

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

EXAMINATION REPORT

OF

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE

MARION COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED

02/28/2007

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Keri Hunter Allison Collins Melissa Bechtel	07-01-04 to 03-21-06 03-22-06 to 06-12-06 06-13-06 to 06-30-07
Superintendent of Schools	Kevin Teasley	07-01-04 to 06-30-07
President of the School Board	Donald Laskowski	07-01-04 to 06-30-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF 21ST CENTURY CHARTER SCHOOL –
FOUNTAIN SQUARE, MARION COUNTY, INDIANA

We have examined the financial information presented herein of 21st Century Charter School - Fountain Square (School Corporation), for the period of July 1, 2004 to June 30, 2006. The School Corporation's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial information referred to above presents fairly, in all material respects, the financial information of the School Corporation for the years ended June 30, 2005 and 2006, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts. The Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not a required part of the basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the examination procedures applied by us in the examination of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

January 11, 2007

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ <u>1,000</u>
<u>Net Assets</u>	
Unrestricted	\$ <u>1,000</u>

The accompanying notes are an integral part of the financial information.

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ <u>(52,518)</u>
<u>Net Assets</u>	
Unrestricted	\$ <u>(52,518)</u>

The accompanying notes are an integral part of the financial information.

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts Charges for Services	Net (Disbursement) Receipts Total
Governmental activities:			
Instruction	\$ 5,070	\$ -	\$ (5,070)
Support services	22,725	-	(22,725)
Total governmental activities	\$ 27,795	\$ -	(27,795)
General receipts:			
Grants and contributions not restricted			23,200
Sale of property, adjustments, and refunds			5,595
Total general receipts			28,795
Change in cash and investments			1,000
Net assets - beginning			-
Net assets - ending			\$ 1,000

The accompanying notes are an integral part of the financial information.

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 393,806	\$ -	\$ 12,809	\$ (380,997)
Support services	1,476,886	9,768	23,439	(1,443,679)
Total governmental activities	\$ 1,870,692	\$ 9,768	\$ 36,248	(1,824,676)
General receipts:				
Other local sources				348,011
State aid				349,861
Grants and contributions not restricted				295,378
Bonds and loans				775,090
Sale of property, adjustments, and refunds				2,818
Total general receipts				1,771,158
Change in cash and investments				(53,518)
Net assets - beginning				1,000
Net assets - ending				\$ (52,518)

The accompanying notes are an integral part of the financial information.

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2005

	<u>General</u>	<u>Title X</u>	<u>Totals</u>
Receipts:			
Federal sources	\$ -	\$ 23,200	\$ 23,200
Sale of property, adjustments and refunds	<u>5,595</u>	<u>-</u>	<u>5,595</u>
Total receipts	<u>5,595</u>	<u>23,200</u>	<u>28,795</u>
Disbursements:			
Current:			
Instruction	5,070	-	5,070
Support services	<u>12,725</u>	<u>10,000</u>	<u>22,725</u>
Total disbursements	<u>17,795</u>	<u>10,000</u>	<u>27,795</u>
Excess (deficiency) of total receipts over (under) total disbursements	(12,200)	13,200	1,000
Cash and investments - beginning	<u>-</u>	<u>-</u>	<u>-</u>
Cash and investments - ending	<u>\$ (12,200)</u>	<u>\$ 13,200</u>	<u>\$ 1,000</u>

The accompanying notes are an integral part of the financial information.

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2006

	General	Walton Foundation	Title X	Other	Totals
Receipts:					
Local sources	\$ 119,197	\$ 228,814	\$ -	\$ 9,768	\$ 357,779
State sources	362,669	-	-	7,538	370,207
Federal sources	-	-	193,800	117,479	311,279
Bonds and loans	775,090	-	-	-	775,090
Sale of property, adjustments and refunds	2,819	-	-	-	2,819
Total receipts	1,259,775	228,814	193,800	134,785	1,817,174
Disbursements:					
Current:					
Instruction	213,818	72,092	15,850	92,046	393,806
Support services	1,086,275	156,722	191,150	42,739	1,476,886
Total disbursements	1,300,093	228,814	207,000	134,785	1,870,692
Excess (deficiency) of total receipts over (under) total disbursements	(40,318)	-	(13,200)	-	(53,518)
Cash and investments - beginning	(12,200)	-	13,200	-	1,000
Cash and investments - ending	<u>\$ (52,518)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (52,518)</u>

The accompanying notes are an integral part of the financial information.

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of School Trustees form of government and provides educational services.

Joint Venture

The School Corporation is a participant with Andrew J. Brown Charter School, Campagna Academy, Charles A. Tindley Accelerated School, Charter School of the Dunes, Christel House Academy, Life Skills Center of Gary School, New Community School, Options Charter School, Rural Community Academy, Signature School, Southeast Neighborhood School of Excellence, Community Montessori, Flanner House Elementary School, Flanner House Higher Learning Academy, Indianapolis Metropolitan Career Academy No. 1, Indianapolis Metropolitan Career Academy No. 2, Irvington Community School, KIPP Indianapolis College Preparatory, Thea Bowman Leadership 851 Academy, Timothy L. Johnson Academy, Urban Brightest Community Academy, and Veritas Academy in a joint venture to operate Virtual Special Education Cooperative which was created to provide needed special programs and services, supplies, materials and equipment, and facilities for identified students with disabilities. The School Corporation is obligated by contract to remit annually the federal allocation received for special education assistance to supplement the Virtual Special Education Cooperative. Complete financial statements for the Virtual Special Education Cooperative can be obtained from Ball State University.

Note 2. Fund Accounting

The School Corporation uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9) authorizes the School Corporation to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 4. Pension Plans

A. Public Employees' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the School Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

B. Teacher's Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teacher's Retirement Fund (TRF), a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the TRF Board, most requirements of the system, and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

TRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
NOTES TO FINANCIAL INFORMATION
(Continued)

Teacher's Retirement Fund
150 West Market Street
Indianapolis, IN 46204
Ph. (317) 232-3860

Funding Policy and Annual Pension Cost

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

Note 5. Subsequent Event

The School Corporation entered into a Common School Loan in September 2006 for the amount of \$309,609.

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 June 30, 2006

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Improvements other than buildings	\$ 18,137
Machinery and equipment	<u>288,668</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 306,805</u>

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 June 30, 2006

Description of Debt	Ending Balance	Due Within One Year
Governmental activities:		
Notes and loans payable:		
Common School Loans	\$ 775,090	\$ 51,555

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
EXAMINATION RESULTS AND COMMENTS

SCHOOL FOOD VERIFICATIONS OF ELIGIBILITY

The School Corporation test-checked the validity of information provided on the applications for free and reduced-priced meals during the 2005-2006 school year. The School Corporation checked only applications that were food stamp recipients and were direct certifications. No testing was completed on the other applicants that were receiving free or reduced school lunch. The error was addressed by the Indiana Department of Education in a letter to the School Corporation which indicated that the procedures were performed incorrectly but the School Corporation was not required to do further testing on the applications for the 2005-2006 school year

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

ERRORS ON CLAIMS

The following deficiencies were noted on claims during the audit period:

- (1) Claims were not certified by the fiscal officer.
- (2) Claims were not adequately itemized.
- (3) All claims did not have board approval.
- (4) Claims or invoices did not have evidence to support receipt of goods or services.

Indiana Code 5-11-10-1.6 states in part:

(b) "As used in this section, "claim" means a bill or an invoice submitted to a governmental entity for goods or services."

(c) "The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

OPTICAL IMAGES OF CHECKS

The financial institution did not return the actual cancelled checks with the monthly bank statements, but instead returned an optical image of only the front side of the checks.

Indiana Code 5-15-6-3(a) concerning optical imaging of checks states, in part:

". . . 'original records' includes the optical image of a check or deposit document when:

- (1) the check or deposit document is recorded, copied, or reproduced by an optical imaging process . . . ; and
- (2) the drawer of the check receives an optical image of the check after the check is processed for payment . . . "

Furthermore, Indiana Code 26-2-8-111 states, in part:

(a) "If a law requires that certain records be retained, that requirement is met by retaining an electronic record of the information in the record that:

- (1) accurately reflects the information set forth in the record after it was first generated in its final form as an electronic record or otherwise; and
- (2) remains accessible for later reference."

(e) "If a law requires retention of a check, that requirement is satisfied by retention of an electronic record of the information on the front and back of the check in accordance with subsection (a)."

TEACHER COMPENSATION

Some teachers received compensation which was not included in the teacher's contract.

Indiana Code 20-28-6-2 states in part: "A contract entered into by a teacher and a school corporation must . . . contain . . . the total salary to be paid during the school year . . . "

ADVANCE PAYMENTS

Dates of transactions indicate that some payments were made to individuals prior to the receipt of goods or services.

Compensation and any other payments for goods and services should not be paid in advance of receipt of the goods or services unless specifically authorized by statute. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
EXAMINATION RESULTS AND COMMENTS
(Continued)

PRESCRIBED FORMS

The following prescribed or approved forms were not always in use:

Form 369, Capital Assets Ledger

The computer generated ledgers being used were not approved for use.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

OVERDRAWN FUND BALANCES

The General Fund was overdrawn at June 30, 2005 and June 30, 2006.

The balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

FEDERAL AND STATE AGENCIES - REPORTING COMPLIANCE REQUIREMENTS

The school lunch reports, form CND-1, submitted to the State of Indiana should have been filed by the 10th of the month following the month for which reimbursement is requested. 7 out of 10 reports filed were filed late.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

21ST CENTURY CHARTER SCHOOL - FOUNTAIN SQUARE
EXIT CONFERENCE

The contents of this report were discussed on January 11, 2007, with Kevin Teasley, Superintendent of Schools; Allison Collins, Compliance Director; Michael Gustin, Director of Schools; Melissa Bechtel, Treasurer; Dana L. Johnson, VP/General Counsel; and Sister Pamela Kay Doyle, OSB, Principal. The official response has been made a part of this report and may be found on pages 19 through 21.

State Board of Accounts
302 Washington St. Room E418
Indianapolis, Indiana 46204-2765

Response to Examination Results and Comments
Examination of 7/1/04 to 6/30/2006

This letter summarizes our position with respect to exceptions noted during your examination of the financial statements of the 21st Century Charter School at Fountain Square as of June 30, 2006 and for the two year period then ended.

Indiana charter schools play a unique role in public education. Under Indiana Charter School Law, (IC 20-24 et. seq.), they operate as both public school (*See* IC 20-24-1-4) and non-profit institution (*See* IC 20-24-3-1 and 3-2). While they are exempt under IC 20-24-8-4 from many of the lengthy financial and accounting procedures that are placed on other state entities, they must be – and should be – held appropriately accountable for the public funds that are entrusted to them.

A key provision of the charter school code, IC 20-24-8-4, exempts charter schools from “Indiana statutes applicable to a governing body or school corporation,” except as specifically enumerated in IC 20-24-8-5. One of those exceptions is IC 20-24-8-5(1), which requires that all charter schools be subjected to audit by the State Board of Accounts (SBOA). Furthermore, while the State Board of Accounts is mandated under IC 5-11-1-24 to provide uniform compliance guidelines for examinations and reports, it may not provide guidelines that are contrary to established law.

The 21st Century Charter School at Fountain Square recognizes and appreciates the authority and guidance of the State Board of Accounts and will endeavor to implement many of the comments provided as well-established business procedures that lead to sound financial management. However, the School respectfully disagrees that the following exceptions are valid in a charter school audit because they do not meet the statutory requirements under IC 20-24-8-4, and are therefore not applicable by law.

School Food Verifications of Eligibility

Our procedures have been updated to include direct certification testing. As noted in the auditors’ comment, the Indiana Department of Education has determined that further testing for the 2005/2006 year is not required and that they will not take action on the error.

Errors on Claims

This exception is based on IC 5-11-10-1.6, which refers to “governmental entities.” However, this statute only applies to the entities specifically enumerated in IC 5-11-10-1.6(a), and charter schools, as defined by IC 20-24-1-4, are not listed. This exception is not warranted because IC 5-11-10-1.6 is not a governing statute for charter schools.

Furthermore, errors found in this area were discovered primarily during the start up phase of the school, and prior to the school and management company bringing all accounting functions "in house" to ensure the timeliness, completeness, and accuracy of all future records.

The School's Board of Directors reviews financial statements at nearly every school board meeting. Budgets are thoroughly discussed and compared to actual expenses throughout the year to ensure proper board oversight is maintained.

Optical Images of Checks

As noted, charter schools are exempt from regulations not enumerated in IC 20-24-8-5. The Examination Results and Comments cites IC 5-15-6-3(a) and IC 26-2-8-111, neither of which are listed under IC 20-24-8-5 as requirements for charter schools.

However, in this instance, we recognize maintenance of the required documentation to be good business practice and will endeavor to secure such documentation from our bank.

Teacher Compensation

As noted, charter schools are exempt from regulations not enumerated in IC 20-24-8-5. The Examination Results and Comments cites IC 20-6.1-4-3 which is not listed under IC 20-24-8-5 as requirements for charter schools.

Records are maintained, including documentation of management approval, of all compensation received, whether by agreement or otherwise. Due to a miscommunication concerning the documents requested and a lack of comment regarding specific exceptions during the examination, these records were not provided during the audit.

Prescribed Forms

As noted, charter schools are exempt from regulations not enumerated in IC 20-24-8-5. In this case, while the School is appropriately subject to audit, the legislation enumerated in IC 20-24-8-5 does not require the use of proscribed or approved forms. All forms and documents presented for audit are aligned in content with forms required by the SBOA.

Overdrawn Fund Balances

The General Fund was overdrawn at June 30, 2005, due to a clerical error between funds. The General Fund was overdrawn at June 30, 2006 due to a banking error, which resulted in the electronic deposit to be received from the Marion County Treasurer not being credited for the deposit prior to the end of the fiscal year, but a few days later. The resulting negative cash balance at the end of the fiscal year is a result of a quickly resolved timing difference, rather than an indicator of serious financial problems.

Federal and State Agencies – Reporting Compliance Requirements

We respectfully disagree with this audit exception. While the regulations do require submission by the 10th day after the reporting month, the Indiana Department of Education states publicly on their website that school lunch reports are accepted through the 60th day after the reporting month. The Indiana Department of Education has consistently accepted the school's lunch reports submitted within their posted extended timeframe, and the School has received proper payment from the State of Indiana on all such reports as requested.

Signed: _____
Title: Chief Executive Officer

Date: 1/21/07

Signed: *Melissa Beckel*
Title: Treasurer

Date: 1/26/07