
Debt Service	487,305	438,614
Other Purposes	732,052	610,229
Unrestricted	2,110,558	1,731,343
Total Net Assets	\$ 8,203,415	\$15,063,006

Table 2 shows the changes in net assets for fiscal years 2006 and 2005.

**(Table 2)
Governmental Activities
(Restated)**

2006	Governmental Activities	Governmental Activities
Receipts		
Program Receipts		
Charges for Services	\$ 803,241	\$ 686,558
Operating Grants	1,223,514	1,350,905
Capital Grants	1,086,796	10,372,648
General Receipts		
Property and Income Taxes	4,686,903	4,597,754
Payments in lieu of Taxes	97,291	53,400
Grants and Entitlements	7,119,517	6,672,891
Proceeds from Sale of		
Capital Assets	31,515	17,052
Interest	346,774	332,300
Miscellaneous	78,758	128,893
Total Receipts	15,474,309	24,212,401

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

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

**(Table 2)
Governmental Activities
(Restated)
2006
(Continued)**

	Governmental Activities	Governmental Activities
Program Disbursements		
Instruction	7,679,585	7,977,729
Support Services	3,479,817	3,049,416
Non-Instructional	417,328	427,228
Extracurricular	566,928	576,941
Capital Outlay	9,049,183	12,457,918
Debt Service	1,141,059	1,149,649
Total Disbursements	22,333,900	25,638,881
Increase (Decrease) in Net Assets	\$ (6,859,591)	\$ (1,426,480)

Several receipt sources fund the School District's governmental activities with grants and entitlements being the largest contributor. Grants and entitlements generated approximately \$7.1 million in 2006. General receipts from property and income taxes are also a large generator, of \$4.7 million.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services which must be supported by tax receipts and unrestricted State entitlements.

**(Table 3)
Governmental Activities**

	2006		Restated 2005	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost Of Service
Instruction	\$ 7,679,585	\$ 6,484,946	\$ 7,977,729	\$ 6,897,760
Support Services:				
Pupil and Instructional Staff	713,467	571,393	711,572	614,261
Board of Education, Administration and Fiscal	1,238,386	1,235,736	1,194,618	1,186,390
Operation and Maintenance of Plant	1,094,308	1,092,127	807,428	807,218
Pupil Transportation	421,666	394,642	334,598	317,827
Central Services	11,990	6,826	1,200	379
Operation of Non-Instructional	417,328	6,540	427,228	(13,215)
Extracurricular Activities	566,928	322,593	576,941	298,142
Capital Outlay	9,049,183	7,964,487	12,457,918	2,085,270
Debt Service	1,141,059	1,141,059	1,149,649	1,034,738
Total	\$22,333,900	\$19,220,349	\$25,638,881	\$13,228,770

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

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

Instruction and student support services comprise 50% of governmental program disbursements. Board of Education, fiscal and administration charges were 5.5%. Fiscal disbursements include payments to the County Auditor for administrative fees and other administrative services provided by the School District. Pupil transportation and the operation/maintenance of facilities accounts for 6.8% of governmental program disbursements.

The dependence upon tax receipts and unrestricted State entitlements for governmental activities is apparent.

A cash-flow analysis continues to be maintained to determine the maximum level of funds available for investment, as well as to determine investment length and maturity. The School District's fiscal officer does participate in the yearly State of Ohio Investment Seminar offered by the Ohio Treasurer of State's Center for Public Investment Management.

The School District also maintains analyses of utilities and other maintenance disbursements to examine the data regarding any increased operational costs for the newly-renovated facility. Base-line data was collected in CY03 and has been maintained since that time for proper data analysis of those disbursements.

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2006, the School District amended its general fund budget to reflect changing circumstances. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, budget basis receipts were \$11,484,555; over the final budget estimates of \$11,875,963. Of this \$391,408 decrease, most was attributable to a decrease from estimated property tax receipts.

It should be noted that the budgetary process involves the entire district and that the process is very hands-on in its approach to site-based budgeting. District department heads, as well as administrators, formulate the operating budget of the district related to instruction and instructional support. The budget is continually reviewed by these parties throughout the year and recommendations for changes come mostly from the building level.

Set Aside and Debt Administration

Set-Aside

A change in Ohio law required school districts to set aside 3% of certain receipts for capital improvements and an additional 3% for textbooks (see Note 14). For fiscal year 2006, this amounted to \$216,997 for each set aside. The School District has qualifying disbursements and offsets for capital acquisition equaling \$138,680. For the textbooks, the School District disbursed \$145,510 with the remainder scheduled to be carried forward into the 2007 fiscal year. The district fully utilizes both the materials and the equipment set-aside funds for those qualified expenditures.

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

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

Debt

At June 30, 2006, the School District's outstanding debt included \$10,602,021 of general obligation bonds issued for improvements to buildings and structures, \$8,277 of a loan for asbestos removal, and \$196,000 of a bank loan used to purchase the Junior High building. For additional information regarding the School District's debt, refer to Note 10 to the basic financial statements.

Current Issues

There are several large factors that could greatly impact the district's financial stability: 1) the state's educational funding, which is hard to determine and dependent upon the legislators, 2) health insurance costs, and 3) the economy.

The passage of the Ohio School Facilities Grant building program levy on November 2002 brings additional material requiring examination. The enlargement/addition of a building has meant increased operational costs, depending upon the end product, as well as additional personnel costs to maintain the new building sections.

From a State funding perspective, the State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional education system, one that was neither "adequate" nor "equitable." Since 1997, the State has directed its tax receipts growth toward school districts with little property tax wealth. It is still undetermined whether the State has met the standards of the Ohio Supreme Court.

The Coldwater Exempted Village School District has not anticipated any meaningful growth in State receipts. The concern is the State Legislative approval of the biennial budget, effective July 1, 2005 may have a negative impact on the district in the near future. The impact of the cost-of-doing-business factor reduction coupled with stable enrollment will have a negative impact on intergovernmental receipts over the next two years.

The Coldwater Exempted Village School District continues to receive strong support from the residents of the School District. As the preceding information shows, the School District relies heavily on its local property taxpayers. The last operating levy was passed by the residents of the district in November 2004, as a five year operating levy of property tax.

Real estate and personal property tax collections have shown small increases. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus, school districts dependence upon property taxes is hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 26.7% of receipts for governmental activities for the Coldwater Exempted Village School District in fiscal year 2006.

The School District has also been affected by income instability and changes in the personal property tax structure (utility deregulation) and commercial business/property uncertainties. Management has diligently planned expenses so that every attempt is made not to seek additional operating levies from the voters in the near future. This has been made increasingly difficult with mandates in gifted education, rising utility costs, increased special education services required for our students, and significant increases in health insurance and property/liability/fleet insurance.

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

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

There are major events occurring worldwide that affect our local district operations: increased utility costs due to massive hurricanes in the Gulf, federal spending possibly being redirected (also due to the hurricanes), changes in law affecting agriculture (since Mercer County is the top agricultural county in the state), and area manufacturing plant layoffs/shutdowns. The economic impact from any or all of these could cause a reduction or loss of state and/or federal subsidies. Businesses such as Pax Steel, Coldwater Implement, Lefeld Implement, Helena Chemical, Mercer Landmark, Coldwater Grain and other county agricultural groups would certainly feel the fallout from decisions affecting agriculture, which in turn would affect local employment. With our school district still in an economic downturn as the rest of the economy has rebounded, we need to keep this in mind as we consider our district's needs and finances for the coming years. Voters won't approve taxes they can't afford to pay.

On the "plus" side, there are some business start-ups occurring in the Coldwater area. If this were able to continue and run strong, we may see our local economy picking up the pace and recovering from prior years' losses.

On a positive note, our vision is for the budgetary process to eventually become driven by the curriculum. This will require additional time by staff and building administrators to be spent on evaluating needs, existing expenses, and consideration of reallocation of spending. This is a commitment to be made by all staff, but hopefully we'll eventually see a budgetary process established in this manner.

Current Building Issues

As part of the Ohio School Facilities Commission (OSFC) project for renovations and additions, the School District passed a 5.6 mill bond levy and a .5 mill maintenance fund levy in November 2002. The bond levy will run for 28 years while the maintenance fund levy will run for 23 years.

In the fall of 2006, all students will be located again at one site. The management and maintenance of having some students located in a rental facility (the old Franklin School belonging to Celina City Schools in Montezuma) increased some operational costs, such as food service, maintenance and transportation. The district will have a "learning year" during FY07 as it becomes accustomed to having operations in the newly-renovated facility in Coldwater.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Sherry Shaffer, Treasurer of Coldwater Exempted Village School District, 310 North 2nd Street, Coldwater, OH 45828.

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**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
ERCER COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2006**

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$8,203,415</u>
Total Assets	<u><u>8,203,415</u></u>
Net Assets	
Restricted for:	
Debt Service	487,305
Capital Projects	4,873,500
Other Purposes	732,052
Unrestricted	<u>2,110,558</u>
Total Net Assets	<u><u>\$8,203,415</u></u>

See accompanying notes to the financial statements.

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Program Cash Receipts</u>			<u>Net (Disbursements) Receipts and Changes in Net Assets</u>	
	<u>Cash Disbursements</u>	<u>Charges for Services and Sales</u>	<u>Contributions and Interest</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities					
Instruction					
Regular	\$5,835,901	\$199,174	\$68,838		(\$5,567,889)
Special	1,244,385		771,646		(472,739)
Vocational Education	599,299		154,981		(444,318)
Support Services					
Pupil	500,076		112,987		(387,089)
Instructional Staff	213,391		12,831	\$16,256	(184,304)
Board of Education	9,209				(9,209)
Administration	913,334				(913,334)
Fiscal	315,843		2,650		(313,193)
Operation and Maintenance of Plant	1,094,308	2,181			(1,092,127)
Pupil Transportation	421,666	22,101	4,923		(394,642)
Central	11,990		5,164		(6,826)
NonInstructional Services	417,328	321,294	89,494		(6,540)
Extracurricular Activities	566,928	244,335			(322,593)
Capital Outlay	9,049,183	14,156		1,070,540	(7,964,487)
Debt Service	1,141,059				(1,141,059)
Totals	<u>\$22,333,900</u>	<u>\$803,241</u>	<u>\$1,223,514</u>	<u>\$1,086,796</u>	<u>(19,220,349)</u>

General Receipts

Property Taxes Levied for:		
General Purposes		3,024,496
Debt Service		1,042,655
Classroom Facilities and Maintenance		48,157
Income Taxes		571,595
Payments in Lieu of Taxes		97,291
Grants and Entitlements not Restricted to Specific Programs		7,119,517
Proceeds from Sale of Capital Assets		31,515
Interest		346,774
Miscellaneous		78,758
Total General Receipts		<u>12,360,758</u>
Change in Net Assets		(6,859,591)
Net Assets Beginning of Year		<u>15,063,006</u>
Net Assets End of Year		<u>\$8,203,415</u>

See accompanying notes to the financial statements.

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	General Fund	Building Fund	OSFC Building Fund	All Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$2,079,043	\$403,919	\$3,954,224	\$1,734,714	\$8,171,900
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	31,515	_____	_____	_____	31,515
Total Assets	<u>2,110,558</u>	<u>403,919</u>	<u>3,954,224</u>	<u>1,734,714</u>	<u>8,203,415</u>
Fund Balances					
Reserved for:					
Encumbrances	209,387		3,071,898	150,811	3,432,096
Budget Stabilization	30,977				30,977
Bus Purchases	538				538
Designated for Budget Stabilization	143,000				143,000
Unreserved, Undesignated, Reported in:					
General Fund	1,726,656				1,726,656
Special Revenue Funds				717,585	717,585
Debt Service Funds				487,305	487,305
Capital Projects Funds	_____	403,919	882,326	379,013	1,665,258
Total Fund Balances	<u>\$2,110,558</u>	<u>\$403,919</u>	<u>\$3,954,224</u>	<u>\$1,734,714</u>	<u>\$8,203,415</u>

See accompanying notes to the financial statements.

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOP THE FISCAL YEAR ENDED JUNE 30, 2006**

	General Fund	Building Fund	OSFC Building Fund	All Other Governmental Funds	Total Governmental Funds
Receipts					
Taxes:					
Property and Other Local Taxes	\$3,024,496			\$1,090,812	\$4,115,308
Income Taxes	571,595				571,595
Intergovernmental	7,597,619		\$1,070,540	763,069	9,431,228
Interest	138,487	\$79,654	126,733	1,900	346,774
Tuition and Fees	133,080			26,970	160,050
Rent	2,181				2,181
Extracurricular Activities				305,560	305,560
Gifts and Donations				16,404	16,404
Charges for Services	3,180			335,450	338,630
Payments in Lieu of Taxes				97,291	97,291
Miscellaneous	13,917			43,045	56,962
Total Receipts	11,484,555	79,654	1,197,273	2,680,501	15,441,983
Disbursements					
Current:					
Instruction:					
Regular	5,645,348			190,553	5,835,901
Special	912,486			331,899	1,244,385
Vocational	583,763			15,536	599,299
Support Services:					
Pupils	387,086			112,990	500,076
Instructional Staff	186,622			26,769	213,391
Board of Education	9,209				9,209
Administration	905,871			7,463	913,334
Fiscal	285,374			30,469	315,843
Operation and Maintenance of Plant	1,006,215			88,093	1,094,308
Pupil Transportation	421,666				421,666
Central	2,606			9,384	11,990
Noninstructional Services					
Extracurricular Activities	255,005			311,923	566,928
Capital Outlay	46,589	3,761,850	5,240,744		9,049,183
Debt Service:					
Principal	43,553			405,004	448,557
Interest	9,428			683,074	692,502
Total Disbursements	10,700,821	3,761,850	5,240,744	2,630,161	22,333,576
Excess of Receipts Over (Under) Disbursements	783,734	(3,682,196)	(4,043,471)	50,340	(6,891,593)
Other Financing Sources (Uses)					
Transfers In	2,800			370,000	372,800
Advances In	32,062			81,062	113,124
Proceeds from Sale of Capital Assets	4,713			26,802	31,515
Refund of Prior Year Expenditures	12,021			383	12,404
Transfers Out	(370,984)			(1,816)	(372,800)
Advances Out	(81,062)			(32,062)	(113,124)
Refund of Prior Year Receipts	(4,067)		(706)	(7,143)	(11,916)
Total Other Financing Sources (Uses)	(404,517)		(706)	437,226	32,003
Net Change in Fund Balances	379,217	(3,682,196)	(4,044,177)	487,566	(6,859,590)
Fund Balance at Beginning of Year	1,731,341	4,086,115	7,998,401	1,247,148	15,063,005
Fund Balance at End of Year	<u>\$2,110,558</u>	<u>\$403,919</u>	<u>\$3,954,224</u>	<u>\$1,734,714</u>	<u>\$8,203,415</u>

See accompanying notes to the financial statements.

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
OR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Original Budget	Final Budget	Actual	Variance with Final Budget (Over) Under
Receipts				
Property and Other Local Taxes	\$3,281,944	\$3,281,944	\$3,024,496	(\$257,448)
Income Taxes	592,273	592,273	571,595	(20,678)
Intergovernmental	7,347,482	7,644,946	7,597,619	(47,327)
Interest	65,000	130,000	138,487	8,487
Tuition and Fees	54,250	134,250	133,080	(1,170)
Rent	2,500	2,500	2,181	(319)
Charges for Services	50,000	50,000	3,180	(46,820)
Miscellaneous	40,050	40,050	13,917	(26,133)
Total Receipts	<u>11,433,499</u>	<u>11,875,963</u>	<u>11,484,555</u>	<u>(391,408)</u>
Disbursements				
Current:				
Instruction:				
Regular	5,924,140	6,013,043	5,728,073	284,970
Special	1,231,741	1,233,088	963,636	269,452
Vocational	670,841	675,700	586,616	89,084
Support Services:				
Pupils	448,268	451,945	389,300	62,645
Instructional Staff	233,479	241,295	187,195	54,100
Board of Education	17,728	20,285	9,209	11,076
Administration	924,364	937,078	910,297	26,781
Fiscal	326,989	325,192	286,623	38,569
Operation and Maintenance of Plant	898,121	1,093,890	1,056,586	37,304
Pupil Transportation	432,727	461,548	434,942	26,606
Central	3,300	3,300	2,606	694
Operation of Non-Instructional Services				
Food Service Operations	1,000	1,000		1,000
Extracurricular Activities:				
Academic Oriented Activities	38,665	38,525	37,345	1,180
Occupation Oriented Activities	23,465	23,495	29	23,466
Sport Oriented Activities	226,297	225,732	217,631	8,101
Capital Outlay:				
Building Acquisition and Construction Services	48,050	48,050	47,139	911
Debt Service:				
Principal	50,000	50,000	43,553	6,447
Interest	11,000	11,000	9,428	1,572
Total Disbursements	<u>11,510,175</u>	<u>11,854,166</u>	<u>10,910,208</u>	<u>943,958</u>
Excess of Receipts Over (Under) Disbursements	<u>(76,676)</u>	<u>21,797</u>	<u>574,347</u>	<u>552,550</u>
Other Financing Sources (Uses)				
Transfers In		2,800	2,800	
Advances In		32,062	32,062	
Proceeds from Sale of Capital Assets	500	4,713	4,713	
Refund of Prior Year Expenditures		12,021	12,021	
Transfers Out	(60,000)	(376,000)	(370,984)	5,016
Advances Out	(75,000)	(83,000)	(81,062)	1,938
Other Financing Uses		(4,067)	(4,067)	
Total Other Financing Sources (Uses)	<u>(134,500)</u>	<u>(411,471)</u>	<u>(404,517)</u>	<u>6,954</u>
Net Change in Fund Balances	(211,176)	(389,674)	169,830	559,504
Fund Balance at Beginning of Year	1,517,762	1,517,762	1,517,762	0
Prior Year Encumbrances Appropriated	213,579	213,579	213,579	
Fund Balance at End of Year	<u>\$1,520,165</u>	<u>\$1,341,667</u>	<u>\$1,901,171</u>	<u>\$559,504</u>

See accompanying notes to the financial statements.

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

**TATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2006**

	<u>Private Purpose Trust</u>	<u>Agency</u>
Assets		
Equity in Pooled Cash and Cash Equivalents	<u>\$168,805</u>	<u>\$22,401</u>
Total Assets	<u>168,805</u>	<u>22,401</u>
Net Assets		
Endowment	130,000	
Held in Trust for:		
Scholarships	38,805	
Employees		6,140
Students		<u>16,261</u>
Total Net Assets	<u>\$168,805</u>	<u>\$22,401</u>

See accompanying notes to the financial statements.

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUND
OR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Private Purpose Trust</u>
Additions	
Interest	\$6,529
Miscellaneous	96
	<hr/>
Total Additions	6,625
	<hr/>
Deductions	
Payments in Accordance with Trust Agreements	4,384
	<hr/>
Total Deductions	4,384
	<hr/>
Change in Net Assets	2,241
Net Assets - Beginning of Year	166,564
	<hr/>
Net Assets - End of Year	<u>\$168,805</u>

See accompanying notes to the financial statements.

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**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District is located in a community within Mercer County, consisting of residences and significant office and retail commercial development. The School District is staffed by 46 non-certificated employees, 110 certificated employees who provide services to 1,591 students and other community members.

The reporting entity is comprised of the primary government and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Coldwater Exempted Village School District, this includes general operations, food service, and student related activities of the School District. There are no component units.

The School District is associated with four jointly governed organizations and two insurance pools. These organizations include the Northwest Ohio Area Computer Services Cooperative, West Central Regional Professional Development Center, West Central Ohio Special Education Regional Resource Center, Mercer County Local Professional Development Committee, OASBO/Sheakley Workers' Compensation Group Rating Program, and the Mercer-Auglaize Schools Employee Benefits Trust. These organizations are presented in Notes 15 and 16 of the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.A., these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the School District's accounting policies.

A. Basis of Accounting

Although Ohio Administrative Code Section 117-2-03 (B) requires the School District's financial report to follow generally accepted accounting principles, the School District chooses to prepare its financial statements and notes in accordance with the cash basis of accounting. The School District recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary presentations report budgetary expenditures when a commitment is made (i.e, when an encumbrance is approved). Differences between disbursements reported in the government-wide and fund financial statements versus budgetary expenditures result from encumbrances outstanding at the beginning and end of the fiscal year.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

B. Basis of Presentation - Fund Accounting

1. Government-Wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the School District as a whole. The statements include all funds of the School District except for fiduciary funds.

The Statement of Net Assets presents the financial condition of the governmental activities of the School District at year-end. The Statement of Activities presents a comparison between disbursements and program receipts for each program or function of the School District's governmental activities. Disbursements are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Receipts which are not classified as program receipts are presented as general receipts of the School District with certain limited exceptions. The comparison of disbursements with program receipts identifies the extent to which each governmental function is self-financing or draws from the general resources of the School District. Governmental activities generally are financed through taxes, intergovernmental receipts, and other non-exchange receipts.

2. Fund Financial Statements

During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The focus of governmental activity financial statement is on major funds. Each major fund is presented in a single column. Fiduciary funds are reported by type.

Fund financial statements of the School District are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, fund equity, receipts and disbursements. Funds are organized into two major categories: governmental and fiduciary.

A fund is considered major if it is the primary operating fund of the School District or meets the following criteria:

- a. Total assets, receipts, or disbursements of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type, and

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- b. Total assets, receipts, or disbursements of the individual governmental fund are at least 5 percent of the corresponding total for all governmental and combined.

The funds of the financial reporting entity are described below:

3. Governmental Funds/Governmental Activities

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

General Fund - The General Fund is the primary operating fund of the School District and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Building Fund – This fund is used to account for the specific receipts to be used for the new school facility.

OSFC Building Fund – This fund is used to account for the specific receipts to be used for the new school facility.

4. Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include private purpose trust funds and agency funds. The School District's private purpose trust funds account for endowments and scholarships for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds include various student-managed activities and an employees Section 125 reimbursement account.

C. Budgetary Process

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

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the two digit function level within each function of each fund. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Advances in and advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

1. Tax Budget

A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year, for the period July 1 to June 30 of the following fiscal year.

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Estimated Resources

The County Budget Commission certifies its actions to the School District by March 1. As part of this certification, the School District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1 this certificate is amended to include any unencumbered balances from the preceding fiscal year. Prior to June 30, the School District must revise its budget so that the total contemplated disbursements from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include July 1, 2005 unencumbered fund balances. However, those fund balances are available for appropriations.

3. Appropriations

A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for the period July 1 to June 30. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board of Education during the fiscal year.

4. Encumbrances

The School District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. Expenditures plus encumbrances may not legally exceed appropriations. Encumbrances at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

5. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

D. Cash and Cash Equivalents

To improve cash management, all cash received by the District Treasurer is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through School District accounting records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents."

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During 2006, the School District invested in nonnegotiable certificates of deposits, mutual funds, and government securities.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2006 was \$138,487, which included \$62,098 assigned from other School District funds.

E. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation.

Restricted assets in the General Fund include unexpended receipts restricted for bus purchases.

F. Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. The financial statements do not report these assets. Depreciation is not recorded on these capital assets.

G. Accumulated Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the School District.

H. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as cash when received and payment of principal and interest are reported as disbursements when paid.

I. Intergovernmental Receipts

Unrestricted intergovernmental receipts received on the basis of entitlement are recorded as receipts when the entitlement is received.

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Inventory and Prepaid Items

The School District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

K. Interfund Receivables/Payables

During the course of normal operations, the School District has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund through which resources are to be expended are recorded as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/disbursements in the reimbursing fund and a reduction in expenditures/disbursement in the reimbursed fund.

The School District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities on the accompanying financial statements. At June 30, 2006, the General Fund had unpaid interfund cash advances, in the amount of \$67,000 for short-term loans made to the Federal Programs/Chapter I, Title II-A, Title IV-A, Title V and Title VI-B special revenue funds. These are expected to be repaid within one year. The unpaid interfund cash advance in the amount of \$1,000 from fiscal year 2004 that was made from the General Fund to the Employee Section 125 Account Fund was voted by the Board to be turned into a permanent transfer on December 13, 2005.

L. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes disbursements for employer contributions to cost-sharing plans when they are paid. As described in Notes 12 and 13, the employer contributions include portions for pension benefits and for postretirement health care benefits.

M. Equity Classifications

1. Government-Wide Statements

Equity is classified as net assets, and displayed in separate components:

- a. **Restricted net assets** – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. **Unrestricted net assets** – All other net assets that do not meet the definition of “restricted.”

Net assets restricted for other purposes include resources restricted for public school support programs, athletic programs, employee termination benefits, classroom facilities and maintenance tax levy proceeds, and federal and state grants restricted to cash disbursement for specified purposes. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available. At June 30, 2006, the following represent the amount restricted by enabling legislation: classroom facilities and maintenance levy - \$183,566, and bond retirement levy - \$487,305.

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fund Financial Statements

The School District records reservations for portions of fund balances which are legally segregated for 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 balance reserves are established for encumbrances, budget stabilization, and bus purchase subsidy. The designations for budget stabilization represent revenue set aside that exceeds statutorily required amounts.

N. Receipts and Disbursements

1. Program Receipts

In the Statement of Activities, receipts that are derived directly from each activity or from parties outside the School District's taxpayers are reported as program receipts. The School District has the following program receipts: charges for service, operating and capital grants and contributions.

All other governmental receipts are reported as general. All taxes are classified as general receipts even if restricted for a specific purpose.

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds result from providing services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

3. COMPLIANCE

Ohio Administrative Code, Section 117-2-03 (B), requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

4. CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2006, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 46, "Net Assets Restricted by Enabling Legislation". 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. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

5. RESTATEMENT OF FUND BALANCES

For fiscal year 2006, the School District changed the fund type classification for certain funds which eliminated the Business-type activity designation. This change had the following effect on fund balances as previously reported:

	Fund Balance June 30, 2005	Adjustment	Restated Fund Balance July 1, 2005
Governmental Activities	14,976,216	86,790	15,063,006
Business Type Activities	86,790	(86,790)	0

6. DEPOSITS AND INVESTMENTS

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

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

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

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

Protection of School District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the

Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States treasury notes, bills, bonds, or other obligations 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.

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase 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 (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;
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time
8. Under certain circumstances, corporate debt interests rated in either of the two highest rating 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 School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of 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. Deposits

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

At fiscal year end, the carrying amount of the School District's deposits was \$2,815,965 and the bank balance was \$3,012,282. Of the bank balance, \$227,989 was covered by federal depository insurance and \$2,784,293 was collateralized but uninsured. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

As of June 30, 2006 the School District has \$1,546 in undeposited cash on hand. This amount is included in cash and cash equivalents.

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

B. Investments

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

<u>Investments</u>	<u>Carrying Value</u>	<u>% of Investment Balance</u>
Federal Home Loan Bank Bond	\$ 445,815	7.99%
Federal Home Loan Bank Mortgage Corporation	4,524,007	81.12
Money Market Mutual Funds	607,288	10.89
Totals	<u>\$5,577,110</u>	<u>100.00%</u>

	<u>Investment Maturities (in months)</u>		
	<u>Carrying Value</u>	<u>0-3</u>	<u>4-6</u>
Federal Home Loan Bank Bond	\$ 445,815	\$ 0	\$ 445,815
Federal Home Loan Mortgage Corporation Medium Term	4,524,007	0	4,524,007
Money Market Mutual Fund	607,288	607,288	0
Total Investments	<u>\$5,577,110</u>	<u>\$607,288</u>	<u>\$4,969,822</u>

C. Interest Rate Risk

The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. Interest rate risk arises because potential purchase of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The School District's policy indicates that the investments must mature within five years, unless matched to a specific obligation or debt of the School District.

D. Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District has no investment policy dealing with investment custodial risk beyond the requirements of ORC 135.14(M)(2) which states, "Payments for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from custodian by the treasurer, governing board, or qualified trustee."

The School District has no investment policy dealing with investment credit risk beyond the requirements of State statute.

The School District's investments at June 30, 2006 in FHLB and FHLMC are rated AAA by Standard & Poor's, while investments in money market mutual fund is rated AAAm by Standard & Poor's.

E. Concentration of Credit Risk

The School District places no limit on the amount the district may invest in any one issuer. More than 5 percent of the School District's investments are in a money market mutual fund, FHLB and FHLMC Medium Term Note. These investments are 10.89%, 7.99% and 81.12%, respectively, of the School District's total investments for the amounts listed above.

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

7. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis, while the School District's fiscal year runs from July through June. First half distributions are received by the School District in the second half of the fiscal year. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real property taxes received in calendar year 2006 represent the collection of calendar year 2005 taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes received in calendar year 2006 were levied after April 1, 2005 on the assessed value listed as of the prior January 1, the lien date. 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 alternate payment dates to be established.

Public utility property tax receipts received in calendar year 2006 represent the collection of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien on December 31, 2004, were levied after April 1, 2005, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in calendar year 2006 (other than public utility property) represent the collection of calendar year 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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

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

	2005 Second-Half Collections		2006 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$94,816,270	87%	\$106,858,290	89%
Public Utility	3,804,070	4	3,479,670	3
Tangible Personal Property	9,995,350	9	9,829,550	8
Total Assessed Value	\$108,615,690	100%	\$120,167,510	100%
Tax rate per \$1,000 of assessed valuation	\$55.83		\$55.83	

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

8. PAYMENT IN LIEU OF TAXES

According to State law, the School District has entered into agreements with a number of property owners under which the School District has granted property tax abatements to those property owners. The property owners have agreed to make payments to the School District which reflect all or a portion of the property taxes which the property owners would have paid if their taxes had not been abated. The property owners' contractual promises to make these payments in lieu of taxes generally continue until the agreement expires. Payments in lieu of taxes for fiscal year 2006 amounted to \$97,291.

9. INCOME TAX

The School District levies a voted tax of .50 percent for general operations on the income of residents and of estates. The income tax was effective on January 1, 1990, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax receipts are credited to the general fund.

10. DEBT OBLIGATIONS

Debt obligations of the School District at June 30, 2006 consisted of the following:

	Principal Outstanding 6/30/05	Additions	Deductions	Principal Outstanding 6/30/06
1990 School Renovation Bonds Rate 6.87%	\$ 510,000	\$ 0	\$ 35,000	\$ 475,000
1993 Refinance Addition Bonds Rate 2.6 – 5.5%	1,407,029	0	120,004	1,287,025
2002 Ohio School Facility Construction Project Bonds Rate 1.5 – 13.75%	9,089,996	0	250,000	8,839,996
Asbestos Removal Loan Rate 0%	24,830	0	16,553	8,277
Junior High Loan Rate 4.5%	223,000	0	27,000	196,000
Total Debt Obligation	\$ 11,254,855	\$ 0	\$ 448,557	\$ 10,806,298

1990 School Renovation Bonds - On December 1, 1990, the School District issued \$800,000 in voted general obligation bonds for the addition to the school building. The bonds were issued for a twenty-five fiscal year period with final maturity during fiscal year 2015. The debt will be retired with a voted property tax levy from the debt service fund.

1993 Refinance Addition - On October 1, 1993, the School District issued \$4,804,985 in voted general obligation bonds to refinance the 1987 building program general obligation bonds. The bonds were issued for a twenty fiscal year period with final maturity during fiscal year 2013. The debt will be retired with a voted property tax levy from the debt service fund.

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

10. DEBT OBLIGATIONS (Continued)

2002 School Facilities Construction and Improvement Bonds – On March 1, 2003, the School District issued \$9,499,996 in current interest serial bonds, capital appreciation bonds and current interest term bonds for the local share of school construction under the Classroom Facilities Assistance Program. The bonds were issued for a twenty-seven fiscal year period with final maturity during fiscal year 2031. The debt will be retired with a voted property tax levy from the debt service fund.

2002 School Facilities Construction and Improvement Bonds Redemption Provisions:

Current Interest Term bonds maturing December 1, 2027, are subject to mandatory sinking fund redemption at 100% of principal, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

2023	\$420,000
2024	440,000
2025	460,000
2026	480,000

The remaining principal (\$500,000) will be paid at stated maturity on December 1, 2027.

Current Interest Term Bonds maturing on December 1, 2030, are subject to mandatory sinking fund redemption at 100% of principal, plus accrued interest to the date of redemption, on December 1 in the years and amounts as follows:

2028	\$525,000
2029	550,000

The remaining principal amount (\$575,000) will be paid at stated maturity on December 1, 2030.

The Current Interest Bonds maturing after December 1, 2013 are subject to redemption at the option of the School District, either in whole or in part at 100% of the principal amount plus accrued interest to the date fixed for redemption.

Interest on the Capital Appreciation Bonds will accrue from the date of delivery until maturity. Interest will compound semiannually (Interest Accretion dates) but will be payable at maturity. The Capital Appreciation Bonds will mature in fiscal years 2013 and 2014. The maturity amount of the bonds is \$620,000. The accreted amount for fiscal year 2006 was \$17,803, and the amount of the bonds outstanding included accreted interest is \$449,035.

Asbestos Removal Loan - On May 17, 1991, the School District obtained a loan in the amount of \$128,683 for the purpose of providing asbestos removal for the Coldwater Exempted Village School District, under the authority of Ohio Revised Code section 3317.22. The loan was issued for a twenty fiscal year period with final maturity during fiscal year 2007. The debt will be retired from the General Fund.

Junior High Loan - The School District entered into a bank loan to purchase the Junior High Building from the Cincinnati Diocese for \$300,000. The loan was issued for ten years with final maturity during fiscal year 2012. The debt will be retired from the General Fund.

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

10. DEBT OBLIGATIONS (Continued)

The annual requirements to amortize all debt outstanding as of June 30, 2006 are as follows:

<u>Fiscal year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 445,932	\$ 691,291	\$ 1,137,223
2008	435,553	689,395	1,124,948
2009	440,705	686,017	1,126,722
2010	450,853	680,248	1,131,101
2011	452,259	672,962	1,125,221
2012-2016	2,115,996	2,039,930	4,155,926
2017-2021	1,725,000	1,249,985	2,974,985
2022-2026	2,110,000	854,730	2,964,730
2027-2031	2,630,000	314,946	2,944,946
Total	<u>\$ 10,806,298</u>	<u>\$ 7,879,504</u>	<u>\$ 18,685,802</u>

11. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks related to torts, theft of, damage to, and destruction of assets, error and omissions, injuries to employees and natural disasters. During fiscal year 2006, the School District carried property and general liability insurance and boiler and machinery insurance.

Professional liability is protected by the Indiana Insurance Company with \$1,000,000 each occurrence, \$2,000,000 in annual aggregate limit. Umbrella liability coverage exists \$5,000,000 each occurrence, \$5,000,000 general aggregate limit. Errors & Omissions and Sexual Misconduct are insured at \$1,000,000 each occurrence, \$1,000,000 general aggregate limit.

Commercial property is covered by the Indiana Insurance Company. Commercial property is insured at a limit of \$38,873,861 (increased with new presentation of statement of values each fall). Commercial auto insurance is covered by the Indiana Insurance Company. Automobile liability has a \$2,000,000 combined single limit of liability. There has been no significant reduction in insurance coverage from fiscal year 2005, and no insurance settlement has exceeded insurance coverage during the last three years.

Public officials' bond insurance is provided by Ohio Farmer's Insurance Company for a total of \$50,000. The Treasurer's bond insurance is provided by Ohio Farmer's Insurance Company for a total of \$150,000.

B. Health Care Benefits

The School District participates in the Mercer/Auglaize Employee Benefit Trust (Trust), a public entity shared risk pool consisting of eight local school districts, two city school districts, and an educational service center. The School District pays monthly premiums to the Trust for employee medical and dental benefits. The Trust is responsible for the management and operations of the program.

Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of the withdrawal.

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

11. RISK MANAGEMENT (Continued)

C. Workers' Compensation

The School District participates in the Sheakley Worker's Compensation Group Rating Program (GRP), and insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium GRP. The worker's 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 Cooperative 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 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.

12. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio issues a stand-alone financial report that may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090, or by visiting their website at www.strsoh.org.

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% of earned compensation into an investment account. Investment decisions are made by the member. In the DC Plan, a member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

Upon termination of a reemployed member, or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

12. DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 2006, plan members are required to contribute 10 percent of their annual covered salary. The School District is 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 School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$735,730, \$739,973, and \$729,644, respectively; 83 percent has been contributed for fiscal year 2006, and 100% for fiscal years 2005, and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$5,563 made by the School District and \$5,647 made by the plan members.

B. School Employees Retirement System

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

Plan members must contribute 10 percent of their annual covered salary and the School District must contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution funds pension obligations with the remainder used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion use to fund pension obligations. For fiscal years 2005 and 2004, 10.57 percent and 9.09 percent was used to fund pension obligations, respectively. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$127,715, \$118,229, and \$86,864 respectively, 47 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for fiscal years 2004 and 2005.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2006, four of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

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

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

13. POST EMPLOYMENT BENEFITS (Continued)

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The Board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. STRS pays health care benefits from the Health Care Stabilization Fund. For the School District this amount was \$57,023. The balance in the Fund was \$3.3 billion at June 30, 2005. For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and disability, and survivor benefit recipients. Effective January 1, 2004, 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.

At June 30, 2006 (the latest information available), the employer contributions to fund health care benefits were 3.42 percent of covered payroll. 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 has been established at \$35,800. 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. For the School District, the amount to fund healthcare benefits, including surcharge was \$66,447 for fiscal year 2006.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2005 were \$178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants eligible to receive benefits.

14. STATUTORY RESERVES

The School District is required by state law to set aside certain general fund receipt amounts, as defined, into various reserves. During the fiscal year ended June 30, 2006, the reserve activity was as follows:

	Textbook Reserve	Capital Maintenance Reserve	Budget Stabilization
Set-Aside Cash Balance as of June 30, 2005	\$(197,929)	\$(8,941,863)	\$30,977
Required Set-Aside	216,997	216,997	0
Offset	0	(48,157)	0
Qualifying Expenditures	(145,510)	(90,523)	0
Total	<u>\$(126,442)</u>	<u>\$(8,863,546)</u>	<u>\$30,977</u>
Balance Carried Forward to Subsequent Year	<u>\$(126,442)</u>	<u>\$(8,863,546)</u>	<u>\$30,977</u>

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

14. STATUTORY RESERVES (Continued)

The School District had qualifying disbursements during the year that reduced the Textbook set-aside amount to below zero. Also, Ohio Revised Code Section 3315.17 allows for the extra amount to carry over into future years for textbooks. For capital acquisitions, the extra amount, which was the result of capital disbursements from bond or note proceeds, was used to reduce the set aside requirements of future years. The Budget Stabilization set-aside above represents the portion designated from workers compensation refunds, while the total amount remaining and set-aside totals \$173,977.

15. JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Area Computer Services Cooperative - The Northwest Ohio Area Computer Services Cooperative (NOACSC) is a jointly governed organization among forty-seven 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 administrative and instructional functions among member school districts. Each of the governments of these schools supports NOACSC based upon a per pupil charge dependent upon the software package utilized.

The NOACSC Assembly consists of a representative from each participating school district and the superintendent from the fiscal agent. The Board of Directors consists of the superintendent from the fiscal agent, the two Assembly members from each county in which participating school districts are located. The degree of control exercised by any participating school district is limited to its representation of the Board. Financial information can be obtained by contacting Ray Burden, who serves as Director, at 645 South Main Street, Lima, Ohio 45804.

West Central Regional Professional Development Center (Center) - The Center is a jointly governed organization among the school districts located in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam and Van Wert counties. The jointly governed organization was formed for the purpose of establishing an articulated, regional structure for professional development, in which school districts, the business community, higher education and other groups cooperatively plan and implement effective professional development activities than are tied directly to school improvement, and in particular, to improvements to instructional programs.

The Center is governed by a board made up of 52 representatives of the participating school districts, the business community, and two institutions of higher learning whose term rotates every two years. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information may be obtained by contacting Hancock County Educational Service Center, 604 Lima Avenue, Findlay, Ohio 45840-3087.

West Central Ohio Special Education Regional Resource Center (SERRC) - The SERRC is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

The SERRC is governed by a board of 52 members made up of the 50 superintendents of the participating districts, one non-public school, and Wright State University whose term rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting Hardin County Educational Service Center, 1 Court House Square, Suite 50, Kenton, Ohio 43326-2385.

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

15. JOINTLY GOVERNED ORGANIZATIONS (Continued)

Mercer County Local Professional Development Committee - The School District is a participant in the Mercer County Local Professional Development Committee (the Committee) which is a regional council of governments established to provide professional educator license renewal standards and procedures.

The Committee is governed by an 11-member board made up of six teachers, two building principals, one superintendent, and two members employed by the Mercer County Educational Service Center with terms of two years. The degree of control exercised by any participating school district is limited to its representation on the Board. The Committee is an association of public school districts within the boundaries of Mercer County. Financial information can be obtained from the Mercer County Educational Service Center, 441 East Market Street, Celina, Ohio 45822.

16. GROUP PURCHASING POOL

OASBO/Sheakley Workers' Compensation Group Rating Plan - The School District participates in a group rating plan (GRP) for workers' compensation as established under Ohio Revised Code Section 4123.29. The Group Rating Plan was established through the OASBO/Workers' Compensation Group Rating Plan as a group insurance purchasing pool. The GRP's business and affairs are conducted by a twenty-five member Board of Directors consisting of two representatives from each county elected by a majority vote of all charter member schools within each county plus one representative from the fiscal agency A-site. Each year, the participating school districts pay an enrollment fee to cover the costs of administering the program.

The Mercer-Auglaize Schools Employee Benefits Trust - The Mercer-Auglaize Employee Benefit Trust (the Plan) is a public entity shared risk pool consisting of eight local school districts, two city school districts, one exempted village school district, and two educational service centers. The Plan is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides sick, accident and other benefits to the employees of the participating school districts. Each participating school district's superintendent is appointed to a Board of Trustees, which advises the Trustee, Sky Bank, concerning aspects of the administration of the Trust.

17. DONOR RESTRICTED ENDOWMENTS

The School District's private purpose trust fund includes donor-restricted endowments. Net Assets - Endowments of \$130,000 represents the principal portion of the endowment. The amount of net appreciation in donor-restricted investments that is available for disbursement by the governing body is \$38,805 and is included as net assets held in trust for scholarships. State law permits the governing board to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise.

18. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state 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 General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

19. INTERFUND TRANSFERS

During fiscal year 2006, the School District made transfers between funds as follows:

	<u>Transfers-In</u>	<u>Transfers-Out</u>
Governmental:		
General Fund	\$ 2,800	\$370,984
All Other Governmental Funds	370,000	1,816
Total Governmental	372,800	372,800
Fiduciary Funds	749	749
Total	\$373,549	\$373,549

20. CONTRACTUAL COMMITMENTS

At June 30, 2006 the School District had the following outstanding contractual commitments for the building construction project and bus purchase:

<u>Contractor/Vendor</u>	<u>Amount</u>	<u>Description</u>
Camelot Mfg.	\$ 550	Softball diamond lease (one yr. property lease)
Cardinal Bus Sales	63,915	Bus purchase
Miller Henderson	18,000	Building program
Benanzer Nursery	3,560	Lawn Care Service Contract
Continental Office	93,202	Building program
Fanning Howey	149,345	Building program
Tuttle Bostelman	11,775	Building program
Ohio Plumbing	122,200	Building program
Frost & Company	362,439	Building program
Peterson Construction	592,953	Building program
Koester Electric	455,727	Building program
Central Fire	106,124	Building program
Great Lakes Hotel	46,736	Building program
Sturgill Roofing	130,300	Building program
Sun Technologies	71,411	Building program
Data Eclipse	179,700	Building program
Elements IV Interiors	296,045	Building program
ESCO Technologies	461,590	Building program

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>(Passed through Ohio Department of Education)</i>						
Food Distribution Program	N/A	10.550		\$36,348		\$36,348
Nutrition Cluster:						
Breakfast Program	045310 05PU 2005	10.553	\$467		\$467	
	045310 05PU 2006		3,480		3,480	
			<u>3,947</u>		<u>3,947</u>	
National School Lunch Program	045310 LLP4 2005	10.555	15,109		15,109	
	045310 LLP4 2006		68,243		68,243	
			<u>83,352</u>		<u>83,352</u>	
Total Nutrition Cluster			<u>87,299</u>		<u>87,299</u>	
Total U.S. Department of Agriculture			<u>87,299</u>	<u>36,348</u>	<u>87,299</u>	<u>36,348</u>
U.S. DEPARTMENT OF EDUCATION						
<i>(Passed through Ohio Department of Education)</i>						
Special Education Cluster:						
Special Education_Grants to States	045310 6BSF 2005 P	84.027			1,529	
	045310 6BSF 2006		313,987		313,833	
Total Special Education Cluster			<u>313,987</u>		<u>315,362</u>	
Title I Grants to Local Educational Agencies	045310 C1-S1 2006	84.010	114,882		104,561	
	045310 C1-S1 2005		14,062		27,338	
Total			<u>128,944</u>		<u>131,899</u>	
Improving Teacher Quality State Grant	45310 TRS1 2005	84.367			3,535	
	45310 TRS1 2006		46,629		46,629	
Total			<u>46,629</u>		<u>50,164</u>	
Safe and Drug-Free School and Communities	045310 DRS1 2005	84.186	894		1,931	
	045310 DRS1 2006		6,653		6,444	
Total			<u>7,547</u>		<u>8,375</u>	
Innovative Education Program Strategies	045310 C2S1 2005	84.298	244		1,518	
	045310 C2S1 2006		7,505		7,715	
Total			<u>7,749</u>		<u>9,233</u>	
Technology Literacy Challenge Fund Grant	45310 TJS1 2006	84.318	441		365	
	45310 TJS1 2005		334		393	
Total			<u>775</u>		<u>758</u>	
Total U.S. Department of Education			<u>505,631</u>		<u>515,791</u>	
Total Federal Assistance			<u><u>\$592,930</u></u>	<u><u>\$36,348</u></u>	<u><u>\$603,090</u></u>	<u><u>\$36,348</u></u>

See Accompanying Notes to the Schedule of Federal Awards Expenditures.

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) summarizes activity of the School District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B – FOOD DISTRIBUTION PROGRAM

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

NOTE C - NUTRITION CLUSTER PROGRAM

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



Auditor of State Betty Montgomery

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

Coldwater Exempted Village School District
Mercer County
310 North Second Street
Coldwater, Ohio 45828

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Coldwater Exempted Village School District, Mercer County, (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 November 9, 2006, wherein, we noted the School District uses a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School District's management dated November 9, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-001. In a separate letter to the School District's management dated November 9, 2006, we reported a matter related to noncompliance we deemed immaterial.

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

We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

November 9, 2006



Auditor of State Betty Montgomery

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

Coldwater Exempted Village School District
Mercer County
310 North Second Street
Coldwater, Ohio 45828

To the Board of Education:

Compliance

We have audited the compliance of the Coldwater Exempted Village School District, Mercer County, (the 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 apply to its major federal program for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the School District's major federal program. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal program. 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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, Coldwater Exempted Village School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could directly and materially affect a major federal program 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 timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

November 9, 2006

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA # 84.027: Special Education Grants to States
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2006-001

NONCOMPLIANCE CITATION

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Adm. Code Section 117-2-03(B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the School District prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The School District should prepare their annual financial statements in accordance with GAAP.

Client Response:

On August 26, 2003, the School District Board passed a resolution stating that due to cost concerns the School District would no longer prepare GAAP financial statements.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT
MERCER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	Finding for Recovery Repaid Under Audit	Yes	
2005-002	ORC 117.38 and OAC 117-2-03 (B) – Preparation and filing of cash basis annual financial report.	No	Repeated as finding 2006-001



**Auditor of State
Betty Montgomery**

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COLDWATER EXEMPTED VILLAGE SCHOOL DISTRICT

MERCER 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
DECEMBER 12, 2006**