



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

North Royalton City School District
Cuyahoga County

Financial Forecast
For the Fiscal Year Ending June 30, 2003

Local Government Services Division

North Royalton City School District
Cuyahoga County

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CERTIFICATION

Certification is hereby made that, based upon the requirement set forth in Section 3316.03, Revised Code, the Local Government Services Division of the Auditor of State's Office has examined the financial forecast of the general fund of the North Royalton City School District, Cuyahoga County, Ohio, as requested by the Board of Education by a resolution passed on June 10, 2002. The forecast is based on the assumption that the School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. Additional significant assumptions are set forth in the forecast. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, the actual results of operations during the forecast period will vary from the forecast, and the variations may be material.

The forecast reflects an operating deficit for the fiscal year ending June 30, 2003 of \$3,128,000.

The forecasted revenues include all property taxes scheduled for settlement during the forecast period. The forecast excludes the receipt of any advances against fiscal year 2004 scheduled property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. The forecasted operating deficit may be reduced to the extent tax advances are received prior to June 30, 2003 and to the extent the Board appropriates such advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2003.

Christine L. Hansen, CPA
Chief of Local Government Services

September 18, 2002



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Independent Accountant's Report

We have examined the accompanying forecasted schedule of revenues, expenditures and changes in fund balance of the general fund of the North Royalton City School District for the fiscal year ending June 30, 2003. The North Royalton City School District's management is responsible for the forecast. Our responsibility is to express an opinion on the forecast based on our examination.

Our examination was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants, and accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecast. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the forecasted schedule referred to above are presented in conformity with the guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for the Board's forecast. However, there will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The historical financial data for the years ended June 30, 2000, and 2001 were audited by the Auditor of State and Grant Thornton, respectively, and unqualified opinions were rendered on those financial statements in a report dated October 27, 2000 and November 20, 2001. No auditing procedures have been performed since.

We have compiled the financial data of the general fund of North Royalton City School District for the fiscal year ended June 30, 2002 in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the financial data and, accordingly, do not express an opinion or any other form of assurance on them.

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO
Auditor of State

August 2, 2002

NORTH ROYALTON CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 FOR THE FISCAL YEARS ENDED JUNE 30, 2000 THROUGH 2002 ACTUAL;
 FOR THE FISCAL YEAR ENDING JUNE 30, 2003 FORECASTED
 GENERAL FUND

	Fiscal Year 2000 Actual	Fiscal Year 2001 Actual	Fiscal Year 2002 Actual	Fiscal Year 2003 Forecasted
Revenues				
General Property Tax (Real Estate)	\$18,148,000	\$19,049,000	\$20,889,000	\$19,315,000
Tangible Personal Property Tax	1,403,000	1,254,000	1,707,000	1,631,000
Unrestricted Grants-in-Aid	4,697,000	5,264,000	6,316,000	6,040,000
Restricted Grants-in-Aid	76,000	71,000	53,000	63,000
Property Tax Allocation	2,326,000	2,473,000	2,579,000	2,253,000
All Other Revenues	636,000	728,000	516,000	534,000
<i>Total Revenues</i>	<u>27,286,000</u>	<u>28,839,000</u>	<u>32,060,000</u>	<u>29,836,000</u>
Other Financing Sources				
Sale of Fixed Assets	22,000	1,000	8,000	2,000
Advances In	160,000	127,000	3,000	3,000
Operating Transfers In	94,000	75,000	0	0
<i>Total Other Financing Sources</i>	<u>276,000</u>	<u>203,000</u>	<u>11,000</u>	<u>5,000</u>
<i>Total Revenues and Other Financing Sources</i>	<u>27,562,000</u>	<u>29,042,000</u>	<u>32,071,000</u>	<u>29,841,000</u>
Expenditures				
Personal Services	18,203,000	19,150,000	20,383,000	21,594,000
Employees' Retirement/Insurance Benefits	5,382,000	5,905,000	6,734,000	6,997,000
Purchased Services	2,235,000	2,584,000	2,987,000	3,057,000
Supplies and Materials	1,295,000	1,445,000	1,337,000	1,181,000
Capital Outlay	64,000	20,000	177,000	46,000
Other Objects	350,000	335,000	397,000	418,000
<i>Total Expenditures</i>	<u>27,529,000</u>	<u>29,439,000</u>	<u>32,015,000</u>	<u>33,293,000</u>
Other Financing Uses				
Operating Transfers Out	124,000	43,000	36,000	36,000
Advances Out	127,000	3,000	0	0
<i>Total Other Financing Uses</i>	<u>251,000</u>	<u>46,000</u>	<u>36,000</u>	<u>36,000</u>
<i>Total Expenditures and Other Financing Uses</i>	<u>27,780,000</u>	<u>29,485,000</u>	<u>32,051,000</u>	<u>33,329,000</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	(218,000)	(443,000)	20,000	(3,488,000)
Cash Balance July 1	<u>1,213,000</u>	<u>995,000</u>	<u>552,000</u>	<u>572,000</u>
Cash Balance (Deficit) June 30	995,000	552,000	572,000	(2,916,000)
Less: Encumbrances and Reserves:				
Actual/Estimated Encumbrances June 30	186,000	198,000	261,000	212,000
Reservations of Fund Balance				
Budget Reserve	<u>391,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
Unencumbered/Unreserved Fund Balance (Deficit) June 30	<u>\$418,000</u>	<u>\$354,000</u>	<u>\$311,000</u>	<u>(\$3,128,000)</u>

See accompanying summary of significant forecast assumptions and accounting policies

North Royalton City School District

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

Note 1 - Nature and Limitations of the Forecast

This financial forecast presents, to the best of the North Royalton City School District Board of Education's knowledge and belief, the expected revenues, expenditures and operating balance of the general fund. Accordingly, the forecast reflects the Board of Education's judgment of the expected conditions and its expected course of action as of August 2, 2002, the date of this forecast. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

Note 2 - Nature of the Presentation

The forecast presents the revenues, expenditures, and changes in fund balance of the general fund. Under State law, certain general fund resources received from the State must be spent on specific programs. These resources and the related expenditures have been segregated in the accounting records of the School District to demonstrate compliance. State laws also require general fund resources pledged for the repayment of debt to be recorded directly in the debt service fund.

For presentation in the forecast, the general fund expenditures are different from the expenditures in the audited financial statements for the fiscal years ended June 30, 2000, and 2001, as shown below.

	Fiscal Year 2000	Fiscal Year 2001
Revenues as Previously Reported	\$27,562,000	\$29,042,000
Expenditures as Previously Reported	27,812,000	29,497,000
Less Current Year Encumbrances	(186,000)	(198,000)
Add Prior Year Encumbrances	154,000	186,000
Expenditures per Forecast Report	27,780,000	29,485,000
Excess of Revenues and Other Financing Sources Under Expenditures and Other Financing Uses	(218,000)	(443,000)
Cash Fund Balance at Beginning of Fiscal Year	1,213,000	995,000
Cash Fund Balance at End of Fiscal Year	995,000	552,000
Encumbrances at Fiscal Year End	(186,000)	(198,000)
Unencumbered Fund Balance at Fiscal Year End	\$809,000	\$354,000

North Royalton City School District

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

Note 3 - Summary of Significant Accounting Policies

A. - Basis of Accounting

This financial forecast has been prepared on a basis of cash receipts, disbursements, and encumbrances, which is consistent with the required budget basis (non-GAAP) of accounting used to prepare the historical financial statements. Under this basis of accounting, certain revenue and related assets are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred. However, by virtue of Ohio law, the School District is required to maintain the encumbrance method of accounting. This method requires purchase orders, contracts, and other commitments for the expenditure of monies to be recorded as the equivalent of an expenditure in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

B. - Fund Accounting

The School District maintains its accounting 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 segregation of specific 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 class of funds are as follows:

Governmental Funds

General Fund - The general fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the School District for any purpose provided it is disbursed or transferred in accordance with Ohio law.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or those for major capital projects) that are legally restricted to disbursements for specified purposes.

Debt Service Fund - Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term and short-term debt principal and interest.

Capital Projects Funds - Capital projects funds are used to account for financial resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Funds

Enterprise Funds - Enterprise funds 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 purposes.

Internal Service Funds - Internal Service funds account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis.

North Royalton City School District

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

Fiduciary Funds

Trust and Agency Funds - Trust and agency funds 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. These include (a) expendable trust funds, (b) non-expendable trust funds, and (c) agency funds.

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 object level within each function in the general fund and at the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Budget - A budget of estimated cash receipts and disbursements is submitted to the Cuyahoga County Auditor, as secretary of the County Budget Commission, by January 20 of each year, for the succeeding fiscal year.

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 total contemplated expenditures from any 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.

Appropriations - A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year. The temporary appropriation measure remains in place until the annual appropriation measure is adopted for the entire year. The appropriation measure may be amended or supplemented during the year as new information becomes available.

Encumbrances - The School District uses the encumbrance method of accounting. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve a portion of the applicable appropriation.

Note 4 - General Operating Assumptions

The North Royalton City School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. The forecast contains those expenditures the Board of Education has determined to be necessary to provide for an adequate educational program.

North Royalton City School District

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

Note 5 - Significant Assumptions for Revenues and Other Financing Sources

A. - General and Tangible Personal Property Taxes

Property taxes consist of real estate, public utility real and personal property, manufactured home and tangible personal property taxes. Advances may be requested from the Cuyahoga County Auditor as the tax is collected. When settlements are made, any amounts remaining to be distributed to the School District are paid. Deductions for auditor and treasurer fees, advertising delinquent taxes, election expenses, and other fees are made at these settlement times.

State law allows for certain reductions in the form of rollbacks and homestead exemption for real estate taxes and exempts from taxation the first \$10,000 of tangible personal property. The State reimburses the School District for all revenues lost due to these exemptions. The amount of the reimbursement is included in the forecasted amount for property tax allocation.

Property taxes are levied and collected on a calendar year basis. Settlements that occur in the second half of the year are recorded as revenue in next fiscal year. New and /or expiring levies result in one-half of the annual revenue being recorded in the first and/or last year of collection.

The property tax revenues for the School District are generated from several levies. The type of levies, the year approved, last year of collection, and the full tax rate are as follows:

<u>Tax Levies</u>	<u>Year Approved</u>	<u>Last Year of Collection</u>	<u>Full Tax Rate (Mills)</u>
Continuing Operating	Prior to 1977	n/a	\$42.90
Continuing Operating	1988	n/a	1.50
Emergency	1999	2005	4.50
Emergency	2001	2006	4.90
Total Tax Rate			<u>\$53.80</u>

General Property Tax (Real Estate) - General property tax revenue includes real estate taxes, public utility property taxes, and manufactured home taxes. The amounts shown in the revenue section of the forecast schedule represents gross property tax revenue. The general property tax revenue estimate is based upon actual receipts and information provided by the Cuyahoga County Auditor. Based upon these estimates, the School District anticipates receiving \$19,315,000 in real estate tax revenue, a decrease of \$1,574,000 from the prior fiscal year. This decrease is primarily due to the School District receiving an advance on fiscal year 2003 property taxes in fiscal year 2002 of \$1,100,000.

The School District has assumed in the forecast that they will not be materially affected by Senate Bill 3, as amended by Senate Bill 287, with respect to the changes implemented in the taxing structure of public utilities (namely electric companies). The Ohio Department of Taxation estimated for fiscal year 2003 a decline of approximately \$347,000 in property tax revenue. The School District will be reimbursed the full amount of the loss which is recorded under unrestricted grants-in-aid revenue.

Tangible Personal Property Tax - Tangible personal property tax revenues are generated from the property used in business (except for public utilities). As with general property taxes, tangible personal property tax revenues are based upon information provided by the Cuyahoga County Auditor. Based upon these estimates, the School District anticipates receiving \$1,631,000 in tangible personal property tax revenue, a \$76,000 decrease from the previous fiscal year.

North Royalton City School District

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

B. - Unrestricted Grants-in-Aid

State foundation payments established by Chapter 3317 of the Ohio Revised Code are calculated by the State Department of Education, Division of School Finance, on the basis of pupil enrollment (ADM) and classroom teacher ratios plus other factors. The funds are distributed on a semi-monthly basis. Deductions from the monthly payments for contributions to the two school retirement systems are included in the expenditure section. Unrestricted grants-in-aid includes total formula aid, special education aid, training and experience of classroom teachers funding, gifted aid, transportation, and vocational education.

In 2001, State law set the base cost per pupil at \$4,294 and increased the rate each year thereafter to \$4,490 for fiscal year 2002, and \$4,949 for fiscal year 2003. For fiscal year 2000, the rate was \$4,177.

The anticipated revenue for fiscal year 2003 is based on current estimates provided by the Ohio Department of Education. The amount reported on the most recent school foundation statement of settlement is \$6,040,000, which represents a \$276,000 decrease from the prior fiscal year. This decrease is primarily due to decreases in special and vocational education.

Beginning in tax year 2001, there were significant reductions in the valuation of certain types of public utility property. Two bills enacted by the 123rd General Assembly reduced the assessment rate for certain tangible personal property of electric utilities and all tangible personal property of gas utilities. To replace this money, new state consumption taxes have been enacted, a kilowatt-hour tax on electricity and a thousand cubic foot tax on natural gas. Money from these new taxes will be used to reimburse school districts for property tax revenue loss. Reimbursements are to be made twice a year in February and August. The School District is anticipating \$347,000 in public utility reimbursements in fiscal year 2003, which is based on information provided by the Ohio Department of Taxation.

C. - Restricted Grants-in-Aid

Restricted grants-in-aid consist of an anticipated bus purchase allowance of \$63,000, which reflects a \$10,000 increase over fiscal year 2002.

D. - Property Tax Allocation

State law grants tax relief in the form of a ten percent reduction in real property tax bills. In addition, a two and one-half percent rollback is granted on residential property taxes. Tax relief is also granted to qualified elderly and disabled homeowners based on their income. The State reimburses the School District for the loss of real property taxes as a result of the above (rollback and homestead). Property tax allocation revenue, based on information provided by the Cuyahoga County Auditor, is anticipated to be \$2,253,000, a \$326,000 decrease from fiscal year 2002. This decrease is primarily due to the School District receiving an advance on fiscal year 2003 property taxes in fiscal year 2002.

North Royalton City School District

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

E. - All Other Revenues

All other revenues include tuition, interest on investments, classroom fees, transportation, and miscellaneous receipts from local sources. Increases are anticipated in tuition, interest and fees revenue and a small decrease is forecasted for miscellaneous revenues in fiscal year 2003.

Interest is based on historical investment practices and anticipated rates during the forecast period. The School District pools cash from all funds for investment purposes. Investments are restricted by provisions of the Ohio Revised Code and are valued at cost. Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings with the balance recorded to the general fund.

All other revenues consist of the following:

Revenue Sources	Actual Fiscal Year 2002	Forecast Fiscal Year 2003	Variance Increase (Decrease)
Tuition	\$119,000	\$124,000	\$5,000
Interest on Investments	129,000	140,000	11,000
Classroom Materials and Fees	124,000	128,000	4,000
Miscellaneous	144,000	142,000	(2,000)
Totals	\$516,000	\$534,000	\$18,000

F. - Other Financing Sources

Sale of Fixed Assets – The School District anticipates a \$2,000 proceed from the sale of fixed assets.

Advances In - Advances in represents amounts loaned to other funds in the current or prior fiscal year which are being repaid to the general fund in the forecast year. The general fund is expected to receive \$3,000 in advances during the forecast period.

Note 6 - Significant Assumptions for Expenditures and Other Financing Uses

A. - Personal Services

Personal service expenditures represent the salaries and wages paid to certified, classified and administrative staff, supplemental contracts, substitutes, severance pay, student workers, board members' compensation, and payment in lieu of benefits. All employees receive their compensation on a bi-weekly basis.

Certified (teacher) staff salaries are based on a negotiated contract which includes base and step increases and educational incentives for existing staff, and the addition of ten staff members. The contract covers the period of August 1, 2000 to July 31, 2003, and allows for a four percent increase for fiscal year 2003. The contract for classified staff covered the period January 1, 1999 to July 31, 2002 and has expired. The School District is currently in negotiations. Salaries for the forecast period are based on historical trends of pay increases of the School District and that of surrounding school districts. Administrative salaries are set by the Board of Education.

North Royalton City School District

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

The School District offers severance pay to its certified and classified employees with five years of service. Payments are twenty-five percent of their unused sick leave up to a maximum of fifty-five days for certified employees and thirty five percent of their unused sick leave up to a maximum of eighty days for classified employees. Severance costs are anticipated to increase due to the retirement of eight staff members.

Salaries forecasted for fiscal year 2003 are based on current and future negotiated contracts. These salaries will increase through base and step increases and educational incentives.

Substitute costs are forecasted to decrease from the prior fiscal year as the result of fewer long-term substitutes needed during the forecast period.

Presented below is a comparison of salaries and wages for fiscal year 2002 and the forecast period.

	Actual Fiscal Year 2002	Forecast Fiscal Year 2003	Variance Increase (Decrease)
Certified Salaries	\$14,872,000	\$15,775,000	\$903,000
Classified Salaries	4,003,000	4,197,000	194,000
Substitute Salaries	821,000	729,000	(92,000)
Supplemental Contracts	555,000	588,000	33,000
Severance Pay	0	165,000	165,000
Overtime	66,000	73,000	7,000
Other Salaries and Wages	66,000	67,000	1,000
Totals	<u>\$20,383,000</u>	<u>\$21,594,000</u>	<u>\$1,211,000</u>

B. - Employees' Retirement/Insurance Benefits

Employees' retirement and insurance benefits include employer contributions to the State pension systems, health care, medicare, workers' compensation, and other benefits arising from the negotiated agreements.

Retirement costs are based on the employers' contribution rate of fourteen percent for STRS and SERS. Payments are made based upon estimated salary and wages for each fiscal year. Adjustments resulting from over/under estimates are prorated over the next fiscal year. Retirement costs are forecasted to increase primarily due to a four percent increase in salaries and the increase in staff.

Health care costs are based on the coverage terms of the existing health insurance contracts, the anticipated number of employees participating in the program and the monthly premiums. Over 50% of covered employees are in a preferred provider medical plan and the other half are in a traditional medical plan. The School District is anticipating a rate increase of fifteen percent, effective October 1, 2002. There should be a slight increase in employees covered under health insurance for fiscal year 2003.

Life insurance premiums are based on the coverage amount, the anticipated number of employees participating in the program and the monthly premiums.

Workers' compensation premiums are based on the School District's rate and the anticipated salaries for the fiscal year and medicare benefits are based on the employers' rate of 1.45 percent and the payroll costs for contributing staff.

North Royalton City School District

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

The School District offered a three-year Early Retirement Incentive (ERI) Plan (plan) for its certified employees for fiscal years 2001, 2002 and 2003, the term of its last contract. The plan requires that teachers be fifty years old prior to the date the plan expires, be employed and currently contributing to STRS and be eligible for service retirement between July 1, 2000 and no later than 90 days after the expiration of the plan. ERI plan benefits are forecasted at \$140,000 for fiscal year 2003, a \$154,000 decrease from fiscal year 2002. Fiscal year 2003 amounts are based on actual payments to the retirement system.

Presented below is a comparison of fiscal year 2002 and the forecast period:

	Actual Fiscal Year 2002	Forecast Fiscal Year 2003	Variance Increase (Decrease)
Employer's Retirement	\$3,065,000	\$3,214,000	\$149,000
Health Care/Life Insurance	3,062,000	3,319,000	257,000
Workers' Compensation	85,000	70,000	(15,000)
Medicare	221,000	245,000	24,000
Unemployment	1,000	1,000	0
Early Retirement Incentive	294,000	140,000	(154,000)
Equipment Reimbursement	0	1,000	1,000
Administration Dues	6,000	7,000	1,000
Totals	\$6,734,000	\$6,997,000	\$263,000

C. - Purchased Services

Purchased service expenditures forecasted in the amount of \$3,057,000 are comprised of the following:

	Actual Fiscal Year 2002	Forecast Fiscal Year 2003	Variance Increase (Decrease)
Professional and Technical Services	\$781,000	\$705,000	(\$76,000)
Property Services	306,000	373,000	67,000
Travel and Meeting Expenses	45,000	46,000	1,000
Communication Costs	93,000	98,000	5,000
Utility Services	731,000	774,000	43,000
Trade Services	38,000	39,000	1,000
Tuition Payments	771,000	793,000	22,000
Pupil Transportation	222,000	229,000	7,000
Totals	\$2,987,000	\$3,057,000	\$70,000

The School District is anticipating a \$70,000 increase in purchased services for fiscal year 2003. This increase is due primarily to the net result of an increase in property services, utilities services, and tuition payments offset by a decrease in professional and technical services.

North Royalton City School District

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

D. - Supplies and Materials

Supplies and materials are comprised of the following:

	Actual Fiscal Year 2002	Forecast Fiscal Year 2003	Variance Increase (Decrease)
General Supplies, Library Books and Periodicals	\$407,000	\$420,000	\$13,000
Operations, Maintenance and Repair	671,000	693,000	22,000
Textbooks	259,000	68,000	(191,000)
Totals	<u>\$1,337,000</u>	<u>\$1,181,000</u>	<u>(\$156,000)</u>

The School District is forecasting a \$156,000 decrease in materials and supplies for the forecast period. This is primarily due to the School District purchasing a large amount of textbooks in the prior fiscal year which will not recur in the forecast year.

E. - Capital Outlay

Property, plant and equipment acquired or constructed for general governmental services are recorded as expenditures. Depreciation is not recorded for these general fixed assets as the purpose of the financial statements for the general government services is to report the expenditure of resources, not costs.

Capital outlay expenditures are forecasted in the amount of \$46,000 which includes \$44,000 for new capital outlay and \$2,000 of replacement capital outlay. The majority of the planned expenditures are for a new school bus. The \$131,000 decrease from fiscal year 2002 is due to the School District purchasing two school buses in fiscal year 2002.

F. - Other Objects

Other object expenditures consist of dues and fees. Other object expenditures are forecasted in the amount of \$418,000, which reflects an increase of \$22,000 over fiscal year 2002. The increase is primarily due to increased audit costs and treasurers' fees.

G. - Operating Transfers and Advances Out

The School District expects to make a transfer from the general fund in the amount of \$36,000 during fiscal year 2003 for its athletic operations.

Note 7 - Encumbrances

Encumbrances represent purchase authorizations and contracts for goods or services that are pending vendor performance and those purchase commitments which have been performed, invoiced, and are awaiting payment. Encumbrances on a budget basis of accounting are treated as the equivalent of an expenditure at the time authorization is made in order to maintain compliance with spending restrictions established by Ohio law. For presentation in the forecast, outstanding encumbrances are presented as a reduction of the general fund cash balance.

North Royalton City School District

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

Encumbrances for benefits, purchased services, supplies and materials, capital outlay and other objects expenditures for fiscal year ended June 30, 2002 were \$261,000 and are forecasted at \$212,000 for June 30, 2003. The State Teachers' Retirement Advance is excluded, due to a change in the reporting requirements of the State Teachers' Retirement System, which no longer requires the advance to be encumbered.

Note 8 - Reservations of Fund Balance

The School District is required by State statute to annually set aside in the general fund three percent of certain revenues for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in the future years.

A. - Textbooks and Instructional Materials

The set aside requirement for fiscal year 2003 is \$126,000. There was a carryover of (\$550,000) from fiscal year 2002. The School District will have \$450,000 in qualifying expenditures during the current fiscal year; therefore, no reserve for textbooks and instructional materials is forecasted.

B. - Capital Acquisition and Improvements

The set aside amount for fiscal year 2003 is \$126,000. There was a carryover of (\$818,000) from fiscal year 2002. The School District anticipates \$805,000 in offsets and \$46,000 in qualifying expenditures in fiscal year 2003; therefore, no reserve for capital acquisition and improvements is forecasted.

C. - Budget Reserve

Effective April 10, 2001, Amended Senate Bill 345, deleted from law the requirement for school districts to establish and appropriate money for budget stabilization. During fiscal year 2001, the Board of Education passed a resolution to expend the budget reserve amount pursuant to this statute.

Note 9 - Levies

It is the Board of Education's intent to place a 5.5 mill emergency levy on the November 5, 2002 ballot. If passed, the levy will generate approximately \$4.4 million in revenues annually, with collections beginning in January 2003.

In the past ten years, the School District has placed several levies on the ballot. The type of levy, rate, term, and election results are as follows:

North Royalton City School District

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

Date	Type	Amount	Term	Election Results
June 1992	Emergency	1.54 mills	5 Years	Passed
November 1992	Bond Issue	2.13 mills	20 Years	Failed
February 1993	Bond Issue	2.01 mills	20 Years	Failed
November 1993	Bond Issue	3.49 mills	20 Years	Failed
February 1994	Bond Issue	3.30 mills	20 Years	Passed
May 1995	Emergency	5.48 mills	5 Years	Passed
March 1996	Emergency	6.94 mills	5 Years	Failed
August 1996	Emergency	6.94 mills	5 Years	Failed
November 1996	Emergency	6.94 mills	5 Years	Passed
November 1999	Emergency	4.50 mills	5 Years	Passed
November 2000	Bond Issue	1.90 mills	20 Years	Failed
May 2001	Bond Issue	1.90 mills	20 Years	Failed
May 2001	Emergency	4.90 mills	5 Years	Passed
November, 2001	Bond Issue	1.20 mills	20 Years	Failed

Note 10 - Pending Litigation

The School District's management is of the opinion that there are no issues that would have a material effect on the financial forecast.

Note 11 - State School Funding Decision

On September 6, 2001, the Ohio Supreme Court issued its third opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- ▶ A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- ▶ Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November, 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

As of the date of these financial statements, the School District is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.



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NORTH ROYALTON CITY SCHOOL DISTRICT

CUYAHOGA 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
SEPTEMBER 20, 2002**