



**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2002



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
CUYAHOGA COUNTY**

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INDEPENDENT ACCOUNTANTS' REPORT

Richmond Heights Local School District
Cuyahoga County
447 Richmond Road
Richmond Heights, Ohio 44143

We have audited the accompanying general-purpose financial statements of the Richmond Heights Local School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose 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 general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Richmond Heights Local School District, Cuyahoga County, Ohio, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2002, the District adjusted beginning fund balance for the capital projects building fund.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2002 on our consideration of the Government'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.

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

Jim Petro
Auditor of State

December 6, 2002

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Richmond Heights Local School District
Cuyahoga County, Ohio
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2002

	Governmental Fund Types			Proprietary Fund Type
	General	Special Revenue	Capital Projects	Enterprise
Assets and Other Debits:				
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$1,342,608	\$143,627	\$33,388	\$163,792
Receivables:				
Taxes	8,621,491	0	149,720	0
Accounts	3,458	2,866	0	0
Intergovernmental	0	0	0	6,639
Restricted Asset:				
Equity in Pooled Cash and Cash Equivalents	49,352	0	0	0
Inventory Held for Resale	0	0	0	2,527
Materials and Supply Inventory	0	0	0	527
Fixed Assets (Net, Where Applicable, of Accumulated Depreciation)	0	0	0	13,406
Other Debits:				
Amount to be Provided from General Governmental Resources	0	0	0	0
Total Assets and Other Debits	10,016,909	146,493	183,108	186,891
Liabilities, Fund Equity and Other Credits:				
Liabilities:				
Accounts Payable	68,415	20,295	0	16,802
Accrued Wages and Benefits	659,997	10,383	0	9,036
Compensated Absences Payable	18,168	0	0	3,700
Intergovernmental Payable	147,761	20,169	0	30,074
Deferred Revenue	6,636,085	0	111,664	0
Due to Students	0	0	0	0
Accrued Interest Payable	0	0	269	0
Energy Conservation Notes Payable	0	0	50,000	0
Capital Lease Payable	0	0	0	0
Early Retirement Incentive Payable	0	0	0	0
Total Liabilities	7,530,426	50,847	161,933	59,612
Fund Equity and Other Credits:				
Investment in General Fixed Assets	0	0	0	0
Contributed Capital	0	0	0	12,159
Retained Earnings:				
Unreserved	0	0	0	115,120
Fund Balances (Deficit):				
Reserved for Encumbrances	71,416	11,974	22,878	0
Reserved for Property Taxes	1,636,626	0	28,245	0
Reserved for Textbooks and Instructional Materials	4,100	0	0	0
Reserved for Bus Purchases	5,000	0	0	0
Reserved for Budget Stabilization	40,252	0	0	0
Unreserved, Undesignated	729,089	83,672	(29,948)	0
Total Fund Equity, (Deficit) and Other Credits	2,486,483	95,646	21,175	127,279
Total Liabilities, Fund Equity and Other Credits	\$10,016,909	\$146,493	\$183,108	\$186,891

See accompanying Notes to the General Purpose Financial Statements

Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations	
Agency			
\$10,908	\$0	\$0	\$1,694,323
0	0	0	8,771,211
0	0	0	6,324
0	0	0	6,639
0	0	0	49,352
0	0	0	2,527
0	0	0	527
0	7,228,866	0	7,242,272
0	0	962,678	962,678
<u>10,908</u>	<u>7,228,866</u>	<u>962,678</u>	<u>18,735,853</u>
0	0	0	105,512
0	0	0	679,416
0	0	418,147	440,015
0	0	68,139	266,143
0	0	0	6,747,749
10,908	0	0	10,908
0	0	0	269
0	0	100,000	150,000
0	0	334,457	334,457
0	0	41,935	41,935
<u>10,908</u>	<u>0</u>	<u>962,678</u>	<u>8,776,404</u>
0	7,228,866	0	7,228,866
0	0	0	12,159
0	0	0	115,120
0	0	0	106,268
0	0	0	1,664,871
0	0	0	4,100
0	0	0	5,000
0	0	0	40,252
0	0	0	782,813
<u>0</u>	<u>7,228,866</u>	<u>0</u>	<u>9,959,449</u>
<u>\$10,908</u>	<u>\$7,228,866</u>	<u>\$962,678</u>	<u>\$18,735,853</u>

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Richmond Heights Local School District

Cuyahoga County, Ohio

Combined Statement of Revenues, Expenditures and Changes in Fund Balances

All Governmental Fund Types

For the Fiscal Year Ended June 30, 2002

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Revenues:				
Property and Other Taxes	\$8,538,696	\$0	\$150,927	\$8,689,623
Intergovernmental	1,595,392	252,698	22,592	1,870,682
Interest	65,338	0	0	65,338
Tuition	346,016	1,817	0	347,833
Rent	4,402	0	0	4,402
Extracurricular Activities	50,935	90,876	0	141,811
Gifts and Donations	0	8,440	0	8,440
Miscellaneous	7,821	1,139	0	8,960
Total Revenues	10,608,600	354,970	173,519	11,137,089
Expenditures:				
Current:				
Instruction:				
Regular	4,309,887	146,044	0	4,455,931
Special	759,606	121,526	0	881,132
Vocational	136,083	0	0	136,083
Support Services:				
Pupil Support	608,461	9,524	0	617,985
Instructional Staff	191,757	18,248	0	210,005
Board of Education	100,343	0	0	100,343
Administration	771,370	7,947	0	779,317
Fiscal	359,467	0	0	359,467
Operations and Maintenance	969,040	0	0	969,040
Pupil Transportation	742,897	0	0	742,897
Central	117,896	10,396	0	128,292
Non-Instructional Staff	1,394	1,561	0	2,955
Extracurricular Activities	283,602	122,558	0	406,160
Capital Outlay	0	0	154,720	154,720
Debt Service:				
Principal	32,438	0	150,000	182,438
Interest and Fiscal Charges	20,251	0	9,583	29,834
Total Expenditures	9,404,492	437,804	314,303	10,156,599
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,204,108</u>	<u>(82,834)</u>	<u>(140,784)</u>	<u>980,490</u>
Other Financing Sources (Uses):				
Proceeds of Notes	0	0	100,000	100,000
Operating Transfers In	2,741	68,571	59,952	131,264
Operating Transfers Out	(141,023)	(4,494)	0	(145,517)
<i>Total Other Financing Sources (Uses)</i>	<u>(138,282)</u>	<u>64,077</u>	<u>159,952</u>	<u>85,747</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>1,065,826</u>	<u>(18,757)</u>	<u>19,168</u>	<u>1,066,237</u>
Fund Balances (Deficit) at Beginning of Year - Restated (See Note 3)	1,420,657	114,403	2,007	1,537,067
Fund Balances (Deficit) at End of Year	<u><u>\$2,486,483</u></u>	<u><u>\$95,646</u></u>	<u><u>\$21,175</u></u>	<u><u>\$2,603,304</u></u>

See accompanying Notes to the General Purpose Financial Statements.

Richmond Heights Local School District

Cuyahoga County, Ohio

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances

Budget (Non-GAAP Basis) and Actual

All Governmental Fund Types

For the Fiscal Year Ended June 30, 2002

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Property and Other Taxes	\$7,393,589	\$7,444,438	\$50,849
Intergovernmental	1,673,972	1,595,392	(78,580)
Interest	100,000	65,338	(34,662)
Tuition	220,000	345,568	125,568
Rent	4,000	2,585	(1,415)
Extracurricular Activities	58,245	50,935	(7,310)
Gifts and Donations	0	0	0
Miscellaneous	7,100	8,886	1,786
Total Revenues	9,456,906	9,513,142	56,236
Expenditures:			
Current:			
Instruction:			
Regular	4,375,578	4,344,557	31,021
Special	662,658	776,497	(113,839)
Vocational	120,000	138,457	(18,457)
Support Services			
Pupil Support	696,094	605,566	90,528
Instructional Staff	260,986	183,105	77,881
Board of Education	207,517	116,154	91,363
Administration	729,749	755,765	(26,016)
Fiscal	332,204	353,113	(20,909)
Operations and Maintenance	1,119,629	1,020,139	99,490
Pupil Transportation	844,023	782,507	61,516
Central	196,507	168,888	27,619
Non-Instructional Staff	0	1,573	(1,573)
Extracurricular services	272,800	260,665	12,135
Capital Outlay	0	0	0
Debt Service:			
Principal	0	0	0
Interest	0	0	0
Total Expenditures	9,817,745	9,506,986	310,759
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(360,839)</u>	<u>6,156</u>	<u>366,995</u>
Other Financing Sources (Uses):			
Operating Transfers In	0	2,741	2,741
Operating Transfers Out	(141,684)	(141,023)	661
Proceeds from Sale of Notes	0	0	0
Total Other Financing Sources (Uses)	<u>(141,684)</u>	<u>(138,282)</u>	<u>3,402</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(502,523)</u>	<u>(132,126)</u>	<u>370,397</u>
Fund Balances at Beginning of Year	1,166,395	1,166,395	0
Prior Year Encumbrances Appropriated	217,860	217,860	0
Fund Balances at End of Year	<u>\$881,732</u>	<u>\$1,252,129</u>	<u>\$370,397</u>

Special Revenue Funds			Debt Service Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$0	\$0	\$0
292,620	252,698	(39,922)	0	0	0
0	0	0	0	0	0
2,287	1,630	(657)	0	0	0
0	0	0	0	0	0
99,300	88,197	(11,103)	0	0	0
10,300	8,440	(1,860)	0	0	0
1,500	1,146	(354)	0	0	0
<u>406,007</u>	<u>352,111</u>	<u>(53,896)</u>	<u>0</u>	<u>0</u>	<u>0</u>
			0	0	0
217,234	151,768	65,466	0	0	0
122,757	99,912	22,845	0	0	0
0	0	0	0	0	0
18,038	10,362	7,676	0	0	0
21,822	20,422	1,400	0	0	0
0	0	0	0	0	0
8,120	7,947	173	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
10,396	10,396	0	0	0	0
0	0	0	0	0	0
176,019	134,455	41,564	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	200,000	200,000	0
0	0	0	9,952	9,952	0
<u>574,386</u>	<u>435,262</u>	<u>139,124</u>	<u>209,952</u>	<u>209,952</u>	<u>0</u>
<u>(168,379)</u>	<u>(83,151)</u>	<u>85,228</u>	<u>(209,952)</u>	<u>(209,952)</u>	<u>0</u>
60,570	68,571	(8,001)	59,952	59,952	0
(6,996)	(4,494)	(2,502)	0	0	0
0	0	0	150,000	150,000	0
<u>53,574</u>	<u>64,077</u>	<u>(10,503)</u>	<u>209,952</u>	<u>209,952</u>	<u>0</u>
(114,805)	(19,074)	95,731	0	0	0
120,808	120,808	0	0	0	0
13,843	13,843	0	0	0	0
<u>\$19,846</u>	<u>\$115,577</u>	<u>\$95,731</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

(continued)

Richmond Heights Local School District

Cuyahoga County, Ohio

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget (Non-GAAP Basis) and Actual
All Governmental Fund Types (Continued)
For the Fiscal Year Ended June 30, 2002

	Capital Project Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Property and Other Taxes	\$127,092	\$130,613	3,521
Intergovernmental	25,570	22,592	(2,978)
Interest	0	0	0
Tuition	0	0	0
Rent	0	0	0
Extracurricular Activities	0	0	0
Gifts and Donations	0	0	0
Miscellaneous	0	0	0
Total Revenues	152,662	153,205	543
Expenditures:			
Current:			
Instruction:			
Regular	670	670	0
Special	0	0	0
Vocational	0	0	0
Support Services			
Pupil Support	0	0	0
Instructional Staff	4,671	4,050	621
Board of Education	0	0	0
Administration	0	0	0
Fiscal	0	0	0
Operations and Maintenance	0	0	0
Pupil Transportation	0	0	0
Central	9,000	19,500	(10,500)
Non-Instructional Staff	0	0	0
Extracurricular services	0	0	0
Capital Outlay	161,500	153,378	8,122
Debt Service:			
Principal	0	0	0
Interest	0	0	0
Total Expenditures	175,841	177,598	(1,757)
<i>Excess of Revenues Over (Under) Expenditures</i>	<i>(23,179)</i>	<i>(24,393)</i>	<i>(1,214)</i>
Other Financing Sources (Uses):			
Operating Transfers In	0	0	0
Operating Transfers Out	0	0	0
Proceeds from Sale of Notes	0	0	0
Total Other Financing Sources (Uses)	0	0	0
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<i>(23,179)</i>	<i>(24,393)</i>	<i>(1,214)</i>
Fund Balances at Beginning of Year	33,694	33,694	0
Prior Year Encumbrances Appropriated	1,209	1,209	0
Fund Balances at End of Year	\$11,724	\$10,510	(\$1,214)

See accompanying Notes to the General Purpose Financial Statements

Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)
\$7,520,681	\$7,575,051	\$54,370
1,992,162	1,870,682	(121,480)
100,000	65,338	(34,662)
222,287	347,198	124,911
4,000	2,585	(1,415)
157,545	139,132	(18,413)
10,300	8,440	(1,860)
8,600	10,032	1,432
<u>10,015,575</u>	<u>10,018,458</u>	<u>2,883</u>
4,593,482	4,496,995	96,487
785,415	876,409	(90,994)
120,000	138,457	(18,457)
714,132	615,928	98,204
287,479	207,577	79,902
207,517	116,154	91,363
737,869	763,712	(25,843)
332,204	353,113	(20,909)
1,119,629	1,020,139	99,490
844,023	782,507	61,516
215,903	198,784	17,119
0	1,573	(1,573)
448,819	395,120	53,699
161,500	153,378	8,122
200,000	200,000	0
9,952	9,952	0
<u>10,777,924</u>	<u>10,329,798</u>	<u>448,126</u>
<u>(762,349)</u>	<u>(311,340)</u>	<u>451,009</u>
120,522	131,264	10,742
(148,680)	(145,517)	3,163
150,000	150,000	0
<u>121,842</u>	<u>135,747</u>	<u>13,905</u>
(640,507)	(175,593)	464,914
1,320,897	1,320,897	0
232,912	232,912	0
<u>\$913,302</u>	<u>\$1,378,216</u>	<u>\$464,914</u>

— *Richmond Heights Local School District* —
Cuyahoga County, Ohio
 Combined Statement of Revenues, Expenses and
 Changes in Fund Equity
 Proprietary Fund Type
 For the Fiscal Year Ended June 30, 2002

	<u>Enterprise</u>
Operating Revenues:	
Tuition	\$179,546
Sales	196,816
Total Operating Revenues	376,362
Operating Expenses:	
Salaries	112,554
Fringe Benefits	74,493
Purchase Services	154,720
Materials and Supplies	20,682
Cost of Sales	139,087
Depreciation	800
Other	1,159
Total Operating Expenses	503,495
<i>Operating Loss</i>	<i>(127,133)</i>
Non-Operating Revenues:	
Federal Donated Commodities	15,680
Operating Grants	47,224
<i>Total Non-Operating Revenues</i>	<i>62,904</i>
<i>Net Loss Before Transfers</i>	<i>(64,229)</i>
Operating Transfers In	14,253
Net Loss	(49,976)
Retained Earnings at Beginning of Year	165,096
Retained Earnings at End of Year	115,120
Contributed Capital at Beginning and End of Year	12,159
Total Fund Equity at Year End	\$127,279

See accompanying Notes to the General Purpose Financial Statement

——— *Richmond Heights Local School District* ———
Cuyahoga County, Ohio
 Combined Statement of Cash Flows
 Proprietary Fund Type
 For the Fiscal Year Ended June 30, 2002

	<u>Enterprise</u>
Increase (Decrease) in Cash and and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received From Customers	\$196,989
Cash Received from Tuition Payments	180,796
Cash Payments to Suppliers for Goods and Services	(290,420)
Cash Payments for Employee Services and Benefits	(159,649)
Cash Payments for Other Operating Expenses	(1,159)
Net Cash Used For Operating Activities	(73,443)
Cash Flow from Noncapital Financing Activities	
Operating Grants	46,809
Operating Transfers In	14,253
Net Cash Provided by Noncapital Financing Activities	61,062
Net Decrease in Cash and Cash Equivalents	(12,381)
Cash and Cash Equivalents at Beginning of Year	176,173
Cash and Cash Equivalents at End of Year	\$163,792
	(continued)

— *Richmond Heights Local School District* —
Cuyahoga County, Ohio
Combined Statement of Cash Flows
Proprietary Fund Type (Continued)
For the Fiscal Year Ended June 30, 2002

Reconciliation of Operating Loss To Net	
Cash Used for Operating Activities:	
Operating Loss	<u>(\$127,133)</u>
Adjustments to Reconcile Operating Loss	
to Net Cash Used for Operating Activities:	
Depreciation Expense	800
Donated Commodities Received	14,953
Increase (Decrease) in Assets:	
Accounts Receivable	1,250
Intergovernmental Receivable	(242)
Inventory Held for Resale	(324)
Materials and Supplies Inventory	(162)
Increase (Decrease) in Liabilities:	
Accounts Payable	10,020
Accrued Wages and Benefits	8
Compensated Absences Payable	(1,197)
Intergovernmental Payable	<u>28,584</u>
Total Adjustments	<u>53,690</u>
Net Cash Used for Operating Activities	<u><u>(\$73,443)</u></u>

Non-Cash Non Capital Financing Activities

Federal donated commodities in the amount of \$15,680 were recorded as revenue when received.

See accompanying Notes to the General Purpose Financial Statements

Richmond Heights Local School District

Cuyahoga County, Ohio

Combined Statement of Revenues, Expenses, and Changes in Fund Equity

Budget (Non-GAAP Basis) and Actual

Proprietary Fund Type

For the Fiscal Year Ended June 30, 2002

	Enterprise Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Tuition	\$138,482	\$180,796	\$42,314
Sales	186,747	196,989	10,242
Operating Grants	37,100	46,809	9,709
Total Revenues	362,329	424,594	62,265
Expenses:			
Salaries	116,450	113,742	2,708
Fringe Benefits	41,620	45,907	(4,287)
Purchased Services	142,486	160,762	(18,276)
Materials and Supplies	145,102	146,145	(1,043)
Other	1,475	1,159	316
Total Expenses	447,133	467,715	(20,582)
<i>Excess of Revenues Under Expenses</i>	(84,804)	(43,121)	41,683
Operating Transfers In	14,253	14,253	0
<i>Excess of Revenues and Operating Transfers Under Expenses</i>	(70,551)	(28,868)	(41,683)
Fund Equity at Beginning of Year	157,544	157,544	0
Prior Year Encumbrances Appropriated	18,629	18,629	0
Fund Equity at End of Year	\$105,622	\$147,305	\$41,683

See accompanying Notes to the General Purpose Financial Statements

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Richmond Heights Local School District
Cuyahoga County, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 1. Description of The Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards and agencies that are not legally separate from the School District. For the Richmond Heights Local School District, this includes, general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provide financial support to the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes for the organization. The School District has no component units.

The following activities are included within the reporting entity:

Non-Public Schools. Within the School District boundaries, Richmond Heights Christian School operates. The State provides funding for this non-public school. These monies are received and disbursed on behalf of the non-public school by the Treasurer of the School District, as directed by the non-public school. This financial activity is reflected in a special revenue fund for financial reporting purposes.

The School District participates in three organizations, two of which are defined as jointly governed organizations, and one as an insurance purchasing pool. These organizations are presented in Notes 17 and 18 to the general purpose financial statements. These organizations are:

Jointly Governed Organizations:

Lakeshore Northeast Ohio Computer Association
Ohio Schools Council Association

Insurance Purchasing Pool:

Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP)

Richmond Heights Local School District
Cuyahoga County, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

Note 2. Summary of Significant Accounting Policies

The financial statements of Richmond Heights Local School District have been prepared in conformity with generally accepted accounting principals (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Basis of Presentation - Fund Accounting

The School District uses funds and account groups to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

Governmental Fund Types:

Governmental Funds are those through which most governmental functions of the School District are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the School District's governmental fund types:

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 expended or transferred according to the general laws of Ohio.

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(Continued)

Special Revenue Funds. Special revenue funds are used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditures for specific purposes.

Debt Service Fund. The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. The School District currently has no long-term debt outstanding.

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

Proprietary Fund Type:

Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The following is the School District's proprietary fund type:

Enterprise Funds. Enterprise funds are established to account for School District activities that are financed and operated in a manner similar to private business where the intent is that the costs (expense 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 revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. There are two types of fiduciary funds, trust and agency. The School District has no trust funds. The School District's agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Richmond Heights Local School District
Cuyahoga County, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

Account Groups:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term obligations related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group. This account group is established to account for all fixed assets of the School District, other than those accounted for in proprietary funds.

General Long-Term Obligations Account Group. This account is established to account for all long-term obligations of the School District except those accounted for in the proprietary funds.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statement presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental and agency funds. The full accrual basis of accounting is followed for the proprietary funds.

Revenue Recognition Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the

Richmond Heights Local School District
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Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of year-end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from income tax is recognized in the fiscal year in which the exchange on which the tax is imposed takes place and revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 7) Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2002, but which were levied to finance fiscal year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

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Cuyahoga County, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

C. *Budgetary Data*

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation 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 fund and function. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing or increased tax rates. By no later than January 20, the Board adopted budget is filed with the Cuyahoga County Budget Commission for rate determination.

Estimated Resources:

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriations were passed.

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For the Fiscal Year Ended June 30, 2002
(Continued)

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates, or a certificate stating no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education at the fund, function and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control.

Any revisions that alter the total of any fund appropriations or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education. The Board of Education may pass supplemental fund appropriations so long as the total appropriation by fund does not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of the amendments were significant. The budget figures which appear in the statements of budgetary comparison represent final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions.

Encumbrances:

As part of the formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent year-expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

Lapsing of Appropriations:

At the close of each year the unencumbered balance of each appropriation reverts to the respective fund from which was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

Richmond Heights Local School District
Cuyahoga County, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

D. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the School District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet.

The School District has invested funds in STAROhio (State Treasury Asset Reserve of Ohio) during fiscal year 2002. STAROhio is an investment pool managed by the State Treasurer's Office which allow governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2002. Interest was also earned from the investment of the proceeds of a lease.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during the fiscal year amounted to \$65,338, which includes \$52,159 assigned from other School District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they were purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

E. Inventory

Inventories of proprietary funds are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis. Inventories of proprietary funds consist of donated and purchased food, and are expensed when used.

F. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the respective fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for the additions and retirements during the year. Donated fixed assets are recorded at their fair market value as

Richmond Heights Local School District
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(Continued)

of the date received. The School District maintains a capitalization threshold of five hundred dollars. The School District does not possess any infrastructure.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend an asset's life are not capitalized. Improvements are capitalized. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

Assets in the general fixed asset account group are not depreciated. Depreciation of furniture and equipment in the proprietary fund type is computed using the straight-line method over an estimated useful life of twenty years.

G. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributed to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for employees after ten years of current service with the School District.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, compensated absences are expensed and reported as a fund liability.

H. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as fund obligations regardless of whether they will be liquidated with current resources. However, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term obligations group to the extent that they will not be paid with current expendable available financial resources. In general, amounts paid more than

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(Continued)

sixty days after year end are considered not to have been paid with current available resources. Capital leases are recognized as a liability of the general long-term obligations account group until due.

Under Ohio law, a debt retirement fund may be created and used for the payment of tax and revenue anticipation notes. Generally accepted accounting principles require the reporting of the liability in the funds that received the proceeds. To comply with GAAP reporting requirements, the School District's debt service fund has been allocated to the appropriate fund. Debt service resources used to pay both principal and interest have also been allocated accordingly.

I. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing funds and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

J. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation, in future periods. Fund equity reserves have been established for encumbrances, property taxes, textbooks, bus purchases and budget stabilization.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for textbooks represents money set-aside by statute to buy books. The reserve for budget stabilization represents workers' compensation refund monies from the state.

K. Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. Restricted assets in the General Fund

Richmond Heights Local School District
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(Continued)

include amounts required by State statute to be set aside to create a reserve for unspent workers' compensation refund monies. See Note 20 for additional information regarding set-asides.

L. Contributed Capital

Contributed capital in the proprietary funds represents resources provided prior to 2001, from other funds that are not subject to repayment. Capital contributions received during 2002 are reported as revenue on the operating statement and included in the retained earnings.

M Estimates

The preparation of the 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 the notes. Actual results may differ from those estimates.

N. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in aggregation of this data.

Note 3 Restatement of Fund Balance

The general fund fund balance at June 30, 2001 was restated by (\$25,000) from \$1,445,657 to \$1,420,657 due to an overstatement of interfund receivable.

The capital projects building fund balance at June 30, 2001 was restated by \$175,000 from (\$172,993) to \$2,007. This was due to a \$25,000 overstatement of interfund payable and a \$150,000 overstatement of notes payable.

The general long-term obligations account group at June 30, 2001 was restated by \$150,000 due to an understatement of notes payable.

Note 4 Accountability and Compliance

A. Legal Compliance

Contrary to Section 5705.41B, Ohio Revised Code, the following accounts had expenditures/expenses plus encumbrances in excess of appropriations:

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 (Continued)

Fund/Function	Appropriations	Expenditures Plus Encumbrances	Excess
General Fund			
Current			
Instruction			
Special	\$662,658	\$776,497	\$113,839
Vocational	120,000	138,457	18,457
Support Services			
Administration	729,749	755,765	26,016
Fiscal	332,204	353,113	20,909
Non-Instructional Services	0	1,573	1,573
Capital Project Fund			
Data Communication			
Current			
Support Services			
Central	9,000	19,500	10,500
Enterprise Funds			
Food Services			
Fringe Benefits	2,720	5,632	2,912
Purchased Services	108,000	131,907	23,907
Materials and Supplies	125,000	128,113	3,113
Summer Camp			
Materials and Supplies	3,584	3,729	145
Latchkey			
Benefits	36,250	38,353	2,103

Also, contrary to Ohio Revised Code Section 5705.39, the following funds had final appropriations in excess of estimated revenues and carryover balances:

	Estimated Revenues Plus Carryover Balances	Appropriations	Excess
Special Revenue Funds:			
Special Trust	\$5,784	\$6,934	\$1,150
Auxiliary Services	96,195	98,876	2,681
Drug Free	10,294	11,658	1,364
Title I	121,600	122,757	1,157
Classroom Reduction	28,825	48,338	19,513

In order to avoid these budgetary violations in the future management will have the Board of Education approve an amended appropriation prior to the close of the fiscal year.

Note 5 Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Statement of Revenues,

Richmond Heights Local School District
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 For the Fiscal Year Ended June 30, 2002
 (Continued)

Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual, All Governmental Fund Types and Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual, Proprietary Fund Type is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund types (GAAP basis).
4. Proceeds from and principal payments on tax anticipation notes are on the operating statement (budget basis) rather than on the balance sheet (GAAP basis).
5. The School District repays short-term note debt from the debt service fund (budget basis) as opposed to the fund that received the proceeds (GAAP basis). Debt service fund resources used to pay both principal and interest have been allocated accordingly.

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type:

Excess of Revenues and Other Financing Sources
 Over (Under) Expenditures and Other Financing Uses
 All Governmental Fund Types

	General Fund	Special Revenue Funds	Debt Service	Capital Projects
GAAP basis	\$1,065,826	(\$18,757)	\$0	\$19,168
Net Adjustment for Revenue Accruals	(1,095,458)	(2,859)	0	(20,314)
Proceeds of Notes	0	0	150,000	(100,000)
Transfer for Debt Activity	0	0	59,952	(59,952)
Net Adjustment for Expenditure Accruals	37,337	30,592	0	(369)
Debt Service:				
Principal	0	0	(200,000)	150,000
Interest	0	0	(9,952)	9,952
Adjustments for Encumbrances	(139,831)	(28,050)	0	(22,878)
Budget Basis	<u>(\$132,126)</u>	<u>(\$19,074)</u>	<u>\$0</u>	<u>(\$24,393)</u>

Richmond Heights Local School District
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Net Loss/Excess of Revenues and
 Operating Transfers Under Expenses
 Proprietary Fund Type

	Enterprise
GAAP Basis	(\$49,976)
Net Adjustments for Revenue Accruals	(30,352)
Net Adjustments for Expense Accruals	51,467
Donated Commodities	15,680
Depreciation Expense	800
Adjustment for Encumbrances	(16,487)
Budget Basis	(\$28,868)

Note 6 Deposits and Investments

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

Active monies are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the School District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

Interim deposits are deposits of interim monies. Interim monies are those monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

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

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

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1. United States Treasury Notes, Bills, Bonds, or other obligations or security issued by the United States Treasury or any other obligation guaranteed as to the principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Association. All federal agency securities shall be direct issuances of federal governmental agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the purchase date in an amount not to exceed 25 percent of the interim monies available for investments at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities

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 (Continued)

representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statements 3, "Deposits with Financial Institution, Investments and Reverse Repurchase Agreements."

Deposits: At fiscal year end, the carrying amount of the School District's deposits was \$585,965 and the bank balance was \$805,088. \$100,000 of the bank balance was covered by federal depository insurance. \$705,088 was uninsured and uncollateralized. Although securities serving as collateral were held by the pledging institution in the pledging institutions name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Investments: GASB Statement No. 3 requires investments be categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name.

The School District invests in STAR Ohio, which is not classified by degree of credit risk since it is not evidenced by securities that exist in physical or book entry form.

STAROhio	<u>Fair</u> <u>Value</u> <u>\$1,157,710</u>
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The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, a reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$1,743,675	\$0
Investments which are part of a Cash Management Pool:		
Star Ohio	(1,157,710)	1,157,710
GASB Statement 3	\$585,965	\$1,157,710

Richmond Heights Local School District
 Cuyahoga County, Ohio
 Notes to the General Purpose Financial Statements
 For the Fiscal Year Ended June 30, 2002
 (Continued)

Note 7 Property Taxes

Property taxes are levied and assessed on a calendar year basis while the School District fiscal year runs from July through June. First half tax collections are received by the School District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2002 for real and public utility property taxes represents collections of calendar 2001 taxes. Property tax payments received during calendar 2002 for tangible personal property (other than public utility property) are for calendar 2002 taxes.

2002 real property taxes are levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2002 public utility property taxes became a lien December 31, 2001, are levied after April 1, 2002, and are collected in 2003 with real property taxes.

2002 tangible personal property taxes are levied after April 1, 2001, on the value as of December 31, 2001. Collections are made in 2002. Tangible personal property assessments are twenty-five percent of true value.

The assessed values upon which fiscal year 2002 taxes were collected are:

	2001 Second - Half Collections		2002 First - Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$151,460,160	69.46%	\$155,122,580	69.49%
Public Utility Personal	49,150,280	22.54	50,150,500	22.46
Tangible Personal Property	4,374,570	2.00	3,657,980	1.64
	13,064,139	6.00	14,318,839	6.41
Total	<u>\$218,049,149</u>	<u>100.00%</u>	<u>\$223,249,899</u>	<u>100.00%</u>

Tax Rate per \$1,000 of Assessed Valuation	\$73.10	\$73.10
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Richmond Heights Local School District
Cuyahoga County, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. This year, the June 2002 tangible personal property tax settlement was not received until July of 2002.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including Richmond Heights Local School District. The County Auditor periodically remits to the School District its portion of taxes. Second-half real property tax payments collected by the County by June 30, 2002, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 2002 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 were levied to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue.

The amount available as an advance at June 30, 2002, was \$1,664,871. \$1,636,626 was available to the general fund and \$28,245 to the permanent improvement fund.

Note 8 Receivables

Receivables at June 30, 2002, consisted of taxes, accounts (rent and tuition) and intergovernmental grants. All receivables are considered collectible in full. The Food Service enterprise fund had an intergovernmental receivable of \$6,639.

Note 9 Fixed Assets

A summary of the enterprise funds' fixed assets at June 30, 2002, follows:

Furniture and Equipment	\$34,083
less: Accumulated Depreciation	<u>(20,677)</u>
Net Fixed Assets	<u><u>\$13,406</u></u>

Richmond Heights Local School District
 Cuyahoga County, Ohio
 Notes to the General Purpose Financial Statements
 For the Fiscal Year Ended June 30, 2002
 (Continued)

A summary of the changes in general fixed assets during fiscal year 2002 follows:

	Balance June 30, 2001	Additions	Removals	Balance June 30, 2002
Land and Improvements	\$302,659	\$8,555	\$0	\$311,214
Buildings	3,694,088	21,084	0	3,715,172
Furniture and Equipment	1,316,375	76,957	0	1,393,332
Vehicles	1,066,068	71,431	0	1,137,499
Textbooks and Library Books	671,649	0	0	671,649
Total	<u>\$7,050,839</u>	<u>\$178,027</u>	<u>\$0</u>	<u>\$7,228,866</u>

Note 10 Risk Management

The School District 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 disaster. For fiscal year 2002, the School District contracted with Indiana Insurance for property and general liability insurance. There is a \$1,000 deductible with a one hundred percent blanket coverage. Indiana Insurance covers the boiler and machinery with a \$1,000 deductible and a \$30,000,000 limit.

Professional liability is protected by Great American Insurance Company with a \$1,000,000 single occurrence limit and \$5,000,000 aggregate and \$1,000 deductible. Vehicles are covered by Coregis Insurance and hold a \$250 deductible for comprehensive and a \$250 deductible for collision. Automobile liability has a \$2,000,000 combined single limit of liability.

Settled claims have not exceeded this commercial coverage in the last three years. There has not been a significant change in coverage from the prior year.

For the fiscal year 2002, the School District participated in the Ohio Schools Boards Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experiences of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared with the overall saving of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts

Richmond Heights Local School District
Cuyahoga County, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial service to the GRP.

Note 11 Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension system. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contributions is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2001, 4.2 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$75,124, \$58,864 and \$73,779 respectively; 46.62 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$40,101 representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides basic retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone 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.

Richmond Heights Local School District
Cuyahoga County, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

For the fiscal year ended June 30, 2002, plan members are required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. 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. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$336,747, \$386,000, and \$212,682 respectively; 77.12 percent has been contributed for fiscal year 2002 and 100 percent for the fiscal years 2001 and 2000. \$77,048 representing the unpaid contribution for fiscal year 2002 is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement/State Teachers Retirement System. As of June 30, 2001, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 12 Postemployment Benefits

The School District 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.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$175,748 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

Richmond Heights Local School District
Cuyahoga County, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent from fiscal year 2001. 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 2002, the minimum pay was established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$132,263.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Note 13 Other Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn zero to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers earn no vacation time. Teachers, administrators and classified employees earn sick leave at a rate of one and one-fourth days per month. There is no limitation placed upon the number of sick leave that can be accumulated. Upon retirement, payment is made to employees ranging from 6.25 percent to 25 percent of up to a maximum of 220 accumulated sick days.

Richmond Heights Local School District
 Cuyahoga County, Ohio
 Notes to the General Purpose Financial Statements
 For the Fiscal Year Ended June 30, 2002
 (Continued)

B. Health Care Benefits

The School District provides life insurance and accidental death and dismemberment insurance to all employees through Medical Life Insurance Company sponsored by Medical Mutual of Ohio, in the amount of \$35,000 for all certified, classified and union exempt employees, and \$200,000 for the superintendent, treasurer, and principals.

The School District provides employee medical, surgical, prescription drug, dental and vision coverage through Medical Mutual of Ohio. These plans provide medical/surgical plans with deductibles ranging from zero to \$200 single and zero to \$400 family. The dental benefits are subject to a \$25 single and \$50 family deductibles, co-pays and maximum benefits as are outlined in the plan. The vision plan has no deductible with 100 percent of exams covered, up to \$85, a portion of a pair of glasses per year and a portion of the cost of contact lenses. The School District pays various amounts for coverage based on the hours worked by each employee, with certified staff members paying \$25 a month and classified staff paying \$2 a month for single coverage and \$4 a month for family coverage.

C. Special Termination Benefit Payable – ERIP PLAN

The Richmond Heights Board of Education approved an Early Retirement Incentive program in fiscal year 2001 for classified and certified employees. The Retirement Incentive is based upon first-time retirement eligibility under STRS and SERS and notification of retirement in writing by March 30, 2002. The retirement incentive is paid in two installments by June of each year following the effective retirement date.

Note 14 Note Debt

During fiscal year 2002, the School District issued a \$150,000 tax anticipation note for the purpose of rolling over energy conservation notes first issued by the School District in 1993. A portion (as described in Note 23) of the note will be repaid August 22, 2002, with tax revenue. The full faith and credit of the School District backs this note. The note liability is reflected in the permanent improvement capital projects fund.

The School District's note activity, including amounts outstanding and interest rates follow:

	Balance 6/30/01	Additions	Deletions	Balance 6/30/02
Energy Conservation – 2.93 %	\$50,000	\$50,000	\$50,000	\$50,000

Richmond Heights Local School District
 Cuyahoga County, Ohio
 Notes to the General Purpose Financial Statements
 For the Fiscal Year Ended June 30, 2002
 (Continued)

Note 15 Long-Term Obligations

Changes in long-term obligations of the School District during fiscal year 2002, were as follows:

	Principal Balance 6/30/01	Additions	Deductions	Principal Outstanding 6/30/02
Compensated Absences	\$440,278	\$0	\$22,131	\$418,147
Energy Conservation – 2.93%	150,000	100,000	150,000	100,000
Capital Leases	366,895	0	32,438	334,457
Pension Obligation	87,770	68,139	87,770	68,139
Early Retirement Incentive	62,858	5,200	26,123	41,935
Total General Long-Term Obligations	<u>\$1,107,801</u>	<u>\$173,339</u>	<u>\$318,462</u>	<u>\$962,678</u>

Compensated absences, pension obligations and the early retirement incentives will be paid by the fund from which the employee is paid. Capital leases will be paid by the General Fund. The School District's overall debt margin was \$19,942,491 with an unvoted debt margin of \$223,250 at June 30, 2002.

Note 16 Contingencies

A. *Grants*

The School District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2002.

Note 17 Jointly Governed Organizations

Lakeshore Northeast Ohio Computer Association - The Lakeshore Northeast Ohio Computer Association (LNOCA) is a jointly governed organization among sixteen (16) public school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of these schools supports LNOCA based upon a per pupil charge dependent upon the software package utilized. The LNOCA assembly consists of a superintendent or designated representative from each participating school district and a representative from the fiscal agent. LNOCA is governed by a Board of Directors chosen from the general

Richmond Heights Local School District
Cuyahoga County, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

membership of the LNOCA Assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each of the operating committees, and at least one Assembly member from each county in which participating school districts are located. The degree of control exercised by any participating school district is limited to its representation on the board used. Financial information can be obtained by contacting LNOCA, 7800 Wall Street, Valley View, Ohio 44125.

Ohio Schools Council Association - The Ohio Schools Council Association (Council) is a jointly governed organization among ninety-one school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council also sponsors an insurance purchasing pool in which the School District participates. The Council's Board consists of seven superintendents of the participating districts whose terms rotate every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2002, the School District paid \$750 to the Council for the annual participation fee. Financial information can be obtained by contacting Albert G. Vasek, the Executive Secretary/Treasurer of the Ohio Schools Council at 6133 Rockside Road, suite 10, Independence, Ohio 44131.

The School District also participates in the Council's electric purchase program, which was implemented during fiscal year 1998. This program allows school districts to purchase electricity at reduced rates, if the school districts will commit to participating for an eight-year period. The participants make monthly payments based in estimated usage. Each June these estimated payments are compared to their actual usage for the year and any necessary adjustments are made.

Energy Acquisition Corp., a non-profit corporation with a self-appointing board, issued \$119,140,000 in debt to purchase eight years of electricity from Cleveland Electric Illuminating (CEI) for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the school district is required to repay the savings to CEI and CEI will refund the remaining prepayment related to that participant to Energy Acquisition Corp.

The School District also participates in the Council's prepaid natural gas program, which was implemented during fiscal year 2000. This program allows school districts to purchase natural gas at reduced rates, if the school district will commit to participating for a twelve-year period. The participants make monthly payments based in estimated usage. Each month these estimated payments are compared to their actual usage for the year and any necessary adjustments are made.

Richmond Heights Local School District
 Cuyahoga County, Ohio
 Notes to the General Purpose Financial Statements
 For the Fiscal Year Ended June 30, 2002
 (Continued)

The City of Hamilton, a municipal corporation and political subdivision duly organized and existing under the laws of the State of Ohio, issued \$89,450,000 in debt to purchase twelve years of natural gas from CMS Energy Corporation for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is entitled to recover the amount, if any, of its contributions to the operating fund, which are not encumbered for its share of program administrative costs.

Note 18 Insurance Purchasing Pool

Ohio School Boards Association Workers' Compensation Group Rating Plan - The School District participates in the Ohio School Boards Association Workers' Compensation Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three-member board of directors consisting of the President, President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designees, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Note 19 Segment Information for Enterprise Funds

The School District maintains three enterprise funds to account for the operations of Food Service, Summer Camp and Latchkey. The table below reflects in a summarized format the more significant financial data relating to the enterprise funds of the School District as of and for the fiscal year ended June 30, 2002.

	Food Service	Summer Camp	Latchkey	Total Enterprise Funds
Operating Revenues	\$196,816	\$64,623	\$114,923	\$376,362
Depreciation	730	0	70	800
Operating Income (Loss)	(77,166)	(6,371)	(43,596)	(127,133)
Donated Commodities	15,680	0	0	15,680
Operating Grants	47,224	0	0	47,224
Operating Transfers In	14,253	0	0	14,253
Net Income (Loss)	(9)	(6,371)	(43,596)	(49,976)
Net Working Capital	8,433	66,435	42,705	117,573
Total Assets	28,754	75,769	82,368	186,891
Long-Term Compensated Absences Payable	0	0	3,700	3,700
Total Equity	21,494	66,435	39,350	127,279
Encumbrances June 30, 2002	\$6,000	\$10,218	\$269	\$16,487

Note 20 Set-Aside Requirements

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of

Richmond Heights Local School District
 Cuyahoga County, Ohio
 Notes to the General Purpose Financial Statements
 For the Fiscal Year Ended June 30, 2002
 (Continued)

textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements, Amounts not sent by the end of the of fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years. In prior years, the School district was also required to set aside money for budget stabilization. At June 30, 2002 only the unspent portion of workers' compensation refunds continues to be set aside.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks, capital improvements and budget stabilization. Disclosure of this information is required by State statute.

	<u>Textbooks</u>	<u>Capital Improvement</u>	<u>Budget Reserve</u>
Set-aside Reserve Balance as of June 30, 2001	\$89,080	\$0	\$40,252
Current Year Set-aside Requirement	121,954	121,954	0
Offsets During the Fiscal Year	0	(142,705)	0
Qualifying Disbursements	<u>(206,934)</u>	<u>(132,100)</u>	<u>0</u>
Set-aside Balance Carried Forward To Future Fiscal Years	<u>\$4,100</u>	<u>(\$152,851)</u>	<u>\$40,252</u>
Set-aside Reserve Balance As of June 30, 2002	<u>\$4,100</u>	<u>\$0</u>	<u>\$40,252</u>

The School District had qualifying disbursements and offsets during the fiscal year that reduced the capital improvements set-aside amounts below zero. This extra amount may not be used to reduce the set-aside requirements in future fiscal years. The total reserve balance for the three set-asides at the end of the fiscal year was \$44,352.

Note 21 Capitalized Leases – Lessee Disclosure

The School District has entered into a capital lease for the construction of a bus service building. As part of the agreement, Fifth Third Banks, as lessor, provided \$400,000 for the construction. General fixed assets being constructed with this lease have been capitalized in the general fixed assets account group in the amount of \$400,000 for building as of June 30, 2001. This liability was recorded in the general long-term obligations account group. Principal payments in fiscal year 2002 total \$32,438 in the General Fund.

The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases," which defines a

Richmond Heights Local School District
 Cuyahoga County, Ohio
 Notes to the General Purpose Financial Statements
 For the Fiscal Year Ended June 30, 2002
 (Continued)

capital lease generally as one which transfers benefits and risks of ownership to the lessee.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2002.

<u>Fiscal Year Ending June 30</u>	<u>Totals</u>
2003	\$52,689
2004	52,689
2005	52,689
2006	52,689
2007	52,689
2008-2010	<u>157,738</u>
Total	421,183
Less: Amount Representing Interest	<u>(86,726)</u>
Present Value of Net Minimum Lease Payments	<u><u>\$334,457</u></u>

Note 22 State School Funding Decision

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

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

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

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November, 2001, the Court granted request for reconsideration, but also

Richmond Heights Local School District
Cuyahoga County, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

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.

Note 23 Subsequent Event

On August 22, 2002, the School District issued \$100,000 in notes to refinance the energy conservation note. The new notes have an interest rate of 2.34 percent and mature on August 21, 2003.

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**STATE OF OHIO
OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

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

Richmond Heights Local School District
Cuyahoga County
447 Richmond Road
Richmond Heights, Ohio 44143

To the Board of Education:

We have audited the financial statements of the Richmond Heights Local School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated December 6, 2002, wherein we noted the District adjusted beginning fund balance for the capital projects building fund. 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 District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated December 6, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 District in a separate letter dated December 6, 2002.

Richmond Heights Local School District
Cuyahoga County
Report on Compliance and on Internal Control
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This report is intended for the information and use of the audit committee, management and the Board of Education, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

Jim Petro
Auditor of State

December 6, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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RICHMOND HEIGHTS LOCAL 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
JANUARY 9, 2003**