



**Auditor of State
Betty Montgomery**

**North Royalton City School District
Cuyahoga County, Ohio**

Termination of Fiscal Watch

Local Government Services Section

**NORTH ROYALTON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

FISCAL WATCH TERMINATION

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Termination of Fiscal Watch

Pursuant to a request to the Auditor of State by the North Royalton City School District Board of Education to remove the School District from Fiscal Watch, the Auditor of State has determined that North Royalton City School District has met the conditions set forth in the "Guidelines for Release from Fiscal Watch" as published by the Auditor of State and the Ohio Department of Education. The North Royalton City School District's status of Fiscal Watch is hereby terminated as of April 29, 2004.

Accordingly, on behalf of the Auditor of State, a report is hereby submitted to Catherine Bican, President of the Board of Education of the North Royalton City School District; Cathy Luks, Mayor of the City of North Royalton, Thomas W. Johnson, Director of Budget and Management; and Dr. Susan Tave Zelman, State Superintendent of Public Instruction.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

April 29, 2004

**North Royalton City School District
Cuyahoga County**

Analysis for Termination of Fiscal Watch

Declaration of Fiscal Watch

The Auditor of State, in accordance with Section 3316.03 of the Ohio Revised Code, is required to declare a school district to be in a state of fiscal watch if it is determined that the school district meets any one of the four conditions described in Section 3316.03(A) of the Ohio Revised Code. The conditions are:

1. The Auditor of State has certified a forecasted general fund operating deficit for the current fiscal year exceeding 8 percent of the school district's general fund revenue for the preceding fiscal year, and the district has not passed a tax levy to eliminate this condition in the succeeding year.
2. A school district has restructured its operating debt while in fiscal emergency, the fiscal emergency has been terminated and any portion of the restructured debt is still outstanding.
3. A school district was placed in fiscal caution due to budgetary conditions that could lead to a declaration of watch or emergency, the school district has not acted reasonably to correct the noted fiscal conditions, and the Ohio Department of Education has determined that a declaration of fiscal watch is necessary to prevent further fiscal decline.
4. The Auditor of State has certified a forecasted general fund operating deficit for the current fiscal year between two percent and eight percent of the school district's general fund revenue for the preceding fiscal year, the district has not passed a levy to eliminate the deficit in the succeeding fiscal year, and the Auditor of State determines there is no reasonable cause for the deficit or that declaring fiscal watch is necessary to prevent further fiscal decline.

The Auditor of State performed an analysis of the North Royalton City School District (the School District), dated September 20, 2002, to determine whether the School District met the conditions for fiscal watch and certified a general fund operating deficit of \$3,128,000 for fiscal year 2003. This deficit exceeded eight percent of the general fund revenues for fiscal year 2002. Additionally, the School District had not passed a levy as of September 20, 2002, that would eliminate this condition in fiscal year 2004. As a result of the analysis, the Auditor of State declared the North Royalton City School District to be in fiscal watch on September 20, 2002.

Guidelines for Removal from Fiscal Watch

The procedures for removing a school district from fiscal watch are set forth in "Guidelines for Release from Fiscal Watch", developed by the Ohio Department of Education and the Auditor of State. These guidelines permit a school district to first submit a request for release from fiscal watch in the fiscal year following the fiscal year in which the Auditor of State declared the school district in fiscal watch. A school district may not request release from fiscal watch in the same fiscal year in which the Auditor of State made the declaration. Additionally, a school district may not request release from fiscal watch until the State Superintendent of Public Instruction has approved the financial recovery plan of the school district.

A school district seeking release from fiscal watch must request release by sending a letter and board resolution to the Auditor of State and the State Superintendent of Public Instruction. The Department of Education will:

**North Royalton City School District
Cuyahoga County**

Analysis for Termination of Fiscal Watch

- 1) Determine whether the district has met the requirements of its financial recovery plan (including alleviating the conditions that lead to the declaration of fiscal watch and alleviating any conditions and discontinuing any practices identified by the Auditor of State that could lead to the declaration of fiscal caution) and provide the Auditor of State with a written summary of its findings; and,
- 2) Based on its review and analysis of the district, notify the Auditor of State whether it supports the Board of Education's request for release.

The Auditor of State will:

- 1) Determine that the district received an unqualified opinion on its most recent audit of its financial statements and that the statements were prepared in accordance with generally accepted accounting principles;
- 2) Determine that the compliance and management letters issued as part of the most recent audit contain no material issues relating to accounting policies and procedures that could negatively impact the financial recovery or condition of the district;
- 3) Examine the district's five-year forecast. To be eligible for release from watch, the forecast must be based on the board's most likely course of action, demonstrate that the district will avoid all fiscal watch conditions for the current and ensuing fiscal year, and receive an unqualified opinion from the Auditor of State; and,
- 4) Make a determination regarding release and notify the school district and the Department of Education.

Procedures for Termination of Fiscal Watch

The North Royalton City School District Board of Education passed a resolution on October 13, 2003, requesting termination from fiscal watch. This resolution, along with initial correspondence from the Ohio Department of Education, was forwarded to the Auditor of State on October 14, 2003.

The guidelines require the School District to receive an unqualified opinion on the audit of its financial statements prepared in accordance with generally accepted accounting principles. The School District's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2003, was released by the Auditor of State on March 4, 2004, and included an unqualified opinion.

As part of the analysis for termination of fiscal watch, we reviewed the School District's compliance and management letters issued as part of the audit for fiscal year 2003. The compliance and management letters disclosed the following:

- 1) The "Report on Compliance and Internal Control Required by Governmental Auditing Standards" and the "Report on Compliance with Requirements Applicable to Each Major Federal Program, Internal Control over Compliance in Accordance with OMB Circular A-133" disclosed instances of material noncompliance issues related to the "then and now" certification of expenditures by the Treasurer and three instances where expenditures plus encumbrances exceeded appropriations. The School District is implementing the use of a "then and now" certificate for those instances when a purchase is made without prior certification of available of funds. In addition, purchase commitments are not approved that exceed appropriations.

**North Royalton City School District
Cuyahoga County**

Analysis for Termination of Fiscal Watch

- 2) The Management Letter contained recommendations for the School District to monitor appropriations to ensure that they do not exceed the total estimated resources for each fund, monitor expenditures plus encumbrances to ensure that they do not exceed appropriations, establish a procedure to approve new funds, use advances to ensure that no negative cash balances occur during the fiscal year, verify that adjustments to appropriations are posted to the accounting system, establish an audit committee, perform an inventory of capital assets and properly tag capital assets. Management is in the process of evaluating the recommendations to determine the additional controls, if any, that need to be implemented.

The Auditor of State has examined the School District's financial forecast for the fiscal years ending June 30, 2004 through 2008, to determine whether the general fund deficit, the fiscal watch condition, has been eliminated. The financial forecast and our report thereon are included in Appendix A of this report. The financial forecast reflects a positive unencumbered/unreserved general fund balance through fiscal year 2006 and a deficit unencumbered/ unreserved fund balance in 2007 and 2008. Events may occur that change this forecast that could eliminate the deficit and the Board of Education may take steps to eliminate the deficit by attempting to secure additional revenues and make cutbacks as needed. Our report on the financial forecast includes an unqualified opinion.

The Ohio Department of Education provided the Auditor of State with a letter, dated January 28, 2004, in which ODE stated "...the School District achieved the objectives of the recovery plan and should be considered for release from fiscal watch."

The primary strategy of the recovery plan dated October 17, 2002, was to increase operating revenues, decrease operating expenditures, or a combination of the two. Actions taken to achieve these strategies included the following:

- 1) The elimination of classified and certified positions as well as supplemental and club advisor positions;
- 2) The reduction of materials and supplies, capital outlay and other expenditures;
- 3) The passage of a 5.5 mill emergency operating levy;
- 4) The delay of school bus replacements; and
- 5) The extension of the classified contract for one year with no wage increase.

Conclusion

Based on our analysis, the Auditor of State has determined the following:

- 1) The School District has received an unqualified opinion on financial statements prepared in accordance with generally accepted accounting principles for fiscal year 2003;
- 2) The compliance letters issued as part of the 2003 audit contained two issues relating to accounting policies and procedures. Because management has taken corrective action, we do not believe these issues would negatively impact the financial recovery or condition of the School District;
- 3) The management letter issued at the completion of the 2003 audit included four recommendations and four instances of immaterial noncompliance with State law. The comments in the management letter do not report material instances of noncompliance or reportable internal control conditions; however, the comments do represent areas in which improvement is needed.

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Cuyahoga County**

Analysis for Termination of Fiscal Watch

- 4) The Auditor of State has examined the School District's financial forecast. The forecast demonstrates that the School District will avoid fiscal watch conditions based on deficit general fund balances for both fiscal year 2004 and fiscal year 2005;
- 5) No matters have come to our attention that would indicate the School District is not in compliance with the Financial Recovery Plan; and,
- 6) The Ohio Department of Education has provided a letter dated January 28, 2004, which indicates the School District should be considered for termination of fiscal watch.

The North Royalton City School District has met the guidelines for termination of fiscal watch. Therefore, the fiscal watch status is hereby terminated as of April 29, 2004.

It is understood that this report's determination is for the use of the School District's Board of Education, the Superintendent of North Royalton City School District, the Director of Budget and Management, the State Superintendent of Public Instruction, and the Auditor of the State of Ohio, and others as designated by the Auditor of State, and is not to be used for any other purpose.

Disclaimer

Because the preceding procedures were not sufficient to constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on any specific accounts or fund balances identified above. Had we performed additional procedures or had we made an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported herein.

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APPENDIX A

**North Royalton City School District
Cuyahoga County**

Financial Forecast

**For the Fiscal Years Ending
June 30, 2004 through June 30, 2008**

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**Auditor of State
Betty Montgomery**

Board of Education
North Royalton City School District
6579 Royalton Road
North Royalton, Ohio 44133

Independent Accountant's Report

We have examined the accompanying forecasted schedule of revenues, expenditures, and changes in fund balance of the General Fund of North Royalton City School District for the fiscal years ending June 30, 2004 through 2008. 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 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 accompanying forecast is presented in conformity with guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for managements 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 accompanying statement of revenues, expenditures and changes in fund balance of the general fund of the North Royalton City School District for the fiscal years ended June 30, 2001, 2002 and 2003 were compiled by us in accordance with the 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 this financial information, and, accordingly, do not express an opinion or any other form of assurance on them.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

February 23, 2004

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NORTH ROYALTON CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 FOR THE FISCAL YEARS ENDED JUNE 30, 2001, 2002, AND 2003 ACTUAL;
 FISCAL YEARS ENDING JUNE 30, 2004 THROUGH JUNE 30, 2008 FORECASTED
 GENERAL FUND

	Fiscal Year 2001 Actual	Fiscal Year 2002 Actual	Fiscal Year 2003 Actual
Revenues			
General Property Tax (Real Estate)	\$19,049,000	\$20,889,000	\$21,654,000
Tangible Personal Property Tax	1,254,000	1,707,000	1,662,000
Unrestricted Grants-in-Aid	5,264,000	6,316,000	6,012,000
Restricted Grants-in-Aid	71,000	53,000	47,000
Property Tax Allocation	2,473,000	2,579,000	2,909,000
All Other Revenues	728,000	516,000	604,000
<i>Total Revenues</i>	<u>28,839,000</u>	<u>32,060,000</u>	<u>32,888,000</u>
Other Financing Sources			
Sale of Fixed Assets	1,000	8,000	22,000
Proceeds of Notes	0	0	2,300,000
Advances In	127,000	3,000	0
Operating Transfers In	75,000	0	0
<i>Total Other Financing Sources</i>	<u>203,000</u>	<u>11,000</u>	<u>2,322,000</u>
<i>Total Revenues and Other Financing Sources</i>	<u>29,042,000</u>	<u>32,071,000</u>	<u>35,210,000</u>
Expenditures			
Personal Services	19,150,000	20,383,000	21,215,000
Employees' Retirement/Insurance Benefits	5,905,000	6,734,000	6,964,000
Purchased Services	2,584,000	2,987,000	2,853,000
Supplies and Materials	1,445,000	1,337,000	844,000
Capital Outlay	20,000	177,000	12,000
Debt Service:			
Principal-Note	0	0	2,300,000
Interest	0	0	2,000
Other Objects	335,000	397,000	377,000
<i>Total Expenditures</i>	<u>29,439,000</u>	<u>32,015,000</u>	<u>34,567,000</u>
Other Financing Uses			
Operating Transfers Out	43,000	36,000	36,000
Advances Out	3,000	0	103,000
<i>Total Other Financing Uses</i>	<u>46,000</u>	<u>36,000</u>	<u>139,000</u>
<i>Total Expenditures and Other Financing Uses</i>	<u>29,485,000</u>	<u>32,051,000</u>	<u>34,706,000</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	(443,000)	20,000	504,000
<i>Cash Balance (Deficit) July 1</i>	<u>995,000</u>	<u>552,000</u>	<u>572,000</u>
<i>Cash Balance (Deficit) June 30</i>	<u>552,000</u>	<u>572,000</u>	<u>1,076,000</u>
Encumbrances and Reserves:			
Actual/Estimated Encumbrances at June 30	198,000	261,000	454,000
Reserve for Capital Improvements	0	0	157,000
Reserve for Bus Purchases	0	0	115,000
<i>Total Encumbrances and Reserves</i>	<u>198,000</u>	<u>261,000</u>	<u>726,000</u>
<i>Unreserved Fund Balance (Deficit) at June 30</i>	354,000	311,000	350,000
Cumulative Revenue from Renewal of Property Tax Levies	<u>0</u>	<u>0</u>	<u>0</u>
<i>Unencumbered/Unreserved Fund Balance (Deficit) at June 30</i>	<u>\$354,000</u>	<u>\$311,000</u>	<u>\$350,000</u>

See accompanying summary of significant forecast assumptions and accounting policies.

Fiscal Year 2004 Forecasted	Fiscal Year 2005 Forecasted	Fiscal Year 2006 Forecasted	Fiscal Year 2007 Forecasted	Fiscal Year 2008 Forecasted
\$24,506,000	\$25,894,000	\$24,922,000	\$22,571,000	\$20,256,000
1,578,000	1,666,000	1,659,000	1,651,000	1,640,000
5,937,000	5,344,000	5,246,000	4,883,000	4,759,000
48,000	49,000	51,000	52,000	54,000
3,220,000	3,400,000	3,253,000	2,962,000	2,646,000
598,000	549,000	586,000	627,000	674,000
<u>35,887,000</u>	<u>36,902,000</u>	<u>35,717,000</u>	<u>32,746,000</u>	<u>30,029,000</u>
2,000	2,000	2,000	2,000	2,000
0	0	0	0	0
103,000	3,000	3,000	3,000	3,000
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>105,000</u>	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>
<u>35,992,000</u>	<u>36,907,000</u>	<u>35,722,000</u>	<u>32,751,000</u>	<u>30,034,000</u>
21,662,000	22,902,000	24,279,000	25,106,000	26,252,000
7,900,000	8,357,000	8,455,000	9,186,000	9,992,000
3,160,000	3,280,000	3,431,000	3,590,000	3,758,000
1,084,000	1,154,000	1,186,000	1,229,000	1,283,000
210,000	50,000	112,000	53,000	116,000
0	0	0	0	0
0	0	0	0	0
444,000	451,000	473,000	510,000	534,000
<u>34,460,000</u>	<u>36,194,000</u>	<u>37,936,000</u>	<u>39,674,000</u>	<u>41,935,000</u>
36,000	36,000	36,000	36,000	36,000
3,000	3,000	3,000	3,000	3,000
<u>39,000</u>	<u>39,000</u>	<u>39,000</u>	<u>39,000</u>	<u>39,000</u>
<u>34,499,000</u>	<u>36,233,000</u>	<u>37,975,000</u>	<u>39,713,000</u>	<u>41,974,000</u>
1,493,000	674,000	(2,253,000)	(6,962,000)	(11,940,000)
<u>1,076,000</u>	<u>2,569,000</u>	<u>3,243,000</u>	<u>990,000</u>	<u>(5,972,000)</u>
<u>2,569,000</u>	<u>3,243,000</u>	<u>990,000</u>	<u>(5,972,000)</u>	<u>(17,912,000)</u>
450,000	450,000	450,000	450,000	450,000
0	0	0	0	0
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>450,000</u>	<u>450,000</u>	<u>450,000</u>	<u>450,000</u>	<u>450,000</u>
2,119,000	2,793,000	540,000	(6,422,000)	(18,362,000)
<u>0</u>	<u>0</u>	<u>1,450,000</u>	<u>6,248,000</u>	<u>15,140,000</u>
<u>\$2,119,000</u>	<u>\$2,793,000</u>	<u>\$1,990,000</u>	<u>(\$174,000)</u>	<u>(\$3,222,000)</u>

**North Royalton City School District
Cuyahoga County**

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Years Ending June 30, 2004 through 2008

Note 1 – The School District

North Royalton City School District (the “School District”) is organized under Article VI, Section 2 of the Constitution of the State of Ohio. The School District operates under a locally-elected board consisting of five members elected at-large for staggered four year terms.

The School District is located in Cuyahoga County and encompasses nearly all of the City of North Royalton and a smaller portion of the City of Broadview Heights. The legislative power of the School District is vested in the Board of Education. The School District is staffed by 241 classified employees and 266 certified full-time personnel who provide services to 4,429 students and other community members. The School District currently operates three elementary buildings, one middle school, one high school, an administrative building, a maintenance garage and a bus garage.

Note 2 - Nature of the Forecast

The 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 February 23, 2004, 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 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 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 system 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:

**North Royalton City School District
Cuyahoga County**

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Years Ending June 30, 2004 through 2008

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 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 may be used to account for any activity for which a fee is charged to external users for goods or services.

Internal Service Funds - Internal Service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the School District, or to other governments on a cost-reimbursement basis.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The Fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds.

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 appropriations 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.

**North Royalton City School District
Cuyahoga County**

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Years Ending June 30, 2004 through 2008

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, the certificate of estimated resources is amended to include any unencumbered balances from the preceding fiscal year. Prior to June 30, the School District must revise its budgetary information 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 resolution.

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 fiscal year. The appropriation measure may be amended or supplemented during the fiscal 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 programs 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.

Note 5 - Significant Assumptions for Revenues and Other Financing Sources

A. General and Tangible Personal Property Taxes

Property taxes consist of real property, public utility real and personal property, manufactured home and tangible personal property taxes. Advances may be requested from the Cuyahoga County Auditor as the taxes are collected. When final 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 exemptions for real estate taxes and exempts from taxation the first \$10,000 of tangible personal property. The State reimburses the School District for revenues lost due to these exemptions. The amount of the reimbursement is presented in the forecast schedule in the account "property tax allocation".

Historically, the School District does not receive advances against the August real estate tax settlement which is intended to finance the next fiscal year. The School District does not anticipate requesting any advances against the August real estate tax settlement during the forecast period. The potential advances have been excluded due to the District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances.

Property taxes are levied and collected on a calendar year basis. Settlements that occur in the second half of the calendar year are recorded as revenue in the next fiscal year. New and/or expiring levies result in one-half of the annual revenue being recorded in the first and/or last fiscal year of collection. From 2006 through

**North Royalton City School District
Cuyahoga County**

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Years Ending June 30, 2004 through 2008

2008, there are three emergency levies expiring which are anticipated to be renewed. The proceeds from the renewal levies are excluded from the general property tax revenues and the property tax allocation; however, the accumulated proceeds are presented as increases each year to the unreserved/unencumbered fund balance. The annual revenue generated from the emergency levies are: \$2,900,000 from the 1999 emergency levy, \$3,795,000 from the 2001 emergency levy and \$4,395,000 from the 2002 emergency levy.

The property tax revenues for the School District's general fund are generated from several levies. The levies for collection year 2004, the year approved, last year of collection, and the full tax rate are as follows:

Tax Levies	Year Approved	Last Year of Collection	Full Tax Rate (per \$1,000 of assessed valuation)
Continuing Operating	Prior to 1977	n/a	\$43.60
Continuing Operating	1988	n/a	1.50
Emergency	1999	2005	3.40
Emergency	2001	2006	4.40
Emergency	2002	2007	5.10
Total			\$58.00

The School District also has levies for bonded debt and permanent improvements totaling \$4.10 per \$1,000 of assessed valuation. The School District's total rate is \$62.10 per \$1,000 of assessed valuation.

Ohio law provides for a reduction in the rates of voted levies to offset increased values resulting from a reappraisal of real property. Reduction factors are applied to voted levies so that each levy yields the same amount of property taxes as in the year in which the levy was approved. Increases to voted levy revenues, other than emergency and bond levies, are restricted to assessments for new construction. The reduction factors are computed annually and applied separately for residential/agricultural property and commercial/industrial property. The effective residential and agricultural rate is \$27.41 per \$1,000 of assessed valuation and the effective commercial and industrial rate is \$30.00 per \$1,000 of assessed valuation.

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 represent gross property tax revenue. The School District anticipates a small increase in real estate taxes each year because of new construction; however, this revenue is also adjusted for the following:

- 1) In fiscal year 2004, an increase due to a full year's collection from the 5.1 mill, five-year emergency operating levy;
- 2) In fiscal year 2006, a decrease of one-half of the annual revenue from the expiring 3.4 mill, five-year emergency operating levy;
- 3) In fiscal year 2007, a loss of a full year's revenue from the 3.4 mill, five-year emergency operating levy and one-half of the annual revenue from the expiring 4.4 mill, five-year emergency operating levy, and;
- 4) In fiscal year 2008, a loss of a full year's revenue from the 4.4 mill five-year emergency operating levy and one-half of the annual revenue from the expiring 5.1 mill five-year emergency operating levy.

**North Royalton City School District
Cuyahoga County**

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Years Ending June 30, 2004 through 2008

Tangible Personal Property Tax - Tangible personal property tax is applied to property used in business (except for public utilities). As with general property taxes, tangible personal property tax revenues for fiscal year 2004 are based upon information provided by the Cuyahoga County Auditor. Based upon these estimates, the School District anticipates receiving \$1,578,000 in tangible personal property tax revenue in fiscal year 2004, an \$84,000 decrease from the previous fiscal year due to decreased amounts in returns filed by businesses with the Cuyahoga County Auditor. The remaining fiscal years are based on the anticipated returns to be filed with the County Auditor and a reduction in the assessed valuation percentage for the inventory portion of the personal property tax.

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), classroom teacher ratios and 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 formula aid, special education aid, gifted aid, transportation, preschool, vocational education and amounts for basic aid guarantee.

Formula aid is calculated by multiplying a cost of doing business factor times the cost per pupil, times ADM, less the equivalent of 23 mills times the School District's taxable property valuation. State law set the base cost per pupil for fiscal year 2001 at \$4,294 and increased it each year thereafter to \$4,490 for 2002 and \$4,949 for 2003. In 2003, the rate was changed for fiscal year 2004 to \$5,058 per pupil and \$5,169 for 2005.

The anticipated revenue for fiscal year 2004 is based on current estimates provided by the Ohio Department of Education. The School District experienced a minor decrease in unrestricted grants-in-aid in the previous fiscal year, and therefore, has forecasted conservative decreases ranging from 1.4 percent to 9.9 percent for fiscal years 2004 through 2008. The decrease is caused by the School District assuming a 2.2 percent increase in per pupil rate with ADM increases of approximately 30 students each fiscal year being offset by increased assessed valuation.

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 is used to reimburse school districts for the loss of public utility property tax revenue. Reimbursements are to be made twice a year in February and August. The School District is anticipating \$340,000 in public utility reimbursements in fiscal year 2004, which is based on information provided by the Ohio Department of Taxation.

C. Restricted Grants-in-Aid

Restricted grants-in-aid consist of a bus purchase allowance that is projected to have a slight increase for fiscal years 2004 through 2008 in the amounts of \$48,000 through \$54,000. The increase for fiscal year 2004 is based on information provided from the Department of Education.

**North Royalton City School District
Cuyahoga County**

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Years Ending June 30, 2004 through 2008

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 homestead and rollback tax relief programs.

Property tax allocation revenue, based on information provided by the Cuyahoga County Auditor, is anticipated to increase \$311,000 during fiscal year 2004. A portion of this increase is due to full year collections from the passage of the additional emergency operating levy. The forecast reflects a decrease during fiscal years 2006 through 2008 due to the loss of revenues from expiring emergency operating levies in each of those fiscal years.

E. All Other Revenues

All other revenues include tuition, interest on investments, classroom fees, rentals, and miscellaneous receipts from local sources.

The School District receives tuition revenue for educational services provided to students residing in other school districts. History illustrates an increase in tuition revenue from other school districts. Tuition revenue for fiscal year 2003 increased by \$7,000 from the prior fiscal year and fiscal year 2004 is forecasted to receive \$124,000 more than fiscal year 2003 due to the timing of revenues received. The School District anticipates this revenue source to decrease during fiscal year 2005 due to this timing difference and a \$22,000 increase during the remaining forecasted periods.

Interest revenue was higher in prior fiscal years because the School District had more cash available to invest. However, during fiscal year 2003, interest revenue decreased significantly due to a decline in interest rates. The School District expects interest rates will rise again. Forecasted 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:

	Forecasted				
	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008
Tuition	\$250,000	\$180,000	\$187,000	\$195,000	\$202,000
Interest on Investments	90,000	108,000	130,000	156,000	187,000
Classroom Fees	164,000	169,000	174,000	180,000	185,000
Rentals	34,000	35,000	36,000	37,000	39,000
Miscellaneous	60,000	57,000	59,000	59,000	61,000
Totals	\$598,000	\$549,000	\$586,000	\$627,000	\$674,000

**North Royalton City School District
Cuyahoga County**

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Years Ending June 30, 2004 through 2008

F. Other Financing Sources

Proceeds of Notes

Proceeds of notes represents receipts from the issuance of tax anticipation notes for short term cash flow borrowing. In 2003, the School District, along with other districts in the State, joined together and issued one year tax anticipation notes with an interest rate of 2.27 percent. No other sale of notes is anticipated during the forecasted period.

Advances In

Advances in represents amounts loaned to grant funds in the current or prior fiscal year which are being repaid to the general fund in the forecast year.

Note 6 - Significant Assumptions for Expenditures and Other Financing Uses

A. Personal Services

Personal services expenditures represent the salaries and wages paid to certified, classified and administrative staff, substitutes, student workers and board members. In addition to regular salaries, it includes payment for supplemental contracts, severance pay and payment in lieu of benefits. All employees receive their compensation on a bi-weekly basis. Based on increased enrollment, the School District is planning on hiring additional staff at the certified, classified, and administrative levels.

Certified (teaching) staff salaries are based on a negotiated contract which includes base and step increases and educational incentives. Classified staff salaries are also based on a negotiated contract which includes base and step increases. The certified contract covers the period of August 1, 2003 to July 31, 2006. The contract for classified staff covers the period of August 1, 2003 to July 31, 2007. Administrative salaries are set by the Board of Education.

The School District offers severance pay to its retiring employees of one-fourth of their accumulated sick leave to a maximum pay out of eighty days for classified employees. For certain administrators and certified employees, the maximum payout in days is determined by their individual contracts. Severance payments are anticipated to increase in fiscal year 2006 because of the large number of teachers planning to retire. For the remainder of the forecast period, severance payments are anticipated to remain constant with fiscal year 2005.

Presented below is a comparison of salaries and wages for fiscal years 2004 through 2008.

	Forecasted				
	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008
Certified Salaries	\$16,037,000	\$17,113,000	\$17,974,000	\$18,900,000	\$19,813,000
Classified Salaries	4,237,000	4,424,000	4,594,000	4,773,000	4,961,000
Substitute Salaries	462,000	476,000	491,000	504,000	520,000
Supplemental Contracts	579,000	602,000	626,000	651,000	677,000
Severance Pay	189,000	118,000	440,000	118,000	118,000
Other Salaries and Wages	158,000	169,000	154,000	160,000	163,000
Totals	\$21,662,000	\$22,902,000	\$24,279,000	\$25,106,000	\$26,252,000

**North Royalton City School District
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Summary of Significant Assumptions and Accounting Policies
For the Fiscal Years Ending June 30, 2004 through 2008

The School District is forecasting a 2.9 percent increase in its base minimum salaries for both its certified and classified employees in each year of the forecast period. During the contract years, step increases ranging from three percent to six percent are included. The contracts run through August 2006 and the same 2.9 percent increase is forecast for fiscal years 2007 and 2008. The increase in severance for fiscal year 2006 is due to those employees benefiting from the early retirement incentive delaying the receipt of their severance payments for two years. Other salaries and wages include payments in lieu of benefits which are payments made to full time employees who choose not to take insurance benefits.

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 School District's contribution rate of 14 percent of the salaries of STRS and SERS members. Payments are made based upon estimated salary and wages for each fiscal year. Adjustments resulting from over/under estimates are prorated over the next calendar year. The School District pays the employee's retirement contributions for certain administrative staff. For the forecast period, the School District estimates retirement costs will increase consistent with the anticipated increase in salaries.

Medicare benefits are based on the employers' rate of 1.45 percent of the payroll costs for contributing staff.

Workers' compensation premiums are calculated based on the School District's rate times each \$100 of School District salaries. Forecasted worker's compensation premiums are based on the School District's current rate and anticipated rate increases for fiscal years 2005 through 2008. Workers' compensation is showing a large increase for fiscal year 2004 because in fiscal year 2003 the School District received a 50 percent reduction in its workers' compensation premiums and that reduction is only 20 percent for fiscal year 2004. There is no reduction anticipated for the remainder of the forecast period. Worker's compensation costs will also increase consistent with the anticipated increase in salaries.

Health care costs are based on the coverage terms of the existing health insurance contracts, including the extent of coverage, deductibles and co-pays, the anticipated number of employees participating in the program, and the annual increase in premiums. Over 50 percent of covered employees are in a preferred provider medical plan and the other half are in a traditional medical plan. The School District will experience an increase of 14 percent in health insurance premiums and a seven percent increase in dental insurance premiums during fiscal year 2004. Vision care is administered through a self-insurance program. The program costs are accounted for in an internal service fund. The self-insurance fund pays the claims and administrative costs. A six percent decrease in vision insurance premiums is forecast for fiscal year 2004. During the remainder of the forecast period, the School District anticipates health insurance premiums will increase approximately 12 percent annually.

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

The School District offered a three-year Early Retirement Incentive (ERI) Plan for its certified employees for fiscal years 2001 through 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. The ERI payments are paid to the retirement system by the School District over a two year period with the last payment being made in fiscal year 2005.

**North Royalton City School District
Cuyahoga County**

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Years Ending June 30, 2004 through 2008

Presented below is a comparison of fiscal years 2004 through 2008.

	Forecasted				
	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008
STRS Retirement	\$2,575,000	\$2,656,000	\$2,785,000	\$2,923,000	\$3,062,000
SERS Retirement	748,000	773,000	802,000	831,000	864,000
Medicare	261,000	276,000	292,000	309,000	326,000
Workers' Compensation	131,000	172,000	203,000	212,000	220,000
Health Insurance	3,481,000	3,886,000	4,363,000	4,900,000	5,509,000
Early Retirement Incentive	694,000	584,000	0	0	0
Other Salaries and Wages	10,000	10,000	10,000	11,000	11,000
Totals	\$7,900,000	\$8,357,000	\$8,455,000	\$9,186,000	\$9,992,000

C. Purchased Services

Presented below is a comparison of forecasted purchased service expenditures for fiscal years 2004 through 2008.

	Forecasted				
	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008
Professional and Technical Services	\$619,000	\$644,000	\$670,000	\$697,000	\$726,000
Property Services	479,000	574,000	596,000	620,000	645,000
Travel and Meeting Expenses	42,000	43,000	45,000	46,000	47,000
Communication Costs	104,000	107,000	110,000	113,000	117,000
Utility Services	785,000	823,000	863,000	906,000	950,000
Contracted Craft/Trade	30,000	31,000	32,000	33,000	34,000
Tuition Payments	887,000	838,000	888,000	941,000	998,000
Pupil Transportation	214,000	220,000	227,000	234,000	241,000
Totals	\$3,160,000	\$3,280,000	\$3,431,000	\$3,590,000	\$3,758,000

Property services expenditures for fleet, property and liability insurances are forecast to increase approximately four percent during the forecast period. Utilities are forecasted to increase five percent annually. Tuition is anticipated to increase an average of six percent annually, and pupil transportation is expected to increase an average of three percent annually.

D. Supplies and Materials

Presented below is a comparison of forecasted supplies and materials expenditures for fiscal years 2004 through 2008.

	Forecasted				
	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008
General Supplies, Library Books and Periodicals	\$498,000	\$511,000	\$526,000	\$542,000	\$557,000
Operations, Maintenance and Repair	544,000	560,000	577,000	594,000	612,000
Textbooks	42,000	83,000	83,000	93,000	114,000
Totals	\$1,084,000	\$1,154,000	\$1,186,000	\$1,229,000	\$1,283,000

**North Royalton City School District
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Summary of Significant Assumptions and Accounting Policies
For the Fiscal Years Ending June 30, 2004 through 2008

Supplies and materials increased nine percent from fiscal year 2003 in order to replenish maintenance supplies. The School District forecasted increases ranging from three percent to six percent for fiscal years 2005 through 2008. The School District intends to purchase instructional supplies and materials and textbooks at least equal to the annual set-aside requirement.

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.

During fiscal year 2004, the School District purchased two new school buses and new equipment resulting in a \$198,000 increase from the prior fiscal year. Due to the significant upgrades in 2004, capital outlay expenditures for fiscal year 2005 are expected to decrease. However, the School District intends to replace school buses during fiscal years 2006 and 2008 with a portion being paid with bus purchase allowance and the remainder from the permanent improvement fund.

The School District has a permanent improvement levy which generates approximately \$900,000 annually from inside millage allocated from the general fund. Planned capital outlay expenditures from the permanent improvement fund are for various types of school equipment, computers and school buses.

F. Debt Service

In fiscal year 2003, the School District issued tax anticipation notes for cash flow purposes. These notes were retired during fiscal year 2003. The School District does not anticipate issuing or retiring any tax anticipation notes during the forecast period.

G. Other Objects

Other objects include dues and fees. The School District is projecting an increase of \$157,000 in other objects for the forecast period. The most significant increases are property tax collection fees because of the new levy and a new fee charged by the Department of Taxation.

H. Operating Transfers and Advances

The School District is forecasting transfers-out each fiscal year of the forecast period in the amount of \$36,000 to the School District's athletic fund and is forecasting advances-out each fiscal year in the amount of \$3,000.

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 the 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 balance.

Historically, encumbrances have ranged from \$198,000 to \$454,000. For fiscal years 2004 through 2008, the school district anticipates encumbrances to remain constant at \$450,000.

**North Royalton City School District
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Summary of Significant Assumptions and Accounting Policies
For the Fiscal Years Ending June 30, 2004 through 2008

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 or 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 2004 is \$620,000. There was a carryover of \$400,000 in excess qualified expenditures from fiscal year 2003. The School District anticipates \$640,000 in qualified expenditures in fiscal year 2004, therefore, no reserve for textbooks and instructional materials is forecasted. The School District's set aside requirement is anticipated to be \$620,000 throughout the remaining forecast period. Historically, the School District has not carried a balance forward to the subsequent fiscal year for textbooks and instructional materials. The required set aside amount is spent during the fiscal year. The School District does not anticipate a reserve during the forecast period.

B. Acquisition and Construction of Capital Improvements

The set aside requirement for fiscal year 2004 is \$620,000. There was a carryover of \$157,000 from fiscal year 2003. The School District will have \$417,000 in offsets and \$391,000 in qualified expenditures during the current fiscal year; therefore, no reserve for capital acquisition and improvements is forecasted for fiscal year 2004. The School District's set aside requirement is anticipated to be \$620,000 throughout the forecast period. The set aside will be offset each year by an allocation of inside millage to the permanent improvement fund throughout the forecast period. Historically, the School District has only carried a balance forward to the subsequent fiscal year for capital acquisitions and improvements once over the last four fiscal years. The required set aside amount is usually spent during the fiscal year. The School District does not anticipate a reserve in future years.

C. Bus Purchases

The School District had a bus purchase allowance balance at the end of fiscal year 2003 in the amount of \$115,000. The School District received \$48,000 in a bus purchase allowance during fiscal year 2004 and spent \$175,000 for new buses during fiscal year 2004 leaving no balance at the end of fiscal year 2004. For the remainder of the forecast the School District intends to spend the entire amount received for bus purchases each year.

Note 9 - Levies

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

**North Royalton City School District
Cuyahoga County**

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Years Ending June 30, 2004 through 2008

<u>Date</u>	<u>Type</u>	<u>Amount</u>	<u>Term</u>	<u>Election Results</u>
February 1994	Bond Issue	3.30 Mills	20 Years	Passed
May 1995	Emergency	\$2,900,000	5 Years	Passed
March 1996	Emergency	6.94 Mills	5 Years	Failed
August 1996	Emergency	6.94 Mills	5 Years	Failed
November 1996	Emergency	\$3,795,000	5 Years	Passed
November 1999	Emergency	\$2,900,000	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	\$3,795,000	5 Years	Passed
November 2001	Bond Issue	1.20 Mills	20 Years	Failed
November 2002	Emergency	\$4,395,000	5 Years	Passed

Note 10 - Pending Litigation

There are currently no matters in litigation with the School District as defendant.

Note 11 - State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The School District is currently 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
APRIL 29, 2004**