

**Manchester Local School
District**

Audited Financial Statements

June 30, 2005



Mary Taylor, CPA
Auditor of State

Board of Education
Manchester Local School District
6075 Manchester Road
Akron, Ohio 44319

We have reviewed the *Independent Auditor's Report* of the Manchester Local School District, Summit County, prepared by Rea & Associates, Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 13, 2007

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**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

JUNE 30, 2005

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Rea & Associates, Inc.
ACCOUNTANTS AND BUSINESS CONSULTANTS

October 25, 2006

To the Board of Education
Manchester Local School District
Akron, OH 44319

Independent Auditor's Report

We have audited the accompanying financial statements of Manchester Local School District (the "District") as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Ohio Administrative Code Section 117-2-03 (B) requires the Government to prepare its annual financial report in accordance with accounting principles generally accepted in the United State of America. However, as described in Note 1, the accompanying financial statements and notes have been prepared on a basis of accounting not in accordance with these generally accepted accounting principles. The accompanying financial statements and notes omit entity wide statements, and assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the accompanying financial statements do not present fairly the financial position, results of operations, and cash flows, where applicable, of the District as of and for the year ended June 30, 2005 in accordance with accounting principles generally accepted in the United States of America.

The government has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

Manchester Local School District
Independent Auditor's Report
October 25, 2006
Page 2

In accordance with *Government Auditing Standards*, we also have issued our report dated October 25, 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards. You should read it in conjunction with this report in assessing the results of our audit.

Kea & Associates, Inc.

**MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2005**

	Governmental Fund Types				Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Cash Receipts:						
Taxes	\$ 4,329,280	\$ 255,463	\$ 0	\$ 63,991	\$ 0	\$ 4,648,734
Intergovernmental Revenue	5,842,963	459,204	0	23,890	0	6,326,057
Earnings on Investments	9,412	0	0	0	1,116	10,528
Extracurricular Activities	0	172,579	0	0	0	172,579
Classroom Material and Fees	11,101	24,606	0	0	0	35,707
Contributions and Donations	0	36,600	0	0	0	36,600
Miscellaneous	30,871	14,170	0	0	49,579	94,620
Total Cash Receipts	10,223,627	962,622	0	87,881	50,695	11,324,825
Cash Disbursements:						
Instruction:						
Regular	5,225,738	76,672	0	12,075	67	5,314,552
Special	466,304	279,242	0	0	0	745,546
Vocational Education	79,343	0	0	0	0	79,343
Adult/Continuing	10,769	0	0	0	7,937	18,706
Support Services:						
Pupils	786,183	6,821	0	0	0	793,004
Instructional Staff	429,712	21,814	0	0	0	451,526
Board of Education	17,508	0	0	0	0	17,508
Administration	824,125	4,027	0	17	0	828,169
Fiscal	385,619	3,875	0	1,446	0	390,940
Operations and Maintenance	942,109	269,278	0	0	0	1,211,387
Pupil Transportation	629,481	60,713	0	0	0	690,194
Central	55,630	0	0	0	0	55,630
Extracurricular Activities:						
Academic and Subject Oriented	57,299	93,080	0	0	0	150,379
Sports Oriented	244,441	184,935	0	0	0	429,376
Co-Circular Activities	14,190	0	0	0	0	14,190
Facilities Acquisition and Construction Services:						
Building Improvement	149	0	0	3,644	0	3,793
Other Facilities Acquisition & Construction	3,736	0	0	0	0	3,736
Debt Service:						
Principal Retirement	9,884	0	521,128	0	0	531,012
Interest and Fiscal Charges	0	0	39,217	0	0	39,217
Total Cash Disbursements	10,182,220	1,000,457	560,345	17,182	8,004	11,768,208
Total Cash Receipts Over/(Under)	41,407	(37,835)	(560,345)	70,699	42,691	(443,383)
Cash Disbursements						
Other Financing Source (Uses)						
Sale of Assets	884	0	0	0	0	884
Proceeds from Sale of Notes	650,000	0	0	0	0	650,000
Transfers - In	0	57,917	560,345	0	0	618,262
Advances-In	0	7,340	0	0	0	7,340
Refund of Prior Year Expenditure	21,979	0	0	0	0	21,979
Transfers - Out	(647,793)	(28,039)	0	0	0	(675,832)
Advances Out	0	(7,626)	0	0	0	(7,626)
Total Other Financing Sources (Uses)	25,070	29,592	560,345	0	0	615,007
Excess of Receipts and Other Financing Sources Over/(Under)						
Cash Disbursements and Other Financing Uses	66,477	(8,243)	0	70,699	42,691	171,624
Fund Cash Balances, July 1, 2004	65,083	180,414	0	(20,512)	48,563	273,548
Fund Cash Balances, June 30, 2005	\$ 131,560	\$ 172,171	\$ 0	\$ 50,187	\$ 91,254	\$ 445,172
Reserves for Encumbrances	\$ 20,768	\$ 42,042	\$ 0	\$ 8,227	\$ 0	\$ 71,037

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

MANCHESTER LOCAL SCHOOL DISTRICT
SUMMIT COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2005**

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise Funds	Internal Service Fund	Agency	
OPERATING CASH RECEIPTS:				
Charges for services	\$ 234,137	\$ 1,370,360	\$ 0	\$ 1,604,497
Extracurricular Activities	0	0	92,808	92,808
Classroom Materials and Fees	21,541	0	0	21,541
Total Operating Cash Receipts	255,678	1,370,360	92,808	1,718,846
OPERATING CASH DISBURSEMENTS:				
Salaries and Wages	151,319	0	0	151,319
Fringe Benefits	38,983	0	0	38,983
Purchased Services	4,741	0	0	4,741
Material and supplies	176,762	0	0	176,762
Capital Outlay-Replacement	1,651	0	0	1,651
Claims	0	1,322,928	0	1,322,928
Other Objects	772	11,240	91,033	103,045
Total Operating Cash Disbursements	374,228	1,334,168	91,033	1,799,429
Operating Income (Loss)	(118,550)	36,192	1,775	(80,583)
NON-OPERATING CASH RECEIPTS:				
Earnings on Investments	244	1,404	951	2,599
Intergovernmental	58,598	0	0	58,598
Miscellaneous	2,513	14,749	270	17,532
Total Non-Operating Cash Receipts	61,355	16,153	1,221	78,729
Excess Cash Receipts Over/ (Under) Cash Disbursements	(57,195)	52,345	2,996	(1,854)
Transfers-In	57,570	0	0	57,570
Advances-In	286	0	0	286
Net Cash Receipts Over/(Under) Cash Disbursements	661	52,345	2,996	56,002
FUND CASH BALANCES, July 1, 2004	2,092	76,669	56,955	135,716
FUND CASH BALANCES, June 30, 2005	\$ 2,753	\$ 129,014	\$ 59,951	\$ 191,718
RESERVE FOR ENCUMBRANCES	\$ 504	\$ 757	\$ 2,219	\$ 3,480

The accompanying notes are an integral part of these financial statements.

Manchester Local School District
Summit County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Manchester Local School District (the “School District”) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The School District operates under a five-member elected Board of Education, and is responsible for providing public education to residents of the School District.

Average daily membership during 2005 was 1,488. The School District employed 96 certificated employees and 76 non-certificated employees during the fiscal year.

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure 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 the School District, this includes general operations, food service and student related activities of the School District.

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

The Village of Franklin, Franklin Township and Parent Teacher Association perform activities within the School District boundaries for the benefit of its residents and are excluded from the accompanying financial statements because the School District is not financially accountable for these entities nor are they fiscally dependent on the School District.

The School District is involved with three jointly governed organizations and one insurance purchasing pool. These organizations are the Northeast Ohio Network for Educational Technology (NEONET), the Portage Lakes Career Center, Interval Opportunity School, and the Schools of Ohio Risk Sharing Authority. Information about these organizations is presented in Notes 11 and 12 to the financial statements.

Management believes the basic financial statements included in the report represent all of the funds of the School District over which the School District has the ability to exercise direct operating control.

Manchester Local School District
Summit County
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting

Although required by Ohio Administrative Code Section 117-2-03(B) to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America, the School District has chosen to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and cash disbursements basis of accounting. Receipts are recognized when received in cash rather than when they are earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

C. Cash and Investments

Investments in repurchase agreements are valued at cost. Investments in money markets are valued at share price, which is the price the investment could be sold for on June 30, 2005.

D. Fund Accounting

The School District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the specific recording of receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each type of fund are as follows:

General Fund - The general fund is the general operating fund of the School District. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

Special Revenue Funds – These funds are used to account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. The School District had the following significant special revenue funds:

Emergency Levy Fund – This fund is used to account for the proceeds of the emergency operating levy. Originally passed in 1977, the levy is renewed for a five-year term. Expenditures in this fund are not restricted to specific purposes.

Athletics Fund – This fund is used to account for the student activity participation in the activity, but do not have student management of the programs. This fund includes athletic programs as well as cheerleaders and similar types of activities.

Title VIB Fund – This fund is used to account for grant money used to assist states in providing an appropriate public education for all students with disabilities.

Manchester Local School District
Summit County
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt Service Fund – This fund is used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs. The debt service fund accounts for the payment of long-term debt for governmental funds only. Under Ohio law, the debt service fund may also be used to account for the payment of the long-term debt of proprietary funds and the short-term debt of both governmental and proprietary funds. The School District's only debt service fund is the Bond Retirement Fund which is used to accumulate resources for the payment of principal and interest on the School District's notes.

Capital Projects Funds – These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). The School District had the following significant capital projects funds:

Permanent Improvement Fund – This fund is used to account for all transactions related to the acquiring, construction or improving of permanent improvements.

Enterprise Funds – These funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purpose. The School District had the following significant enterprise fund:

Lunchroom Fund – This fund is used to account for all revenues and expenses related to the provision of food services for the School District's students and staff.

Internal Service Funds – This fund is used to account for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District had the following significant internal service fund:

Self-Insurance Fund – This fund is used to account for the cost of medical, dental and prescription benefits provided to the School District's employees.

Expendable Trust Funds – This fund is used to account for resources restricted by legally binding trust agreements. The School District's only expendable trust fund is the Special Trust Fund which is used to account for monies held by the School District in a trustee capacity for individuals and/or private organizations which benefit the student body or the local community.

Agency Fund – This fund is used to account for assets held by a governmental unit as an agent for individuals, private organizations, other governmental units, and/or other funds.

Student Managed Activity Fund – This fund is used to account for those student activity programs which have student participation in the activity and have students involved in the management of the program.

Manchester Local School District
Summit County
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

1. Budget

A budget of estimated cash receipts and disbursements is submitted to the County Auditor (Fiscal Officer for Summit County), as secretary of the County Budget Commission, by January 20 of each year, for the period July 1, to June 30 of the following year.

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 year. Prior to June 30, the School District must revise its budget so that the total contemplated expenditures 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. Budgeted receipts as shown in Note 3 do not include July 1, 2004 unencumbered fund balances. However, those fund balances are available for appropriations.

3. Appropriations

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

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.

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.

A summary of 2005 budgetary activity appears in Note 3.

Manchester Local School District
Summit County
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the School District's basis of accounting.

H. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

NOTE 2: POOLED CASH AND INVESTMENTS

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

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

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

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

- 1) United States treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;

Manchester Local School District
Summit County
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2005

NOTE 2: POOLED CASH AND INVESTMENTS (Continued)

- 2) Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- 3) Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed 30 days;
- 4) Bonds and any 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; and
- 6) The State Treasurer's Investment Pool (STAR Ohio).
- 7) Certain bankers acceptances and commercial paper notes for a period not to exceed 180 days from the purchase date in any amount not to exceed 25 percent of the interim monies available for investment at any one time; and
- 8) Under limited circumstances, corporate debt interests noted 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 5 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 the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits – At June 30, 2005, the carrying amounts of the School District's deposits were \$16,240, and the bank balances were \$121,345. As of June 30, 2005, \$110,005 of the bank balance was covered by federal depository insurance and \$11,340 was uncollateralized and uninsured.

Manchester Local School District
Summit County
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2005

NOTE 2: POOLED CASH AND INVESTMENTS (Continued)

Investments

The School District's investments are required to be categorized to give an indication of the level of custodial credit risk assumed by the School District at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The money market fund investments are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Category 3	Carrying Value
Repurchase Agreement	\$ 510,000	\$ 510,000
Money Market Fund	0	110,650
Total	\$ 510,000	\$ 620,650

Manchester Local School District
Summit County
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2005

NOTE 3: BUDGETARY ACTIVITY

Budgetary activity for the year ended June 30, 2005 follows:

2005 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$10,845,473	\$ 10,896,490	\$ 51,017
Special Revenue	1,029,043	1,027,879	(1,164)
Debt Service	560,345	560,345	0
Capital Projects	109,624	87,881	(21,743)
Enterprise	373,301	374,889	1,588
Internal Service	1,241,198	1,386,513	145,315
Fiduciary	103,000	144,724	41,724
	<u>\$14,261,984</u>	<u>\$ 14,478,721</u>	<u>\$ 216,737</u>

2005 Budgeted vs. Actual Budgetary Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$10,084,344	\$ 10,850,781	\$ (766,437)
Special Revenue	1,254,503	1,078,164	176,339
Debt Service	368,517	560,345	(191,828)
Capital Projects	127,593	25,409	102,184
Enterprise	367,838	374,732	(6,894)
Internal Service	1,287,669	1,334,925	(47,256)
Fiduciary	213,286	101,256	112,030
	<u>\$13,703,750</u>	<u>\$ 14,325,612</u>	<u>\$ (621,862)</u>

Contrary to Ohio Revised Code Section 5705.41(B), budgetary expenditures exceeded appropriation authority during 2005.

Contrary to Ohio Revised Code Section 5705.10, the School District had a significant amount of negative fund balances during 2005.

Manchester Local School District
Summit County
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2005

NOTE 4: PROPERTY TAXES

Real property taxes are levied on assessed values which equal 35% of appraised value. The County Auditor reappraises all real property every six years with a triennial update. The last update was completed for the tax year 2002.

Real property taxes become a lien on all non-exempt real property located in the county on January 1. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

The full tax rates applied to real property for the tax (calendar) year 2004 were \$89.72 per \$1000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$50.42 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$57.40 per \$1,000 of assessed valuation for all other real property.

Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the District by the State of Ohio.

Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the tax (calendar) year 2004 was \$89.72 per \$1,000 of assessed valuation.

The Summit County Fiscal Officer collects property tax on behalf of all taxing districts within the county and periodically remits to the taxing districts their portions of the taxes collected.

NOTE 5: INSURANCE

The School District maintains comprehensive insurance coverage with private carriers for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are 90 percent coinsured.

For 2005, the School District participated in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool. Each participant enters into an individual agreement with SORSA for insurance coverage and pays annual premiums to SORSA based on the types and limits of coverage and deductibles selected by the participant.

Manchester Local School District
Summit County
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2005

NOTE 6: DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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

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

For fiscal year ended June 30, 2005, plan members are required to contribute 10 percent of their annual covered salaries and 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 recommendations 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 contributions for pension obligations to STRS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$732,144, \$673,668, and \$656,052 respectively.

Manchester Local School District
Summit County
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2005

NOTE 6: DEFINED BENEFIT PENSION PLANS (Continued)

B. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (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 state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. 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. It is also posted on SERS' website, www.ohsers.org under forms and publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amounts, by the SERS's Retirement Board. The District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 20063 were \$261,180, \$247,716, and \$236,928 respectively.

NOTE 7: POSTEMPLOYMENT BENEFITS

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

Retirees who participated in the DC or Combined Plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$52,296 for fiscal year 2005.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, the balance in the fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

Manchester Local School District
Summit County
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2005

NOTE 7: POSTEMPLOYMENT BENEFITS (Continued)

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. 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 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employee's SERS salaries. For the District, the amount to fund health care benefits, including surcharge, during the 2005 fiscal year \$63,989.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for the maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Net expenses for health care for the fiscal year ended June 30, 2005, were \$178,221,113. 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 approximately 58,123 participants currently receiving health care benefits.

NOTE 8: SELF INSURANCE

The District provides major medical, hospitalization, vision, prescription drug, dental, and life insurance benefits to its employees through a third party administrator.

The Self Insurance Fund pays covered claims to service providers, and recovers these costs from charges to other funds based on an actuarially determined cost per employee. A comparison of Self Insurance Fund cash and investments to the actuarially-measured liability as of June 30 follows:

Cash and investments	\$	110,650
Actuarial liabilities	\$	157,804

NOTE 9: CONTINGENCIES

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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005.

Manchester Local School District
Summit County
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2005

NOTE 10: SET-ASIDE REQUIREMENTS

State of Ohio House Bill 412 requires the District to set-aside a portion of the general operating resources for future use. For the fiscal year ended June 30, 2005 the required set-asides were:

	Textbooks	Capital Acquisition	Totals
Set-aside cash balance as of			
June 30, 2004	\$ (407,210)	\$ 0	\$ (407,210)
Current year set-aside requirement	212,368	212,368	424,736
Current year offset	0	(93,096)	(93,096)
Current year qualifying disbursements	<u>(116,365)</u>	<u>(45,443)</u>	<u>(161,808)</u>
 Total	 <u>\$ (311,207)</u>	 <u>\$ 73,829</u>	 <u>\$ (237,378)</u>
 Balance carried forward to FY 2006	 <u>\$ (311,207)</u>	 <u>\$ 0</u>	

NOTE 11: JOINTLY GOVERNED ORGANIZATIONS

Northeast Ohio Network for Educational Technology (NEONET) – NEONET is a jointly governed organization created as a regional council of governments made up of public school districts and county boards of education from Summit and Portage Counties. The primary function of NEONET is to provide data processing services to its member districts with the major emphasis being placed on accounting, inventory control and payroll services. Other areas of service provided by NEONET include student scheduling, registration, grade reporting and test scoring. Each member district pays an annual fee for the services provided by NEONET. NEONET is governed by a board of directors comprised of each superintendent within the organization. The Summit County Educational Service Center serves as the fiscal agent of the organization and received funding from the State Department of Education. Each school district has one vote in all matters and each member district’s control over budgeting and financing of NEONET is limited to its voting authority and any representative it may have on the Board of Directors. The continued existence of NEONET is not dependent on the School District’s continued participation and no equity interest exists.

Portage Lakes Career Center – The Portage Lakes Career Center is a separate body politic and corporate, established by the Ohio Revised Code to provide for the vocational and special education needs of the students. The Board of Education is comprised of representatives from the board of each participating school district. The board is responsible for approving its own budgets, appointing personnel and accounting and finance related activities. The School District’s students may attend the vocational school. Each school district’s control is limited to its representation on the board.

Interval Opportunity School – The Interval Opportunity School (the “School”) is a jointly governed organization made up of six area public school districts. The function of the School is to provide “at risk students” with possibly a last and better opportunity to succeed in both their academic and social maturation. Each member district pays an annual fee based on the number of students serviced by the School. The School is governed by a board of directors comprised of each superintendent from Coventry Local, Portage Lakes Career Center and Green Local. The Coventry Local School District serves as the fiscal agent of the School. The continued existence of the School is not dependent on the School District’s continued participation and no equity interest exists.

Manchester Local School District
Summit County
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2005

NOTE 12: INSURANCE POOL

Schools of Ohio Risk Sharing Authority

The School District participates in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. SORSA is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The SORSA's business and affairs are conducted by a board consisting of nine superintendents and treasurers, as well as an attorney, accountant, and four representatives from the pool's administrator, Willis Pooling. Willis Pooling is responsible for processing claims and establishes agreements between the SORSA and its members. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

NOTE 13: LONG TERM DEBT

Debt outstanding at June 30, 2005 was as follows:

	<u>Principal</u>
Bus Note - 4.86%	\$ 58,714
Bus Note - 4.58%	18,730
Bus Note - 4.37%	16,887
Bus Note - 4.30%	112,605
Energy Conservation Chiller Note - 4.99%	111,948
Energy Conservation Note - 5.54%	<u>360,030</u>
Total	<u>\$ 678,914</u>

Board and note proceeds were used to finance the cost of building energy conservation improvements and to pay off the outstanding balances owed on several bus leases. Three of the bus notes and the chiller note were initiated during fiscal year ended 2002. The 4.30 percent bus note was initiated in fiscal year 2005. The 5.54 percent Energy Conservation Note was refinanced during fiscal year ended 2002.

Manchester Local School District
Summit County
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2005

NOTE 13: LONG TERM DEBT (Continued)

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

<u>Year ending June 30:</u>	Energy Conservation Improvement Note	Energy Conservation Chiller Note
2006	\$ 63,623	\$ 19,340
2007	63,623	19,340
2008	63,623	19,340
2009	63,623	19,340
2010	63,623	19,340
2011 - 2012	<u>127,246</u>	<u>38,680</u>
Total principal and interest	445,361	135,380
Less amount representing interest	<u>85,331</u>	<u>23,432</u>
Total principal	<u>\$ 360,030</u>	<u>\$ 111,948</u>

The following is a schedule of future minimum lease payments of the notes and present value of the net minimum note payments at June 30, 2005:

<u>Year ending June 30:</u>	4.86% Bus Note	4.58% Bus Note	4.30% Bus Note	4.37% Bus Note
2006	\$ 21,267	\$ 9,906	\$ 20,067	\$ 17,442
2007	21,267	9,906	20,067	0
2008	21,267	0	20,067	0
2009	0	0	20,067	0
2010	0	0	20,067	0
2011-2016	<u>0</u>	<u>0</u>	<u>30,101</u>	<u>0</u>
Total principal and interest	63,801	19,812	130,436	17,442
Less amount representing interest	<u>5,087</u>	<u>1,082</u>	<u>17,831</u>	<u>555</u>
Total principal	<u>\$ 58,714</u>	<u>\$ 18,730</u>	<u>\$ 112,605</u>	<u>\$ 16,887</u>

Manchester Local School District
Summit County
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2005

NOTE 14: SHORT TERM OBLIGATIONS

During 2005, a short-term notes were issued for \$300,000 and \$350,000 to fund current expenses of the School District as follows:

	<u>Balance 7/1/2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2005</u>
General Fund - Tax Anticipation Note - 3.89%	\$ 0	\$ 300,000	\$ (300,000)	\$ 0
General Fund - Tax Anticipation Note - 4.04%	<u>0</u>	<u>350,000</u>	<u>0</u>	<u>350,000</u>
Total Tax Anticipation Notes	<u>\$ 0</u>	<u>\$ 650,000</u>	<u>\$ (300,000)</u>	<u>\$ 350,000</u>

October 25, 2006

To the Board of Education
Manchester Local School District
Akron, OH 44319

Independent Auditor's Report on Internal Control over Financial Reporting
And on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

We have audited the financial statements of Manchester Local School District (the "District") as of and for the year ended June 30, 2005, and have issued our report thereon dated October 25, 2006, with an adverse opinion on the District's accompanying financial statements because they do not present fairly the financial position, results of operations, and cash flows, where applicable, in accordance with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the School District in a separate letter dated October 26, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described below as items 2005-001 through 2005-003. We also noted certain instances of noncompliance that we have reported to management of the District in a separate letter dated October 25, 2006.

FINDING NUMBER	2005-001
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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 in the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code 117.38

Ohio Admin. Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, for fiscal year 2005, the 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 and notes 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 District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

GASB Statement 34, "Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments" requires the District's basic financial statements and required supplementary information (RSI) consist of the following:

- Management's Discussion and Analysis – Providing management's analytical overview of the District's financial activities.
- Basic Financial Statements – The basic financial statements will consist of Government-wide financial statements, which will include a statement of net assets and a statement of activities, prepared on the economic resources measurement focus and the accrual basis of accounting. These statements will report all assets, liabilities, revenues, expenses, and gains and losses of the District. The basic financial statements also will consist of the more familiar fund financial statements, but they will focus on the District's "Major" funds as defined in the Statement.
- Required Supplementary Information – Budgetary comparison schedules and certain "modified approach" infrastructure information

We recommend the District review the new standards and ensure preparation of its financial statements in accordance with AICPA's *Audit and Accounting Guide Audits of State and Local Governments (GASB 34 edition)*. We also recommend the District prepare its financial statements in accordance with Ohio Administrative Code and Ohio Revised Code.

FINDING NUMBER	2005-002
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Ohio Rev. Code Section 5705.41(B) states no subdivision or taxing unit is to expend money unless it has been appropriated.

We noted expenditures plus encumbrances exceeded appropriations at the District's legal level of control at year end as follows:

Fund	Appropriations	Expenditures Plus Encumbrances	Variance
General Fund	\$ 10,084,344	\$ 10,850,780	\$ (766,436)
Emergency Levy Fund	283,626	333,345	(49,719)
Debt Service Fund	368,517	560,345	(191,828)
Food Service Fund	318,363	336,947	(18,584)
Self-Insurance Fund	1,261,613	1,291,811	(30,198)

We recommend the Treasurer and the Board of Education monitor the funds to ensure expenditures plus encumbrances do not exceed appropriations.

FINDING NUMBER	2005-003
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Ohio Rev. Code Section 5705.10 requires that money paid into a fund must be used only for the purposes for which such fund has been established. The following funds had negative cash fund balances during the year:

Fund	Range of Deficit
Debt Service Fund (002)	\$169,615 - \$257,547
Food Service Fund (006)	20,319 - 29,058
Uniform School Supplies (009)	5,576 - 20,988
Title VI-B (516)	8,998 - 23,106
Title I (572)	899 - 11,305
Drug Free Schools Grant (584)	1,006
Title II-A (590)	2,826 - 6,915

Negative fund cash balances indicate that money from one fund was used to cover the expenses of another fund. Additionally, money spent for purposes other than specified in grant agreements could result in the loss of future grant awards. Fund activity should be monitored to prevent future expenditures in excess of available resources. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund in accordance with the Ohio Revised Code.

This report is intended solely for the information and use of the Board of Education, management and is not intended to be and should not be used by anyone other than these specific parties.

Kea & Associates, Inc.



Mary Taylor, CPA
Auditor of State

MANCHESTER LOCAL SCHOOL DISTRICT

SUMMIT 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
FEBRUARY 27, 2007**