



**WESTPARK COMMUNITY SCHOOL
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2004



**Auditor of State
Betty Montgomery**

**WESTPARK COMMUNITY SCHOOL
CUYAHOGA COUNTY
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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Board of Trustees
Westpark Community School
Cuyahoga County
16210 Lorain Avenue
Cleveland, Ohio 44111

We have audited the accompanying financial statements of the Westpark Community School, Cuyahoga County, Ohio, (the School), as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Westpark Community School, Cuyahoga County, Ohio, as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note XVI, during the year ended June 30, 2004, the School implemented a new financial reporting model, as required by provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", Statement No. 38, "Certain Financial Statement Note Disclosure", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2004 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

Betty Montgomery
Auditor of State

December 17, 2004

WESTPARK COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The discussion and analysis of Westpark Community School's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review the Notes to the Financial Statements and the Financial Statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for 2004 include the following:

- In total, net assets increased \$195,563, which represents a 106.5% increase from 2003. This increase is due primarily to an increased enrollment of 45 students resulting in increased state funding and federal subsidies. Also, the School purchased the building it occupies during the current fiscal year and collected rental income from a tenant totaling \$21,000.
- Total assets increased \$1,217,376, which represents a 441.0% increase from 2003. This increase is due primarily to an increase in the year end cash balance of \$126,780 and an increase in capital assets of \$1,039,057. The increase in cash balance is the result of increased enrollment. The increase in capital assets is due to the purchase of the building the school occupies.
- Liabilities increased \$1,021,813, which represents a 1106.4% increase from 2003. Mortgages payable increased by \$1,058,274; leases payable decreased by \$36,000 and leasehold improvements payable \$11,000 accounting for nearly all of the increase.
- Operating revenues increased by \$429,324, which represents a 50.6% increase from 2003. The majority of this increase (\$349,703) is due to increased enrollment resulting in increased state funding and federal subsidies. Additional increases are the result or rental income.
- Operating expenses increased by \$313,089, which represents a 31.4% increase from 2003. Operating expense increases are due to services delivered for the increased enrollment, annual increases in service costs and additional services paid with non-operating revenues.
- Non-operating revenues increased by \$87,539, which represents a 62.2% increase from 2003. This increase is due to increased state and federal grants.

WESTPARK COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Using this Financial Report

This report consists of three parts, the Management's Discussion and Analysis, the Financial Statements and the Notes to the Financial Statements. The Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows.

Statement of Net Assets

The Statement of Net Assets looks at how well the school has performed financially from inception through June 30, 2004. This statement includes all of the assets, liabilities and net asset balances using the accrual basis of accounting, which is the accounting method used by most private-sector companies. This basis of accounting takes into account all revenues earned and expenses incurred during the year, regardless as to when the cash is received or expended.

The following schedule provides a summary of the School's Statement of Net Assets for fiscal years ended June 30, 2004 and 2003.

| | <u>2004</u> | <u>2003</u> |
|--------------------------------------|------------------------|-----------------------|
| Assets | | |
| Cash | \$ 270,722 | \$ 143,942 |
| Other Current Assets | 54,843 | 3,304 |
| Security Deposits | 500 | 500 |
| Capital Assets | <u>1,167,327</u> | <u>128,270</u> |
| Total Assets | <u>1,493,392</u> | <u>276,016</u> |
| Liabilities | | |
| Current Liabilities | 55,890 | 45,351 |
| Long-Term Liabilities | <u>1,058,274</u> | <u>47,000</u> |
| Total Liabilities | <u>1,114,164</u> | <u>92,351</u> |
| Net Assets | | |
| Net Assets | <u>379,228</u> | <u>183,665</u> |
| Total Liabilities and Net Assets | <u>\$1,493,392</u> | <u>\$ 276,016</u> |

WESTPARK COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Net assets increased \$195,563, due primarily to increased enrollment and rental income from a building tenant. For assets, cash increased \$126,780; accounts receivable decreased \$1,658; due from other governments increased \$53,197 (due to DPIA owed by the state of Ohio); and capital assets increased \$1,039,057 from 2003. For liabilities, accounts payable increased \$15,693; due to other governments increased \$2,854; accrued wages and benefits increased \$1,490; deferred revenues increased \$2,502; leases payable decreased \$36,000; leasehold improvements payable decreased \$23,000 and mortgage notes payable increased \$1,058,274 from 2003.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets reports operating and non-operating activities for the fiscal year ended June 30, 2004.

The following schedule provides a summary of the School's Statement of Revenues, Expenses and Changes in Net Assets for fiscal years ended June 30, 2004 and 2003.

| | <u>2004</u> | <u>2003</u> |
|----------------------------------|-------------------|-------------------|
| Revenues | | |
| Foundation and DPIA Revenues | \$1,168,011 | \$ 818,308 |
| Other Operating Revenues | 108,777 | 29,156 |
| Interest | 1,377 | 1,087 |
| Federal and State Grants | 220,375 | 126,049 |
| Private Grants and Contributions | <u>6,625</u> | <u>13,702</u> |
| Total Revenues | <u>1,505,165</u> | <u>988,302</u> |
| Expenses | | |
| Salaries | 479,622 | 331,724 |
| Fringe Benefits | 152,669 | 93,161 |
| Purchased Services | 437,738 | 403,253 |
| Materials and Supplies | 89,670 | 86,334 |
| Capital Outlay | 29,349 | 16,603 |
| Depreciation | 53,688 | 46,618 |
| Other Operating Expenses | <u>66,866</u> | <u>18,820</u> |
| Total Expenses | <u>1,309,602</u> | <u>996,513</u> |
| Net Income/(Loss) | 195,563 | (8,211) |
| Net Assets at Beginning of Year | <u>183,665</u> | <u>191,876</u> |
| Net Assets at End of Year | <u>\$ 379,228</u> | <u>\$ 183,665</u> |

WESTPARK COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Net assets increased in fiscal year ending June 30, 2004 and decreased in fiscal year ending June 30, 2003. This is due in part to increasing revenues due to increasing enrollment in 2004 and a final expenditures relating to federal start up grants in 2003. Although certain expenditures such as salaries will increase as the number of classes increases other costs remain fixed such as facilities costs resulting in more efficient operations.

The most significant increases in revenues from 2003 to 2004 are Foundation and DPIA (increased \$349,703) due to enrollment increases; Other Operating Revenues (increased \$79,621) due in part to rentals and Federal and State Grants (increased \$94,326) due primarily to enrollment increases.

All areas of expenses increased from 2003 to 2004. Salaries and Fringe Benefits increased (\$207,406) due to additional staffing and annual increases; Purchased services increased (\$34,485) due to additional instructional services, student support services and administrative services partially offset by a reduction in facilities services (the School purchased the building in which it is located during fiscal year 2004 to stabilize the facilities costs). Materials and Supplies increased (\$3,336) due to text book and classroom supplies purchases for additional classes and for facilities supplies. Capital Outlay increased (\$12,746) due to purchases for classrooms. Depreciation increased (\$7,070) as a direct result of the building purchase and building improvements. Other Operating Expenses increased (\$48,046) due to mortgage debt service.

Capital Assets

As of June 30, 2004 the School had capital assets of \$1,167,327 invested in computers and office equipment, furniture and equipment, building, building improvements and mortgage loan fees. This is a \$1,039,057 increase over June 30, 2003.

The following schedule provides a summary of the School's Capital Assets as of June 30, 2003 and 2004.

| | <u>2004</u> | <u>2003</u> |
|---|--------------------|-------------------|
| Capital Assets (net of depreciation) | | |
| Computers and Office Equipment | \$ 29,499 | \$ 39,870 |
| Furniture, Equipment & Materials | 13,897 | 3,272 |
| Building | 1,088,564 | -0- |
| Building Improvements | 32,038 | -0- |
| Leasehold Improvements | -0- | 85,128 |
| Mortgage Loan Fees | <u>3,329</u> | <u>-0-</u> |
| Net Capital Assets | <u>\$1,167,327</u> | <u>\$ 128,270</u> |

For more information on capital assets see the Notes to the Financial Statements.

WESTPARK COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Debt Service

On November 6, 2003 the School purchased the building in which it operates. Financing of the purchase was accomplished through two mortgages. The first mortgage is held by US Bank National Association with a face value of \$825,000 for a term of fifteen years and an interest rate of 6.49% per annum. This mortgage is guaranteed by the Ohio School Facilities Commission for an amount up to \$701,250. The second mortgage is held by First Federal Savings & Loan Association of Lakewood with a face value of \$270,000 for a term of seven years and an interest rate of 7.00% per annum. The outstanding principal balances as of June 30, 2004 are \$806,083 and \$252,191 respectively.

For more information on debt service see the Notes to the Financial Statements.

Current Financial Issues

Westpark Community School opened in the fall of 2001. In its third year of operations it has grown from 72 students, eight teaching staff members and expenses of \$517,314 to a total of 172 students, fifteen teaching staff members and expenses of \$1,309,602. During this time we have also been able to purchase our own educational facility. As the School matures to an enrollment of nearly 360 students we strive to maintain the high level of services we currently offer, to provide a strong educational product to our students and families and to maintain the reputation we have developed during these initial years.

Contacting the School's Financial Management

This financial report is designed to provide our constituents with a general overview of the School's finances and to show the School's accountability for the monies it receives. If you have any questions about this report or need additional information please contact Thomas F. Babb, CPA, Treasurer at Constellation Community Schools, 3326 Broadview Road, Cleveland, Ohio 44109-3316; by calling 216.635.1881; by faxing 216.635.1883 or by e-mail to treasurer@constellationschools.com.

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**Westpark Community School
Cuyahoga County
Statement of Net Assets
As of June 30, 2004**

Assets:

Current Assets:

| | |
|-----------------------------------|-----------|
| Cash | \$270,722 |
| Due from Other Governments | \$2,930 |
| Due from Other Governments - DPIA | 51,913 |
| | <hr/> |
| <i>Total Current Assets</i> | 325,565 |

Non-Current Assets:

| | |
|---|--------------------|
| Security Deposits | 500 |
| Capital Assets (Net of Accumulated Depreciation) | 1,167,327 |
| | <hr/> |
| <i>Total Non-Current Assets</i> | 1,167,827 |
| | <hr/> |
| <i>Total Assets</i> | <u>\$1,493,392</u> |

Liabilities:

Current Liabilities:

| | |
|----------------------------------|----------|
| Accounts Payable | \$33,514 |
| Due Other Governments | 9,619 |
| Accrued Wages and Benefits | 2,160 |
| Deferred Revenue | 10,597 |
| | <hr/> |
| <i>Total Current Liabilities</i> | 55,890 |

Long Term Liabilities:

| | |
|------------------------------------|-----------|
| Mortgage Notes Payable | 1,058,274 |
| | <hr/> |
| <i>Total Long Term Liabilities</i> | 1,058,274 |
| | <hr/> |
| <i>Total Liabilities</i> | 1,114,164 |

Net Assets:

| | |
|---|------------------|
| Invested in capital assets, net of related debt | 109,053 |
| Unrestricted | 270,175 |
| | <hr/> |
| <i>Total Net Assets</i> | <u>\$379,228</u> |

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

**Westpark Community School
Cuyahoga County
Statement of Revenues, Expenses and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2004**

Operating Revenues:

| | |
|---------------------------------|------------------|
| Foundation and DPIA Revenues | \$1,168,011 |
| Other Operating Revenues | <u>108,777</u> |
| <i>Total Operating Revenues</i> | <u>1,276,788</u> |

Operating Expenses:

| | |
|---------------------------------|------------------|
| Salaries | 479,622 |
| Fringe Benefits | 152,669 |
| Purchased Services | 437,738 |
| Materials and Supplies | 89,670 |
| Capital Outlay | 29,349 |
| Depreciation | 53,688 |
| Other Operating Expenses | <u>66,866</u> |
| <i>Total Operating Expenses</i> | <u>1,309,602</u> |
| Operating Loss | <u>(32,814)</u> |

Non-Operating Revenues:

| | |
|-------------------------------------|-------------------------|
| Interest | 1,377 |
| Federal and State Grants | 220,375 |
| Private Grants and Contributions | <u>6,625</u> |
| <i>Total Non-Operating Revenues</i> | <u>228,377</u> |
| Net Income | <u>195,563</u> |
| Net Assets at Beginning of the Year | <u>183,665</u> |
| Net Assets at End of Year | <u><u>\$379,228</u></u> |

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

**Westpark Community School
Cuyahoga County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004**

Increase (Decrease) in Cash:

Cash Flows from Operating Activities:

| | |
|---|-----------------|
| Cash Received from State of Ohio | \$1,116,098 |
| Cash Payments to Suppliers for Goods and Services | (818,011) |
| Cash Payments to Employees for Services | (475,208) |
| Other Operating Revenues | <u>111,279</u> |
| Net Cash Used for Operating Activities | <u>(65,842)</u> |

Cash Flows from Noncapital Financing Activities:

| | |
|---|----------------|
| Private Grants and Contributions Received | 6,625 |
| Federal and State Grants Received | <u>219,091</u> |
| Net Cash Provided by Noncapital Financing Activities | <u>225,716</u> |

Cash Flows from Capital and Related Financing Activities:

| | |
|---|-----------------|
| Payments for Capital Acquisitions | (1,092,745) |
| Mortgage Loan Proceeds | 1,095,000 |
| Mortgage Loan Payments | <u>(36,726)</u> |
| Net Cash Used for Capital and Related Financing Activities | <u>(34,471)</u> |

Cash Flows from Investing Activities:

| | |
|---|--------------|
| Interest | <u>1,377</u> |
| Net Cash Provided by Investing Activities | <u>1,377</u> |

| | |
|---------------------------|-------------------------|
| Net Increase in Cash | 126,780 |
| Cash at Beginning of Year | <u>143,942</u> |
| Cash at End of Year | <u><u>\$270,722</u></u> |

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

**Westpark Community School
Cuyahoga County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004
(Continued)**

**Reconciliation of Operating Loss to Net
Cash Provided for Operating Activities:**

| | |
|----------------|------------|
| Operating Loss | (\$32,814) |
|----------------|------------|

**Adjustments to Reconcile Operating Loss to
Net Cash Provided by Operating Activities:**

| | |
|---|----------------|
| Depreciation | 53,688 |
| Changes in Assets and Liabilities: | |
| (Increase) in Due from Other Governments - DPIA | (51,913) |
| Decrease in Accounts Receivable | 1,658 |
| Increase in Accounts Payable | 15,693 |
| Increase in Due Other Governments | 2,854 |
| Increase in Accrued Wages and Benefits | 1,490 |
| Increase in Deferred Revenue | 2,502 |
| (Decrease) in Leases Payable | (36,000) |
| (Decrease) in Leasehold Improvements Payable | (23,000) |
| Total Adjustments | (33,028) |
| Net Cash Used for Operating Activities | (\$65,842) |

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

WESTPARK COMMUNITY SCHOOL

— A Community School —

Cuyahoga County

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

I. Description of the School and Reporting Entity

Westpark Community School (WCS) is a nonprofit corporation established August 25, 2000 pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under § 501(c)(3) of the Internal Revenue Code. On November 7, 2001, WCS obtained tax-exempt status with the Internal Revenue Service under section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect WCS' tax-exempt status. WCS, which is part of Ohio's education program, is independent of any school district. WCS may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of WCS.

WCS was approved for operation under a contract between the Governing Authority and the Ohio Department of Education (the Sponsor) for a period of five years commencing July 1, 2001 and terminating on June 30, 2006. On October 16, 2003 WCS entered into a contract with Lucas County Educational Service Center (LCESC) to have LCESC replace the Ohio Department of Education as their sponsor as required by Sub. HB 364. Under the terms of the contract LCESC will provide sponsorship services for a fee. The Sponsor is responsible for evaluating the performance of the school and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to expiration. See Note XIV for further discussion of the sponsor services. The Governing Authority formed an Ohio nonprofit corporation, on September 17, 1999 under the name Constellation Community Schools (management company).

WCS operates under a five-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers. WCS controls one instructional facility staffed by fifteen certificated full time teaching personnel who provide services to 172 students.

WCS entered into an agreement with CCS to provide management services for the fiscal year. See footnote XIV for additional information regarding the management company. The board members of WCS are also board members of CCS, Old Brooklyn Montessori School, Parma Community School, Elyria Community School, Lorain Community School, Mansfield Community School, Puritas Community School, Stockyard Community School, Madison Community School, Greater Cleveland Academy for Gifted Students and Lorain Academy for Gifted Students.

WESTPARK COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

II. Summary of Significant Accounting Policies

The financial statements of WCS have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

1. Basis of Presentation

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been 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.

2. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. Operating statements present increases (*e.g.*, revenues) and decreases (*e.g.*, expenses) in net total assets.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The WCS's financial statements are prepared using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from nonexchange transactions, in which the WCS receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied.

WESTPARK COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

II. Summary of Significant Accounting Policies (Continued)

2. Measurement Focus and Basis of Accounting (Continued)

Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the WCS must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the WCS on a reimbursement basis. Expenses are recognized at the time they are incurred.

3. Cash

All monies received by WCS are deposited in demand deposit amounts.

4. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided for in the school's contract with its sponsor. The contract between WCS and its Sponsor does not prescribe a budgeting process requirement.

5. Due from Other Governments and Accounts Receivable

Moneys due WCS for the year ended June 30, 2004 are recorded as Due from Other Governments and Accounts Receivable. A current asset for the receivable amount is recorded at the time of the event causing the moneys to be due.

6. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the dates received. WCS does not possess any infrastructure.

Leasehold improvements are also capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

WESTPARK COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

II. Summary of Significant Accounting Policies (Continued)

6. Capital Assets and Depreciation (Continued)

Depreciation of leasehold improvements, computers and office equipment is computed using the straight-line method over their estimated useful lives. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets. All items with a useful life of one year or greater and a value of \$500 or more are capitalized. Estimated useful lives are as follows:

| Capital Asset Classification | Years |
|-------------------------------------|--------------|
| Computers and Office Equipment | 3 |
| Furniture, Equipment and Materials | 10 |
| Building | 40 |
| Building Improvements | 10 |
| Mortgage Loan Fees | 15 |

7. Intergovernmental Revenues

WCS currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid Program (“DPIA”) and the Federal Lunch Reimbursement Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

WESTPARK COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

II. Summary of Significant Accounting Policies (Continued)

7. Intergovernmental Revenues (Continued)

WCS also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, WCS was awarded \$150,000 during the 2003 fiscal year to offset start-up costs of the School. During the 2004 fiscal year the remaining balance of \$105,000 was received. Revenue received from this program is recognized as non-operating revenue on the accompanying financial statements.

Amounts awarded under the above named programs for the 2004 school year totaled \$1,388,386.

8. Compensated Absences

Vacation is taken in a manner which corresponds with the school calendar, therefore, WCS does not accrue vacation time as a liability.

Sick leave benefits are earned at the rate of one and one-quarter day per month and can be accrued up to a maximum amount of one hundred twenty days. WCS will accept the transfer of sick days from another school district up to the maximum accrual amount. No financial accrual for sick time is made since unused sick time is not paid to employees upon employment termination.

9. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

10. Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. The deferred revenue for WCS consists of material and fees received in the current year which pertain to the next school year.

WESTPARK COMMUNITY SCHOOL

— A Community School —

Cuyahoga County

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

III. Deposits

At fiscal year end June 30, 2004, the carrying amount of WCS' deposits totaled \$270,722 and its bank balance was \$273,203. Of the bank balance \$100,000 was covered by the Federal Depository Insurance Corporation and \$173,203 was covered by US Bank pledged pooled collateral securities. The Ohio Depository Act stipulates that US Bank pledge collateral for the deposits of the Westpark Community School in a pool of securities under Section 135.181 of the Ohio Revised Code.

IV. Capital Assets

A summary of WCS' capital assets at June 30, 2004 follows:

| | Balance 6/30/03 | Additions | Deletions | Balance 6/30/04 |
|-------------------------------------|--------------------|--------------------|-------------------|--------------------|
| Capital Assets Being Depreciated: | | | | |
| Building | \$0 | \$1,108,138 | \$0 | \$1,108,138 |
| Building Improvements | 0 | 34,950 | 0 | 34,950 |
| Leasehold Improvements | 134,826 | 0 | (134,826) | 0 |
| Computers & Office Equipment | 57,876 | 11,227 | 0 | 69,103 |
| Furniture, Equipment & Materials | 4,769 | 11,736 | 0 | 16,505 |
| Total Assets Being Depreciated | <u>197,471</u> | <u>1,166,051</u> | <u>(134,826)</u> | <u>1,228,696</u> |
| Less Accumulated Depreciation: | | | | |
| Building | 0 | (16,245) | 0 | (16,245) |
| Building Improvements | 0 | (2,912) | 0 | (2,912) |
| Leasehold Improvements | (49,698) | (11,823) | 0 | 0 |
| Computers & Office Equipment | (18,567) | (21,220) | 61,521 | (39,787) |
| Furniture, Equipment & Materials | (937) | (1,488) | 0 | (2,425) |
| Total Accumulated Depreciation | <u>(69,202)</u> | <u>(53,688)</u> | <u>61,521</u> | <u>(61,369)</u> |
| Total Capital Assets, Net | <u>\$128,269</u> | <u>\$1,112,363</u> | <u>(\$73,305)</u> | <u>\$1,167,327</u> |

WESTPARK COMMUNITY SCHOOL

— A Community School —

Cuyahoga County

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

V. Purchased Services

Purchased Services include the following:

| | |
|------------------------|------------------|
| Occupancy Costs | \$163,626 |
| Pupil Support Services | 42,187 |
| Instruction | 28,917 |
| Administrative | 153,939 |
| Staff Development | 19,353 |
| Food Services | <u>29,716</u> |
| Total | <u>\$437,738</u> |

VI. Operating Leases

WCS leased its facilities, located at 16210 Lorain Avenue, from Dorothy Coury, Trustee, under a five-year lease agreement effective August 1, 2001. WCS had an option to purchase the building in which the premises are located at a price of \$1,100,000 during the first three years of the lease or, during the last two years of the lease, \$1,100,000 plus the percentage by which the Consumer Price Index has increased from the initial month of the lease to the month immediately preceding the month the purchase option is exercised.

WCS recognized these non-cancelable lease costs on the straight line basis. At June 30, 2003 WCS had recorded \$36,000 as leases payable on the statement of net assets. This amount represented the difference between rental payments made and the amounts due, based on the straight line basis over the life of the lease.

On July 15, 2002, WCS and Dorothy Coury, Trustee amended the lease to include an additional area of the building. The amendment was in effect for the remaining life of the original lease. Monthly base rent for this additional space was \$4,500 beginning in August, 2002.

The lease also provided that WCS pay Dorothy Coury, Trustee, \$1,000 per month for a period of 45 months to reimburse the lessor for build-outs and improvements to the building. Should WCS exercise the purchase option, the balance shall be made in one payment at the time of purchase. As of June 30, 2003, the Leasehold Improvements Payable account had an outstanding balance of \$23,000. Monthly payments of \$1,000 were applied to the payable balance and were interest free. The leasehold improvements were being depreciated over a five year period of time.

WESTPARK COMMUNITY SCHOOL

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

VII. Washington School Purchase

On November 12, 2003, WCS purchased the former Washington School building it occupied at 16210 Lorain Avenue, Cleveland. The purchase price of \$1,100,000, along with other purchase costs totaling \$4,674, have been capitalized and will be depreciated over a forty year period. All operations of the school are located at this site.

At the time of purchase there was one tenant in the building, Birchwood School. Birchwood School did not exercise their renewal option and had been on a month-to-month basis since June 1, 2003. Birchwood School vacated the premises at the end of the current fiscal year. WCS collected rents totaling \$21,000 during fiscal year 2004.

VIII. Mortgage Notes Payable

On November 6, 2003, PCS entered into two mortgage agreements relating to the purchase of the property at 16210 Lorain Avenue (see note VII).

A first mortgage note in the amount of \$825,000 is held by US Bank National Association (US Bank). The note is for a term of fifteen years with an interest rate of 6.49 percent per annum. The Ohio School Facilities Commission has guaranteed the first mortgage up to \$701,250.

A second mortgage note in the amount of \$270,000 is held by First Federal Savings & Loan Association of Lakewood (First Federal) and is subordinate to the first mortgage. The note is for a term seven years with an interest rate of 7.00 percent per annum.

During fiscal year 2004 principal was reduced by \$18,917 for US Bank and \$17,809 for First Federal. Interest expense totaled \$34,991 for US Bank and \$11,991 for First Federal. As of June 30, 2004 outstanding principal balances are \$806,083 for the first mortgage and \$252,191 for the second mortgage. Interest payable totaling \$3,633 due US Bank and \$1,275 due First Federal has been recorded as a current liability as of June 30, 2004.

WESTPARK COMMUNITY SCHOOL
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

VIII. Mortgage Notes Payable (Continued)

Principal payments due on the mortgage notes are as follows:

| <u>Year</u> | <u>US Bank</u> | <u>First Federal</u> |
|-------------|------------------|----------------------|
| 2005 | \$34,157 | \$32,269 |
| 2006 | 36,473 | 34,602 |
| 2007 | 38,947 | 37,103 |
| 2008 | 41,466 | 39,785 |
| 2009 | 44,401 | 42,662 |
| After 2009 | <u>610,639</u> | <u>65,770</u> |
| Total | <u>\$806,083</u> | <u>\$252,191</u> |

IX. Risk Management

1. Property and Liability Insurance

WCS is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2004, WCS contracted with Cincinnati Insurance Company for all of its' insurance.

General liability is covered at \$1,000,000 single occurrence limit and \$2,000,000 aggregated. Hired and Non-Owned Vehicles are covered at \$300,000 combined single limit of liability. Other coverage includes School Leaders Errors & Omissions, Employee Crime, Sexual Abuse and Misconduct, Electronic Data Processing and Business Interruption.

2. Workers' Compensation

WCS makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. As of June 30, 2004 there have been no claims filed by WCS employees with the Ohio Worker's Compensation System.

3. Employee Medical, Dental, and Life Benefits

WCS provides medical, dental and life insurance benefits to all full time employees. Employees participate in premium payments through pretax payroll deductions. During the current fiscal year the cost to WCS for medical insurance benefits was \$61,672.

WESTPARK COMMUNITY SCHOOL

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

X. Defined Benefit Pension Plans

1. School Employees Retirement System

WCS contributes to the School Employees Retirement System of Ohio (“SERS”), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, annual cost of living adjustments, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code.

SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746 or by calling (614)222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and WCS is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of WCS’ contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS’ Retirement Board. WCS’ required contribution to SERS for the fiscal year ended June 30, 2004, 2003 and 2002 was \$3,445, \$2,960 and \$983. For fiscal year 2004, WCS contributions totaling \$550 were payable at year end and are reflected in Due to Other Governments in the accompanying financial statements. All other required contributions were paid.

2. State Teachers Retirement System

WCS contributes to the State Teachers Retirement System of Ohio (“STRS”), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

X. Defined Benefit Pension Plans (Continued)

2. State Teachers Retirement System (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during the fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC or the Combined Plan. This option expired on December 31, 2002. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salary and WCS is required to contribute 14 percent, 13 percent was the portion used to fund pension obligation. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for members and employer contributions.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

X. Defined Benefit Pension Plans (Continued)

2. State Teachers Retirement System (Continued)

WCS' required contribution to STRS for the fiscal year ended June 30, 2004, 2003 and 2002 was \$56,869, \$38,414 and \$16,397. For fiscal year 2004, WCS contributions totaling \$212 were payable at year end and are reflected in Due to Other Governments in the accompanying financial statements. All other required contributions were paid.

XI. Post-Employment Benefits

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

The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. As of June 30, 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund, from which payments for health care benefits are paid. For WCS, this amount equaled \$4,375 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2003, (the latest information available) the balance in the Fund was \$2.8 billion. For the year ended June 30, 2003, net health care costs paid by STRS were \$352,301,000 and STRS had 108,294 eligible benefit recipients.

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

XI. Post-Employment Benefits (Continued)

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For this fiscal year, employer contributions used to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$14,500. For WCS, the amount to fund health care benefits, including surcharge, equaled \$3,105 for fiscal 2004.

The surcharge added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level of the health care fund. The target level of the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003 (the latest information available), were \$204,930,737 and the target level was \$307.4 million dollars. At June 30, 2003, SERS had net assets available for health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

XII. 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 plan 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...".

WCS is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

WESTPARK COMMUNITY SCHOOL

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

XIII. Contingencies

1. Grants

WCS received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of WCS. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of WCS at June 30, 2004.

2. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e. Charter) Schools program violates the State Constitution and State law. The effect of this suit, if any, on WCS is not presently determinable.

3. Enrollment FTE

The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. As of the date of this report there are no adjustments to the state funding received during fiscal year 2004.

XIV. Sponsorship and Management Agreement

WCS entered into an agreement with Lucas County Educational Service Center (LCESC) to provide sponsorship and oversight services as required by law. The agreement is effective October 16, 2003. Sponsorship fees are calculated as 1% of state funds received by ECS, from the State of Ohio. The total amount due from WCS for the period November 2003 to June 2004 was \$6,447 all of which was paid prior to June 30, 2004.

WESTPARK COMMUNITY SCHOOL

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Cuyahoga County

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

XIV. Sponsorship and Management Agreement (Continued)

WCS entered into an agreement with Constellation Community Schools (CCS) to provide legal, financial, and business management services for the fiscal year 2004. The agreement was for a period of one year, effective July 1, 2003. Management fees are calculated as 10% of the 2003/2004 Foundation payment received by WCS, as reported in the Monthly Community School Foundation Report. The total amount due from WCS for the fiscal year ending June 30, 2004 was \$116,801 of which \$5,066 was due CCS and is included in accounts payable as of June 30, 2004.

XV. Related Parties

The members of the WCS Board of Trustees are also members of the Constellation Community Schools (CCS), Old Brooklyn Montessori School, Parma Community School, Elyria Community School, Lorain Community School, Mansfield Community School, Puritas Community School, Stockyard Community School, Madison Community School, Greater Cleveland Academy for Gifted Students and Lorain Academy for Gifted Students governing boards. WCS contracts with CCS for legal, financial and business management services.

XVI. Change in Accounting Principles

For fiscal year 2004, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", Statement No. 38, "Certain Financial Statement Note Disclosure", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". GASB 34 creates new basic financial statements for reporting on the School's financial activities. The financial statements now include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows all prepared on an accrual basis of accounting. As a result of this change, certain financial statement amounts presented for the prior year have been reclassified in order to be consistent with the current year's presentation.

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Westpark Community School
Cuyahoga County
16210 Lorain Avenue
Cleveland, Ohio 44111

We have audited the financial statements of the Westpark Community School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2004 which comprise the School's basic financial statements and have issued our report thereon dated December 17, 2004, wherein we noted the School adopted Governmental Accounting Standards Board (GASB) Statements No. 34, 37, 38, and GASB Interpretation No. 6. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated December 17, 2004.

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

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

Betty Montgomery
Auditor of State

December 17, 2004



**Auditor of State
Betty Montgomery**

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Columbus, Ohio 43216-1140

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800-282-0370

Facsimile 614-466-4490

**WESTPARK COMMUNITY SCHOOL
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
FEBRUARY 10, 2005**