



**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2004



**Auditor of State
Betty Montgomery**

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
CUYAHOGA COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the Richmond Heights Local School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the Richmond Heights Local School District, Cuyahoga County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described more fully in Note 3, during the year ended June 30, 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

October 18, 2005

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
MANAGEMENT' S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004 (unaudited)**

The discussion and analysis of the Richmond Heights Local School District' s financial performance provides an overall review of the District' s financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District' s financial performance as a whole; readers should also review the notes to the basic financial statements as well as the statements themselves to enhance their understanding of the District' s financial performance.

Financial Highlights

Key financial highlights for fiscal year 2004 are as follows (figures rounded):

- In total, net assets increased \$642 thousand, a 45.2 percent increase over fiscal year 2003. Net assets of governmental activities increased \$672 thousand which represents a 51.3 percent increase from fiscal year 2003. Net assets of business-type activities decreased \$30 thousand from \$110 thousand to \$80 thousand, a 27.3 percent decrease over fiscal year 2003.
- General revenues accounted for \$11.34 million in revenue or 90.5 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1.19 million or 9.5 percent of total revenues of \$12.53 million.
- The increase in net assets of governmental activities was primarily the result of the first one-half fiscal year' s collection of the 5.5 mill additional operating levy approved in May of 2003. The first full fiscal year of collection will be 2005.
- The District had \$11.41 million in expenses related to governmental activities; only \$0.74 million of these expenses were offset by program specific charges for services, grants and contributions. General revenues related to governmental activities of \$11.34 million were adequate to provide for these programs.
- The District recognizes one major governmental fund: the general fund. In terms of dollars received and dollars spent, the general fund is significantly larger than all the other funds of the District combined. The general fund had \$11.43 million in revenues and \$10.71 million in expenses. The general fund' s balance increased \$0.57 million in 2004.
- The District' s business activities – made up of food service, summer camp, latchkey program and summer schools – had revenues of \$444 thousand and expenses of \$474 thousand. Net assets of business activities declined by \$30 thousand, or 27.3% in 2003.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
MANAGEMENT' S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004 (unaudited)**

Using This Basic Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are presented following the requirements of Governmental Accounting Standards Board Statement (" GASB") No. 34, and are organized so the reader can understand the Richmond Heights Local School District as a financial whole, an entire operating entity. The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances.

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

The view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially in 2004?". The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the District as a whole has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the *Statement of Net Assets* and the *Statement of Activities*, the District is divided into two distinct kinds of activities:

1.) Governmental Activities -- Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

2.) Business-type Activities -- These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The District has six programs reported as business-type activity including food service.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
MANAGEMENT' S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004 (unaudited)**

Reporting the District's Funds

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other financial assets that can readily be converted to cash. The governmental funds' statements provide a detailed short-term view of the District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are financial resources that can be spent in the near future to finance educational programs, and what the change in those resources has been from the previous fiscal year. The relationship (or differences) between governmental activities as reported in the *Statement of Net Assets* and the *Statement of Activities* and the modified accrual statements for the governmental funds is reconciled in these financial statements.

Proprietary Funds

Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match the information provided in statements for the District as a whole.

The District as a Whole

Recall that the *Statement of Net Assets* provides the perspective of the District as a whole, showing assets, liabilities and the difference between them (net assets). Table 1 provides a summary of the District's net assets for fiscal year 2004 compared to fiscal year 2003:

Table 1
Net Assets
(In Thousands)

	Governmental Activities		Business Activities			Total
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Assets						
Current and Other Capital	\$11,510 <u>1,157</u>	\$10,115 <u>1,260</u>	\$102 <u>15</u>	\$155 <u>17</u>	\$11,612 <u>1,172</u>	\$10,270 <u>1,277</u>
Total	<u>\$12,667</u>	<u>\$11,375</u>	<u>\$117</u>	<u>\$172</u>	<u>\$12,784</u>	<u>\$11,547</u>
Liabilities						
Long-term	\$ 795	\$ 870	\$ 5	\$ -	\$ 800	\$ 870
Other	<u>9,889</u>	<u>9,194</u>	<u>32</u>	<u>62</u>	<u>9,921</u>	<u>9,256</u>
Total	<u>10,684</u>	<u>10,064</u>	<u>37</u>	<u>62</u>	<u>10,721</u>	<u>10,126</u>
Net Assets	<u>\$1,983</u>	<u>\$1,311</u>	<u>\$ 80</u>	<u>\$110</u>	<u>\$2,063</u>	<u>\$1,421</u>

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
MANAGEMENT' S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004 (unaudited)**

The increase in net assets from fiscal year 2003 to fiscal year 2004 is primarily due to an increase in tax revenues. See further discussion on Governmental and Business-type activities on pages 7 and 8.

Table 2 shows changes in net assets for fiscal year 2004. Since this is the first year the District has prepared financial statements following GASB Statement 34, revenue and expense comparisons for fiscal year 2003 are not available.

Table 2
Changes in Net Assets
(In Thousands)

	Gov. Activities	Business Activities	Total
Revenues			
Program Revenues			
Charges for Services	\$381	\$354	\$735
Operating Grants	352	91	443
Capital Grants	7	--	7
General Revenue			
Property Taxes	8,844	--	8,844
Grants & Entitlements	2,326	--	2,326
Other	173	--	173
Total Revenues	<u>12,083</u>	<u>445</u>	<u>12,528</u>
Program Expenses			
Instruction			
Regular	4,846	--	4,846
Special	1,124	--	1,124
Vocational	172	--	172
Support Services:			
Pupil	741	--	741
Instructional Staff	260	--	260
Board of Education	141	--	141
Administration	1,072	--	1,072
Fiscal	400	--	400
Operation and Maintenance of Plant	1,136	--	1,136
Pupil Transportation	885	--	885
Central	100	--	100
Operation of Non-Instructional Services	2	--	2
Extracurricular Activities	430	--	430
Debt Service:			
Interest and Fiscal Charges	102	--	102
Food Service	--	296	296
Summer School	--	58	58
Adult and Community Education	--	<u>121</u>	<u>121</u>
Total Expenses	<u>11,411</u>	<u>475</u>	<u>11,886</u>
Change in Net Assets	672	(30)	642
Net Assets -- Beginning of Year (restated)	<u>1,311</u>	<u>110</u>	<u>1,421</u>
Net Assets -- End of Year	<u><u>\$1,983</u></u>	<u><u>\$ 80</u></u>	<u><u>\$2,063</u></u>

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
MANAGEMENT' S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004 (unaudited)**

Governmental Activities

Over the past several fiscal years, the District has remained in a stable financial position. In May of 2003 voters approved a 5.5 mill continuing operating levy. Additional operating revenue, therefore, came to the District for the final six months (January through June) of fiscal year 2004. Fiscal year 2005 will see the first full year's collection on the increased millage.

The nature of property taxes in Ohio creates the need to routinely seek voter approval for increases in operating funds. The overall revenue generated by a levy will not increase solely as a result of inflation. As an example, the District would receive from a home valued at \$100,000 and taxed at 1.0 mill, \$35.00 annually. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills, and the District would still receive \$35.00 annually.

The District is heavily dependent on property taxes and is hampered by a lack of revenue growth. Thus, the District must regularly return to the voters to maintain a constant level of service. Property taxes made up 73.2 percent of revenues for governmental activities in the Richmond Heights Local School District for fiscal year 2004.

Instruction accounts for 53.8 percent of governmental program expenses. The *Statement of Activities* shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. Comparisons to 2003 have not been made since those data are not available.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
MANAGEMENT' S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004 (unaudited)**

Table 3
Net Cost of Governmental Activities
(In Thousands)

	Total Cost of Services in <u>2004</u>	Net Cost of Services in <u>2004</u>
Instruction		
Regular	\$4,846	\$4,488
Special	1,124	994
Vocational	172	172
Support Services:		
Pupil	741	705
Instructional Staff	260	213
Board of Education	141	141
Administration	1,072	1,061
Fiscal	400	400
Operation and Maintenance of Plant	1,136	1,134
Pupil Transportation	885	877
Central	100	94
Operations on Non-instructional Services	2	2
Extracurricular Activities	430	287
Debt Service:		
Interest and Fiscal Charges	<u>102</u>	<u>102</u>
Total Expenses	<u>\$11,411</u>	<u>\$10,670</u>

The dependence on tax revenues and state subsidies for governmental activities is apparent. 92.1 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 93.5 percent.

Business-type Activities

The most significant business-type activity of the District is the food service operation. The program had revenues of \$284 thousand and expenses of \$296 thousand in fiscal year 2004 and a net change in assets of \$12 thousand. The food service operated at a deficit after operating revenues and state and federal grants. This deficit will be offset by a transfer from the general operating fund of the District. The District also operates a latchkey program which has revenues of \$92 thousand and expenses of \$121 thousand, and a net change in assets of (\$29 thousand).

The General Fund

Information about the District's general fund starts on page 16. This fund is accounted for using the modified accrual basis of accounting. (See Notes 2 and 3 for discussions of significant accounting methods and policies.) As previously discussed, the District will remain stable in 2005,

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
MANAGEMENT' S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004 (unaudited)**

but will be unable to maintain program as well as meet inflationary cost increases in the long-term without additional tax levies.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2004, the District amended its general fund budget several times, but no change was significant. The District uses a modified site-based budget technique which is designed to tightly control site budgets while providing flexibility for site management.

The District prepares and monitors a detailed cashflow plan for the general fund annually. Actual cashflow is compared to monthly and year-to-date estimates, and a monthly report is prepared for top management and the Board of Education.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the District had, at cost, \$7,789 thousand invested in land, buildings, vehicles, furniture and equipment of which \$7,711 thousand was in governmental activities, and \$78 thousand was in business-type activities. Total investment carries an accumulated depreciation of \$6,617 thousand of which \$6,554 thousand was in governmental activities and \$63 thousand was in business-type activities. Table 4 shows fiscal year 2004 balances compared to fiscal year 2003.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
MANAGEMENT' S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004 (unaudited)**

Table 4
Capital Assets & Accumulated Depreciation at June 30, 2004
(In Thousands)

	<u>2004</u>	<u>2003</u>
Governmental Activities		
Land and Improvements	\$311	\$311
Buildings and Improvements	6,244	6,244
Furniture & Equipment	433	412
Vehicles	<u>723</u>	<u>716</u>
Totals at Historical Cost	<u>7,711</u>	<u>7,683</u>
Less Accumulated Depreciation	<u>(6,554)</u>	<u>(6,422)</u>
Governmental Activities		
Capital Assets, Net	<u>\$1,157</u>	<u>\$1,261</u>
Business Type Activities		
Furniture and Equipment	\$78	\$78
Less Accumulated Depreciation	<u>(63)</u>	<u>(61)</u>
Business-type Activities		
Capital Assets, Net	<u>\$15</u>	<u>\$17</u>

Because the government-wide *Statement of Net Assets* reports all government assets, a significant portion of the net assets reported there typically reflect a district' s investment in capital assets. To draw the financial statement user' s attention to this important information, accounting principals generally accepted in the United States of America (“ GAAP”) require the amount of net assets invested in capital assets to be reported as a separate category of net assets. The specific amount reported for governmental activities is calculated as shown in Table 5. The “ related debt” is the total of the principal on obligations. Table 4 – and footnote 9 Capital Assets shows that the District' s assets are substantially depreciated and that annual depreciation expense in fiscal year 2004 was more than five times as great as additions to capital assets. Repair and replacement of capital assets will be a challenge for the District in the future.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
MANAGEMENT' S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004 (unaudited)**

Table 5
Net Governmental Assets Invested in Capital Assets, Net of Related Debt
(In Thousands)

Governmental Capital Assets	\$7,711
Less: Accumulated Depreciation	(6,554)
Less: Outstanding Principal of Related Debt	<u>(264)</u>
Net Assets Invested in Capital Assets, Net of Related Debt	<u>\$893</u>

Debt

At June 30, 2004, the District had no bonded debt outstanding. The District had a balance of \$264 thousand remaining on the lease purchase of a transportation facility.

For the Future

The Richmond Heights Local School District is stable. As the preceding information shows, the District is heavily dependent on property taxes. Property tax revenue does not increase solely as a result of inflation. Therefore, in the long-term, the current program and staffing levels will be dependent on increased funding to meet inflation.

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State' s school funding plan. The decision reaffirmed earlier decisions that Ohio' s current school-funding decision is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed " ...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its operations.

The Richmond Heights Local School District does not anticipate any meaningful growth in revenue until a new tax levy is approved. The Board of Education and the administration of the District must maintain careful financial planning and prudent fiscal management in order to preserve the financial stability of the District.

Contacting the School District' s Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District' s finances and to show the District' s accountability for the money it receives. If you have questions about this report or need additional financial information, contact J. K. Byrne, Treasurer of Richmond Heights Local School District, 475 Richmond Road 44143, or e-mail at jay.byrne@lnoca.org.

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Richmond Heights Local School District
Statement of Net Assets
June 30, 2004

	Governmental Activities	Business-type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,169,648	\$170,371	\$1,340,019
Receivables:			
Taxes - Current	9,269,168	-	9,269,168
Taxes - Delinquent	889,566	-	889,566
Accounts	6,338	-	6,338
Intergovernmental	95,398	9,552	104,950
Internal Balances	80,000	(80,000)	-
Materials and Supplies Inventory	-	1,919	1,919
Nondepreciable Capital Assets	311,214	-	311,214
Depreciable Capital Assets, Net	846,044	15,425	861,469
Total Assets	12,667,376	117,267	12,784,643
Liabilities			
Accounts Payable	104,121	11,652	115,773
Accrued Wages and Benefits	1,013,163	20,400	1,033,563
Due Other Governments	39,613	-	39,613
Deferred Revenue - Taxes	8,731,630	-	8,731,630
Long Term Liabilities:			
Due Within One Year	128,961	-	128,961
Due Within More Than One Year	666,109	5,009	671,118
Total Liabilities	10,683,597	37,061	10,720,658
Net Assets			
Invested in Capital Assets, Net of Related Debt	893,364	15,425	908,789
Restricted for:			
Other Purposes	129,447	-	129,447
Unrestricted (Deficit)	960,968	64,781	1,025,749
Total Net Assets	\$1,983,779	\$80,206	\$2,063,985

See Accompanying Notes to the Basic Financial Statements

Richmond Heights Local School District

Statement of Activities

For the Fiscal Year Ended June 30, 2004

		Program Revenues		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
Instruction				
Regular	\$4,846,280	\$238,193	\$119,916	\$ -
Special	1,123,738	-	129,670	-
Vocational	171,864	-	-	-
Support Services:				
Pupil	741,364	-	36,618	-
Instructional Staff	260,142	-	46,985	-
Board of Education	141,067	-	-	-
Administration	1,071,905	-	10,543	-
Fiscal	399,879	-	-	-
Business	169	-	-	-
Operation and Maintenance of Plant	1,135,119	-	1,110	-
Pupil Transportation	885,313	-	1,668	7,034
Central	99,495	-	5,000	-
Operation of Non-Instructional Services	2,000	-	-	-
Extracurricular Activities	429,959	142,979	1	-
Interest and Fiscal Charges	102,334	-	-	-
	<u>11,410,628</u>	<u>381,172</u>	<u>351,511</u>	<u>7,034</u>
Business-type Activities				
Food Service	295,714	192,932	90,573	-
Uniform School Supplies	-	423	-	-
Summer Camp	57,644	66,736	-	-
Latchkey	121,079	92,044	-	-
Elementary Summer School	-	1,050	-	-
Middle Summer School	-	600	-	-
	<u>474,437</u>	<u>353,785</u>	<u>90,573</u>	<u>-</u>
	<u>\$11,885,065</u>	<u>\$734,957</u>	<u>\$442,084</u>	<u>\$7,034</u>

General Revenues

Property Taxes Levied for:
 General Purposes
 Capital Improvements
Grants and Entitlements not Restricted to Specific Programs
Payment in Lieu of Taxes
Investment Earnings
Gain on Sale of Capital Assets
Miscellaneous

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning of Year - Restated

Net Assets - End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
(\$4,488,171)	\$ -	(\$4,488,171)
(994,068)	-	(994,068)
(171,864)	-	(171,864)
(704,746)	-	(704,746)
(213,157)	-	(213,157)
(141,067)	-	(141,067)
(1,061,362)	-	(1,061,362)
(399,879)	-	(399,879)
(169)	-	(169)
(1,134,009)	-	(1,134,009)
(876,611)	-	(876,611)
(94,495)	-	(94,495)
(2,000)	-	(2,000)
(286,979)	-	(286,979)
(102,334)	-	(102,334)
<u>(10,670,911)</u>	<u>-</u>	<u>(10,670,911)</u>
-	(12,209)	(12,209)
-	423	423
-	9,092	9,092
-	(29,035)	(29,035)
-	1,050	1,050
-	600	600
<u>-</u>	<u>(30,079)</u>	<u>(30,079)</u>
<u>(10,670,911)</u>	<u>(30,079)</u>	<u>(10,700,990)</u>
8,707,604	-	8,707,604
137,052	-	137,052
2,326,000	-	2,326,000
50,166	-	50,166
20,908	-	20,908
5,703	-	5,703
96,267	-	96,267
<u>11,343,700</u>	<u>-</u>	<u>11,343,700</u>
672,789	(30,079)	642,710
<u>1,310,990</u>	<u>110,285</u>	<u>1,421,275</u>
<u>\$1,983,779</u>	<u>\$80,206</u>	<u>\$2,063,985</u>

Richmond Heights Local School District

Balance Sheet

Governmental Funds

June 30, 2004

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$898,328	\$271,320	\$1,169,648
Receivables:			
Taxes - Current	9,111,707	157,461	9,269,168
Taxes - Delinquent	874,553	15,013	889,566
Accounts	6,338	344	6,682
Intergovernmental	-	95,054	95,054
Interfund Loans	307,100	-	307,100
	<u>\$11,198,026</u>	<u>\$539,192</u>	<u>\$11,737,218</u>
Total Assets			
Liabilities, and Fund Balances			
Liabilities:			
Accounts Payable	\$76,700	\$27,421	\$104,121
Accrued Wages and Benefits	1,012,692	471	1,013,163
Interfund Loans Payable	-	227,100	227,100
Due to Other Governments	39,129	484	39,613
Deferred Revenue - Taxes	8,577,361	154,269	8,731,630
Total Liabilities	<u>9,705,882</u>	<u>409,745</u>	<u>10,115,627</u>
Fund Balances:			
Reserved for Encumbrances	137,833	78,443	216,276
Reserved for Property Tax Advance	1,308,321	17,099	1,325,420
Unreserved - Undesignated			
General Fund	45,990	-	45,990
Special Revenue Funds	-	90,612	90,612
Capital Projects Funds	-	(56,707)	(56,707)
Total Fund Balances	<u>1,492,144</u>	<u>129,447</u>	<u>1,621,591</u>
Total Liabilities and Fund Balances	<u>\$11,198,026</u>	<u>\$539,192</u>	<u>\$11,737,218</u>

See Accompanying Notes to the Basic Financial Statements

**Reconciliation of Total Governmental Fund Balances, Balance Sheet
to Net Assets of Governmental Activities, Statement of Net Assets**

Total Governmental Fund Balances **\$1,621,591**

*Amounts reported for governmental activities in the Statement of
Net Assets are different because:*

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds.

Nondepreciable Capital Assets	311,214
Depreciable Capital Assets, Net	846,044

Long-term liabilities are not due and payable in the
current period, and therefore are not reported in the funds.

Due Within One Year	(128,961)
Due Within More Than One Year	(666,109)

Net Assets of Governmental Activities **\$1,983,779**

Richmond Heights Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$8,757,770	\$137,052	\$8,894,822
Tuition and Fees	238,193	-	238,193
Earnings on Investments	20,862	46	20,908
Intergovernmental	2,319,835	364,709	2,684,544
Extracurricular Activities	3,905	139,075	142,980
Miscellaneous	87,650	14,181	101,831
	11,428,215	655,063	12,083,278
Expenditures			
Current:			
Instruction			
Regular	4,704,239	149,398	4,853,637
Special	1,054,593	69,145	1,123,738
Vocational	171,864	-	171,864
Support Services:			
Pupils	682,936	61,688	744,624
Instructional Staff	218,909	43,653	262,562
Board of Education	141,067	-	141,067
Administration	1,061,366	11,843	1,073,209
Fiscal	399,564	-	399,564
Business	169	-	169
Operation and Maintenance of Plant	1,024,132	1,200	1,025,332
Pupil Transportation	826,728	1,800	828,528
Central	93,675	8,563	102,238
Community Services	-	2,000	2,000
Extracurricular Activities	274,922	154,321	429,243
Capital Outlay	-	73,699	73,699
Debt Service:			
Principal	36,209	100,000	136,209
Interest	16,480	2,333	18,813
	10,706,853	679,643	11,386,496
Excess (Deficiency) of Revenues Over (Under) Expenditures	721,362	(24,580)	696,782
Other Financing Sources (Uses)			
Sale of Assets	5,703	-	5,703
Operating Transfers In	-	152,325	152,325
Operating Transfers Out	(152,325)	-	(152,325)
	(146,622)	152,325	5,703
Net Change in Fund Balances	574,740	127,745	702,485
Fund Balance - Beginning of Year (restated)	917,404	1,702	919,106
Fund Balance - End of Year	\$1,492,144	\$129,447	\$1,621,591

See Accompanying Notes to the Basic Financial Statements

Reconciliation of Net Change in Fund Balances, Statement of Revenues, Expenditures and Changes in Fund Balances to Change in Net Assets, Statement of Activities

Net change in Fund Balances - Total Governmental Funds **\$702,485**

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over the estimated useful lives of the assets as depreciation expense.

Furniture & equipment capitalization	21,818
Vehicle capitalization	6,350
Vehicle depreciation	(81,333)
Furniture & equipment depreciation	(50,288)

The payment of the amount due on an Early Retirement Incentive in the governmental funds report is recorded as an expense. However, in the transaction is shown on the Statement of Net Assets as a reduction in liabilities. 49,620

The payment of the amount due on a Capital Lease in the governmental funds report is recorded as an expense. However, in the transaction is shown on the Statement of Net Assets as a reduction in liabilities. 36,209

Some expenses reported in the Statement of Activities, such as net change in pension obligations do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds). (1,856)

Some expenses reported in the Statement of Activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds). (10,216)

Change in Net Assets of Governmental Activities **\$672,789**

Richmond Heights Local School District
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Budget Basis) - General Fund
For the Fiscal Year Ended June 30, 2004

	General			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Taxes	\$8,080,206	\$8,000,000	\$8,008,012	\$8,012
Tuition	225,000	240,000	240,561	561
Transportation Fees	-	-	728	728
Earnings on Investments	35,000	20,000	20,862	862
Other	170,000	86,400	87,895	1,495
Unrestricted Grants in Aid - State	1,884,692	2,315,000	2,319,835	4,835
Total Revenues	10,394,898	10,661,400	10,677,893	16,493
Expenditures				
Current:				
Instruction:				
Regular	4,603,642	4,607,568	4,599,380	8,188
Special	997,097	1,075,744	1,074,009	1,735
Vocational Education	192,152	192,152	186,740	5,412
Support Services:				
Pupil	587,887	669,641	665,930	3,711
Instructional Staff	201,691	217,459	209,075	8,384
Board of Education	135,056	159,316	150,855	8,461
Administration	1,018,527	1,049,057	1,037,894	11,163
Fiscal	373,799	424,699	409,147	15,552
Business	-	500	169	331
Operation and Maintenance of Plant	1,046,428	1,077,242	1,049,799	27,443
Pupil Transportation	886,974	909,874	891,850	18,024
Central	108,335	108,602	97,104	11,498
Extracurricular Activities	268,048	286,348	281,667	4,681
Total Expenditures	10,419,636	10,778,202	10,653,619	124,583
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	(24,738)	(116,802)	24,274	141,076
Other Financing Sources (Uses)				
Proceeds from Sale of Assets	5,000	4,000	4,000	-
Advances In	123,000	125,000	125,218	218
Operating Transfers Out	(50,000)	(152,334)	(152,325)	9
Advances Out	-	(309,100)	(309,100)	-
Contingencies	-	(3,799)	-	3,799
Total Other Financing Sources (Uses)	78,000	(336,233)	(332,207)	4,026
Net Change in Fund Balance	53,262	(453,035)	(307,933)	145,102
Fund Balance - Beginning of Year	991,728	991,728	991,728	-
Encumbrances - End of Year	-	-	214,533	214,533
Fund Balance - End of Year	\$1,044,990	\$538,693	\$898,328	\$359,635

See Accompanying Notes to the Basic Financial Statements

Richmond Heights Local School District
Statement of Fund Net Assets
Proprietary Funds
June 30, 2004

	<u>Total Enterprise Funds</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$170,371
Receivables:	
Intergovernmental	9,552
Materials and Supplies Inventory	1,919
Total Current Assets	<u>181,842</u>
Capital Assets, Net	<u>15,425</u>
Total Assets	197,267
Liabilities	
Accounts Payable	11,652
Accrued Wages and Benefits	20,400
Interfund Loans Payable	80,000
Total Current Liabilities	<u>112,052</u>
Long-term Liabilities:	
Compensated Absences Payable	<u>5,009</u>
Total Liabilities	117,061
Net Assets	
Invested in Capital Assets	15,425
Unrestricted (Deficit)	<u>64,781</u>
Total Net Assets (Deficit)	<u><u>\$80,206</u></u>

See Accompanying Notes to the Basic Financial Statements

Richmond Heights Local School District
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2004*

	<u>Total Enterprise Funds</u>
Operating Revenues	
Tuition and Fees	\$158,780
Sales	192,932
Charges for Services	2,073
Total Operating Revenues	<u>353,785</u>
Operating Expenses	
Salaries and Wages	99,501
Fringe Benefits	52,201
Purchased Services	163,782
Depreciation	1,794
Materials and Supplies	157,159
Total Operating Expenses	<u>474,437</u>
Operating Income (Loss)	<u>(120,652)</u>
Non-Operating Revenues (Expenses)	
State and Federal Grants	63,233
Other Revenues	27,340
Total Non-Operating Revenues (Expenses)	<u>90,573</u>
Change in Net Assets	(30,079)
Net Assets (Deficit) Beginning of Year	<u>110,285</u>
Net Assets (Deficit) End of Year	<u>\$80,206</u>

See Accompanying Notes to the Basic Financial Statements

Richmond Heights Local School District
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2004

	<u>Total Enterprise Funds</u>
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from Tuition and Fees	\$160,434
Cash Received from Sales	193,371
Cash Payments for Personal Services	(145,190)
Cash Payments for Purchased Services	(203,726)
Cash Payments for Materials and Supplies	(127,438)
Cash Payments for Other Expenses	(5,887)
Net Cash Provided by (Used for) Operating Activities	<u>(128,436)</u>
Cash Flows from Noncapital Financing Activities:	
Cash Received from Grants	53,681
Other Revenues	13,646
Cash Received - Interfund Loans	80,000
Net Cash Provided by (Used For) Noncapital Financing Activities	<u>147,327</u>
Net Increase in Cash and Cash Equivalents	18,892
Cash and Cash Equivalents - Beginning of Year	<u>151,479</u>
Cash and Cash Equivalents - End of Year	<u>\$170,371</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities	
Operating Income (Loss)	<u>(\$120,652)</u>
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:	
Depreciation	1,794
Donated Commodities Used	13,695
Changes in Operating Assets and Liabilities:	
Decrease (Increase) in Receivables	15
Decrease (Increase) in Materials and Supplies Inventory	1,989
Increase (Decrease) in Accounts Payable	(31,793)
Increase (Decrease) in Accrued Wages and Benefits	6,516
Total Adjustments	<u>(7,784)</u>
Net Cash Provided by (Used for) Operating Activities	<u>(\$128,436)</u>

Richmond Heights Local School District
Statement of Fiduciary Assets & Liabilities
Fiduciary Funds
June 30, 2004

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$11,582</u>
Total Assets	<u><u>\$11,582</u></u>
Liabilities	
Liabilities:	
Due to Students	<u>\$11,582</u>
Total Liabilities	<u><u>\$11,582</u></u>

See Accompanying Notes to the Basic Financial Statements

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1 - DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY

A. Description of the District

Richmond Heights Local School District (the“ District”) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally - elected Board form of government consisting of five members elected at-large for staggered four-year terms. The District provides educational services as authorized by State statute and federal guidelines.

The District is located in Richmond Heights, Ohio, Cuyahoga County and serves an area of approximately 4.75 miles. It is staffed by 68 certificated teaching personnel, 52 non-certificated support staff personnel and 9 administrative employees who provide services to 1,107 students and other community members. The District currently operates a primary school, a middle school and a high school.

B. The Reporting Entity

In evaluating how to define the governmental reporting entity, the District follows the provisions of Governmental Accounting Standards Board (“ GASB”) Statement No. 14, *The Financial Reporting Entity*, under which the financial statements include all the organizations, activities, functions, and component units for which the District is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board and either (1) the District's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the District. On this basis, the District's financial reporting entity has no component units but includes all funds that are part of the District.

One non-public school, the Richmond Heights Christian School, is located within the boundaries of the District. This non-public school is operated independently of the District. The District receives auxiliary services money from the State for the support of this non-public school and serves as the primary recipient having administrative responsibilities with respect to these grants. The accounting for these receipts and disbursements is reflected in a special revenue fund in accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, but the non-public schools' operations are not reflected in the accompanying financial statements.

RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

(Note 1 continued)

The Ohio Schools Council (the "Council") is a jointly governed organization among eighty-eight 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's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. Financial information can be obtained by contacting Mr. David Cottrell, the Executive Secretary of the Ohio Schools Council at Rockside Square Building 2, 6133 Rockside Road, Independence, Ohio 44131, www.osconline.org. The District 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 district will commit to participating for an eight-year period. The participants make monthly payments based on estimated usage. Each June these estimated payments are compared to their actual usage for the year and any necessary adjustments are made. In 1997, Energy Acquisition Corporation, a non-profit corporation with a self-appointing board, issued \$119,140,000 in debt to pre-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, that district is required to repay savings to CEI and CEI will refund the remaining prepayment related to that participant to Energy Acquisition Corporation.

The 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 on estimated usage. Each month these estimated payments are compared to actual usage and any necessary adjustments are made. The City of Hamilton, a municipal corporation and a 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.

The Lakeshore Northeast Ohio Computer Association ("LNOCA") is a jointly governed computer service bureau among 16 public school districts and an educational service center. The primary function of LNOCA is to provide data services to the 16 members. Major areas of service provided by LNOCA include accounting, payroll, inventory, career guidance services,

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

(Note 1 continued)

handicapped student tracking, pupil scheduling, attendance reporting and grade reporting, and Internet access. Each school district is represented on the LNOCA board of directors by its superintendent or designated representative. Each year, the Board of Directors elects a Chairman, a Vice Chairman and a Recording Secretary. The Treasurer of the fiscal agent is a nonvoting, ex-officio member of the Board of Directors. The Cuyahoga County Educational Service Center serves as the fiscal agent of LNOCA. Each school district supports LNOCA based upon a per pupil charge dependent upon the software packages used. The degree of control exercised by a participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer of the fiscal agent at 7800 Wall Street, Valley View, Ohio 44125.

The following entities which perform activities within the District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the District is not financially accountable for these entities nor are they fiscally dependent on the District.

- (1.) Cuyahoga County - functions allocated to counties by Ohio law, such as elections, health and human services, and judicial.
- (2.) The City of Richmond Heights - municipal corporation responsibilities.

The following support organizations are currently active within the District: building-level Parent Teacher Associations and the Richmond Heights Boosters. Each of these organizations is operated independently of the District and is not part of the District's reporting entity. While each of these organizations' efforts is aimed at helping the District and/or associated school, the District is not involved in the selection of directors and is not financially accountable for any of the above organizations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

(Note 2 continued)

A. Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain 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 regulation, restrictions or limitations.

The various funds of the District are grouped into the categories governmental, proprietary and fiduciary.

Governmental Funds - Governmental funds are those through which most governmental functions of the District are financed. Governmental fund reporting focuses on the acquisition, use and balances of the District's expendable financial resources and the related current liabilities. The following is the District's major governmental fund:

General Fund - The general fund is the operating fund of the 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 District for any purpose provided it is expended or transferred according to the general laws of Ohio.

The other governmental funds of the District account for permanent improvements, state and federal grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds - Proprietary funds focus on the determination of the changes in net assets, financial position and cash flows and are classified as either enterprise or internal service.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The District records state and federal grant revenue, including commodities received in the food service fund as non-operating revenue. The District's enterprise funds are:

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

(Note 2 continued)

Food Service Fund - This fund accounts for the financial transactions related to the food service operations of the District.

Special Enterprises - This fund accounts for financial transactions related to Latchkey, Summer Camp and Summer School programs.

Fiduciary Funds - Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities. The government-wide financial statements do not include activities of fiduciary and agency funds.

B. Basis of Presentation

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resource measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the

RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

(Note 2 continued)

operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. The major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

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. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary fund types 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 statement of fund net assets. The statement of revenues, expenses and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in revenues, expenses and net assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds are reported using the economic resources measurement focus.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

(Note 2 continued)

Revenues - Exchange and Non-exchange Transactions 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 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 District, available means expected to be received within sixty days of fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. 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 District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the 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.

Delinquent property taxes and property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the 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 fair value of donated commodities used during the year is reported

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

(Note 2 continued)

in the operating statement as an expense with a like amount reported as donated commodities revenue.

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.

D. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolutions are subject to amendments throughout the year, with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are required to be budgeted and appropriated. The primary level of budgetary control is at the fund level. Budgetary modifications 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 tax budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Operational expenditure recommendations are developed assuming "committed costs". Public hearings are announced and conducted to obtain taxpayers' comments. The express purpose of this tax budget document is to reflect the need for existing (or increased) tax rates and to provide a basis for the development of the first permanent appropriations for the coming fiscal year.

By no later than January 20, the Board-adopted budget is filed with the Cuyahoga County Budget Commission (the "Budget Commission") for determination of tax rates. The Budget Commission will determine the appropriate tax rates and will prepare a certificate of estimated resources for the District. A hearing may be held by the Budget Commission where the Budget Commission members discuss the proposed budget with District officials.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

(Note 2 continued)

Board Strategic Fiscal Planning - The Board of Education holds an annual full-day workshop during February or March to review the financial "health" of the District, and to develop target figures for appropriations for the fiscal year which will begin in July. A five-year strategic fiscal plan is updated every year during this workshop. Trends of the previous years are reviewed and, when appropriate, levy plans are made. The Board of Education examines facilities and curriculum, and analyzes the impact of District needs on finances, both short and long-term. Target figures for the coming fiscal year are developed in the context of the District's strategic fiscal plan.

Estimated Resources - By April 1, or a later date as determined by the Budget Commission, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission. Prior to June 30, the 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 Treasurer of the District. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2004.

Appropriations - Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certification saying no new certificate is necessary, the annual appropriation must be legally 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 District. The appropriation resolution, by fund, must be within the estimated resources as certified by the 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 appropriation or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education. The Board may pass supplemental fund appropriations provided the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the fiscal year 2004, several supplementary appropriations were legally enacted; however, none of these amendments were

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

(Note 2 continued)

significant. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations.

Lapsing of Appropriations - At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. Encumbered appropriations are carried forward to the succeeding fiscal year and are reappropriated.

E. Cash and Cash Equivalents

To improve cash management, cash received by the District is pooled. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During fiscal year 2004, investments were limited to the State Treasury Asset Reserve ("STAR Ohio").

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. For fiscal year 2004, the District elected to limit the distribution of interest to the general fund, and the auxiliary services fund.

For presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Restricted Assets

Restricted assets represent cash and cash equivalents and other current assets whose use is limited by creditors, grantors or legal requirements. Restricted assets in the general fund

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

(Note 2 continued)

include amounts required by statute to be set-aside for the purchase of textbooks and other instructional material. See Note 18 for additional information regarding statutory reserves and Note 19 for additional information regarding restricted assets.

G. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. Inventories of proprietary funds consist of donated and purchased food.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The District maintains a capitalization threshold of one thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the improvements. Depreciation is computed using the straight-line method over the following useful lives:

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

(Note 2 continued)

<u>Description</u>	Governmental	Business-type
	Activities	Activities
	<u>Estimated Lives</u>	<u>Estimated Lives</u>
Buildings and Improvements	10-30 years	n/a
Computers	5 years	5 years
Furniture and Equipment	5-20 years	12 years
Vehicles	15 years	n/a

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loans receivable/payable". These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

J. Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*. Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the 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 termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

(Note 2 continued)

K. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgements, compensated absences and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, liabilities that mature or come due for payment during the fiscal year are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements when due.

L. Fund Balance Reserves

The 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 and property taxes. The reserve for property taxes represents taxes recognized as revenue under GAAP but not available for appropriation under State statute.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

(Note 2 continued)

The District applies restricted resources first when an expense is incurred for purpose for which both restricted and unrestricted net assets are available.

N. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are primarily sales for food service and uniform school supplies, tuition and fees for latchkey and summer school programs. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund.

O. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

P. Estimates

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2004.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

(Note 2 continued)

R. Proprietary Activity Accounting

Under guidelines of GASB Statement 20, *Accounting and Financial Reporting for Proprietary funds and Other Governmental entities that use Proprietary Fund Accounting* the District has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989 to its business-type activities and enterprise funds.

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

For fiscal year 2004, the District has implemented GASB Statement No. 34 *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. GASB 34 creates new basic financial statements for reporting on the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column. The government-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year after taking into account fund balance adjustments. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2003, caused by the accrual basis of accounting.

Governmental Fund Balance at June 30, 2003	\$919,421
Restatement	(315)
Capital Assets, Net of Depreciation	1,260,711
Long-term Liabilities	<u>(868,827)</u>
Governmental Activities Net Assets at June 30, 2003	\$1,310,990

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

(Note 3 continued)

In addition, for fiscal year 2004, the District has implemented GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*; GASB Statement No 36, *Recipient Reporting for Certain Shared Non-exchange Revenues*; GASB Statement No. 37, *Basic Financial Statements - Management's Discussion and Analysis - State and Local Governments: Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures* and GASB Interpretation No. 6. At June 30, 2004, there was no effect on fund balance as a result of implementing GASB Statements 33, 36, 37, and 38, or Interpretation No. 6.

At June 30, 2003, the District carried an internal services rotary fund which was rolled into the general fund. During fiscal year 2004, the District determined that these activities were more properly classified as those of the public school support fund. An amount of \$9,610, previously included in the June 30, 2003 general fund balance of \$927,014 was therefore reclassified and included in the June 30, 2003 other governmental fund balance of (\$7,592).

During fiscal year 2004, it was determined that the capital assets of the food service fund at June 30, 2003 were understated by \$4,634. Therefore the June 30, 2003 enterprise funds balance of \$105,651 was increased by \$4,634.

NOTE 4 - FUND BALANCE DEFICITS

Fund balances/retained earnings at June 30, 2004 included the following individual fund deficits:

Capital Projects Fund	
Permanent Improvement	(\$4,007)
Enterprise Funds	
Food Service	(7,694)
Latchkey	(1,039)

Special revenue fund deficits resulted from operations which exceeded grants, or for which funds were not yet available under modified accrual accounting. The general fund is liable for any deficits in these funds and will provide operating transfers when cash is required, not when accruals occur.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations and changes in fund balance/retained earnings on the basis of 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 Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual (Budget Basis) 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 the GAAP basis are as follows:

- (1.) Revenues are recorded when received in cash (budget basis), as opposed to when susceptible to accrual (GAAP basis).
- (2.) Expenditures are recorded when paid in cash (budget basis), as opposed to when the fund liability is incurred (GAAP basis).
- (3.) Outstanding year-end encumbrances are treated as expenditures (budget basis), rather than a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund:

Net Change in Fund Balance	
GAAP Basis	\$574,740
Net Adjustment for Revenue Accruals	(746,817)
Advances In	125,218
Net Adjustment for Expenditure	
Accruals	(166,507)
Encumbrances	214,533
Advances Out	<u>(309,100)</u>
Budget Basis	<u><u>(\$307,933)</u></u>

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 6 - CASH AND INVESTMENTS

A. Legal Requirements

State statute requires the classification of moneys held by the District into three categories:

Active Deposits - Those deposits necessary to meet current demands on the District. Such deposits must be maintained either as cash in the 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 - Those deposits the District has identified as not required for use within the current two year period of designation of depositories. Inactive deposits 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 - Interim deposits are those moneys 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 accounts, including passbook accounts.

Interim moneys may be invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government 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

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

(Note 6 continued)

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 (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, 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 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 representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Protection of the 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.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

(Note 6 continued)

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*.

B. Deposits

At June 30, 2004 the carrying amount of the District's deposits was \$523,760 and the bank balance was \$1,004,543. Of the total bank balance, \$100,000 was covered by federal depository insurance, and \$904,543 was unsecured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

C. Investments

The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the 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 District's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

Investments at June 30, 2004 consisted of a an investment in STAR Ohio with a carrying value of \$827,841. The carrying value of these investments is their fair values at June 30, 2004. At June 30, 2004, the carrying value of the District's deposits and investments, classified in accordance with GASB Statement No. 3, is as follows:

Investments	\$827,841
Demand Deposits	<u>523,760</u>
Carrying Value	<u>\$1,351,601</u>

The classification of cash and cash equivalents, and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary*

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

(Note 6 continued)

Fund Accounting. Using that criteria, the above amounts are included on the basic financial statements as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$1,351,601	\$ --
Investments Which Are Part of a Cash Management Pool:		
Investment in State Treasurers Investment Pool	(827,841)	827,841
GASB Statement 3	\$523,760	\$827,841

NOTE 7 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at eighty-eight percent of true value (with certain exceptions) and on real property at thirty-five percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are twenty-four percent of true value. Since property taxes are assessed and levied on a calendar year basis, the District receives property taxes from two taxing years during the District's fiscal year. The assessed values upon which the fiscal year 2004 taxes were collected are as follows:

	2003 Second Half Collections		2004 First Half Collections	
	Amount	Percent	Amount	Percent
Residential Agricultural	\$156,419,040	71.30	\$173,253,690	72.70%
Other Real Estate	5,676,610	20.80	46,887,670	19.70
Public Utility Personal	3,650,290	1.70	3,741,300	1.60
Tangible Personal Property	13,587,269	6.20	14,343,900	6.00
Total	\$219,333,209	100.00%	\$238,226,560	100.00%

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

(Note 7 continued)

The full tax rate applied to real property for the 2004 collection year is \$78.60 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$36.87 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$44.56 for all other real property. Real property owner's tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the District by the State of Ohio.

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 alternate 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. The District receives property taxes from Cuyahoga County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30, 2004, are available to finance fiscal year 2004 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, the late settlement of personal property taxes, and real property, tangible personal property and public utility taxes which became measurable as of June 30, 2004, 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 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2004 was \$1,325,420 and is recognized as revenue. Of the total amount available at June 30, 2004, \$1,308,321 was available to the general fund, and \$17,099 was available to the permanent improvement fund.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 8 - RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accounts receivable (billings for user charged services), interfund loans, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of Federal funds. A summary of the intergovernmental receivables by fund follows:

Special Revenue	
Summer School Subsidy	\$6,969
Miscellaneous State Grants	23,321
Title I	50,549
Title VI	9,205
Drug Free Education	5,010
Enterprise	
Food Service	<u>9,552</u>
Total	<u>\$104,606</u>

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 9 -CAPITAL ASSETS

The following is a summary of changes in the District's capital assets at June 30, 2004

	Balance 6/30/2003	Additions	Deductions	Balance 6/30/2004
Governmental Activities				
Land and Improvements	\$311,214	-\$-	---	\$311,214
Buildings and Improvements	6,244,248	---	---	6,244,248
Furniture & Equipment	411,515	21,818	---	433,333
Vehicles	<u>716,298</u>	<u>6,350</u>	---	<u>722,648</u>
Totals at Historical Cost	7,683,275	28,168	---	7,711,443
Less Accumulated Depreciation				
Buildings and Improvements	(5,784,346)	(35,394)	---	(5,819,740)
Furniture & Equipment	(298,030)	(50,288)	---	(348,318)
Vehicles	<u>340,188</u>	<u>(45,939)</u>	---	<u>(386,127)</u>
Total Accumulated Depreciation	<u>(6,422,564)</u>	<u>(131,621)</u>	---	<u>(6,554,185)</u>
Governmental Activities Capital Assets, Net	<u>\$1,260,711</u>	<u>\$ (103,453)</u>	---	<u>\$1,157,258</u>
Business Type Activities				
Furniture and Equipment	\$78,226	-\$-	---	\$78,226
Less Accumulated Depreciation	<u>(61,005)</u>	<u>(1,796)</u>	---	<u>(62,801)</u>
Business-type Activities Capital Assets, Net	<u>\$17,221</u>	<u>(\$1,796)</u>	---	<u>\$15,425</u>

Depreciation was charged to governmental functions as follows:

Instruction	\$31,689
Pupils	3,096
Instructional Staff	5,116
Administration	3,682
Fiscal	1,209
Operation and Maintenance	36,088
Pupil Transportation	46,655
Central	3,370
Extracurricular Activities	<u>716</u>
	<u>\$131,621</u>

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 10 - RISK MANAGEMENT

A. Property and Liability

The 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 disasters. During fiscal year 2004, the District contracted for property and general liability insurance, and boiler and machinery coverage through the 91-member Ohio Schools Council Group Purchasing Consortium. The carrier for District property insurance, and boiler and machinery coverage is The Indiana Insurance Company. Aggregate property coverage is approximately \$24.5 million with a \$2,500 deductible. Aggregate boiler and machinery coverage is approximately \$30 million with a \$1,000 deductible. The policy is renewable on July 1, 2004 for each coverage. Casualty and fleet insurance coverage was provided by Indiana Insurance Company, with a combined single limit of \$1 million and \$1,000 comprehensive and \$1,000 collision deductibles. Education and umbrella liability insurance coverage was provided by the Indiana Insurance and Hartford Steam Boiler Companies, with a combined single limit of \$4 million each occurrence and combined aggregate of \$5 million. The Treasurer is covered by a \$50,000 surety bond and the Superintendent, Board of Education President, and Business Manager are covered by \$20,000 position bonds. Settled claims have not exceeded commercial coverage in any of the past three years.

B. Workers Compensation

For fiscal year 2004 the District participated in the Ohio School Boards Association Workers' Compensation Group 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, the President-Elect and the Immediate Past President of the Ohio School Boards Association ("OSBA"). The Executive Director of the OSBA, or his designee, 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.

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience 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 to the overall savings of the GRP. A participant will then either receive money from

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

(Note 10 continued)

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

C. Employee Medical Benefits

The District has elected to provide employee dental and prescription drug benefits and hospitalization and medical benefits with a fully-insured program. Full time is defined as the full 185 day academic year, or 30 hours per week for non-certificated employees. Employees working shorter calendars pay a prorated portion of the health care premiums.

D. Special Termination Benefit Payable - ERIP Plan

The Richmond Heights Board of Education approved an Early Retirement Incentive program for classified and certified employees. Participation was available March 15, 2003 through March 30, 2003 for 5 percent of the employees of the School District, who were employed by the Board and had attained the age of fifty prior to the date the ERIP expired. Two years of service credit or service credit equal to 20 percent of total service were purchased for those employees who elected to retire under this plan. The retirement incentive is paid by the general fund in two installments by June of each year following the effective retirement date.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

The employees of the District are covered by either the School Employees Retirement System of Ohio ("SERS") or the State Teachers Retirement System of Ohio ("STRS"). The State of Ohio accounts for the activities of these retirement systems and the amounts of the funds are not reflected in the accompanying financial statements. Under both SERS and STRS, a member is eligible for retirement when the member reaches age 60 and has five or more years of service credit; reaches age 55 and has 25 years or more of service credit; or has 30 or more years of service credit at any age.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

(Note 11 continued)

A. School Employees Retirement System

All employees of the District performing duties that do not require a certificate issued by the Ohio Department of Education are required to contribute to SERS, a cost-sharing multiple employer defined benefit pension plan. 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 Suite 100, Columbus, Ohio 43215. Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. Of the 14 percent District portion, 9.09 percent was the portion used to fund pension obligations. For certain employees, the District pays the 10 percent member contribution as an employee benefit. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$143,712, \$123,571, and \$75,124, respectively, equal to the required contributions for each year.

B. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined (C) Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on members contributions and earned interest matched by STRS Ohio funds time an actuarially determined annuity factor. The DC Plan allows members to place

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

(Note 11 continued)

all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The C Plan offers features of both the DC Plan and the DB Plan. In the C Plan member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and C Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or C Plan. Existing members with less than five years of service credit as of June 20, 2001, were given the option of making a one-time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the C Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Plan members were required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent, an actuarially determined rate. Of the 14 percent District portion, 13 percent was the portion used to fund pension obligations during fiscal year 2004. For certain employees, the District pays the 10 percent member contribution as an employee benefit. 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 District's contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$547,157, \$543,922, and \$336,747, respectively, equal to the required contributions for each year.

C. Social Security System

Effective July 1, 1991, all employees and members of the Board of Education not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System are required to choose either Social Security or the School Employees Retirement System/State Teachers Retirement System. In 2004, all employees and three members of the Board were covered by STRS or SERS, while two Board members opted for Social Security.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

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 retirees who participated in the DB or Combined plans and their dependents are eligible for healthcare coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All 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, 2004, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$42,089 for fiscal year 2004. STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

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 healthcare. 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, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease of .92 percent from fiscal year 2003. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$109,171. 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, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 13 -NOTE DEBT

During fiscal year 2003, the District issued a \$100,000 energy conservation note for the purpose of rolling over energy conservation notes first issued by the District in 1993. The note was issued at a premium of \$8. The balance outstanding at June 30, 2003 was \$100,000. During fiscal year 2004 the note was paid. No note balance outstanding remains at June 30, 2004.

NOTE 14 - LONG-TERM OBLIGATIONS

The changes in the District's long-term obligations during the year ended June 30, 2004 consist of the following:

The District's voted legal debt margin for general obligation bonds was \$21,440,390 with an unvoted legal debt margin of \$238,227 and an unvoted legal energy conservation debt margin of \$2,144,039 at June 30, 2004.

	<u>Balance</u> <u>06/30/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06/30/04</u>	<u>Due Within</u> <u>One Year</u>
Compensated Absences	\$430,345	\$146,520	\$136,294	\$440,561	--
Capital Leases	300,103	--	36,209	263,894	38,346
Pension Obligations	88,759	90,615	88,759	90,615	90,615
Early Retirement Incentive	49,620	--	49,620	--	--
	<u>\$868,827</u>	<u>\$237,125</u>	<u>\$310,882</u>	<u>\$795,070</u>	<u>\$128,961</u>

Compensated absences are paid by the employing fund. The capital lease is paid by the transportation function of the general fund. Pension obligations are paid by the employing fund. The early retirement incentive was paid by the general fund.

A. Bonds Outstanding

As of June 30, 2004, the District had no outstanding bonded debt.

B. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Non-certificated employees earn ten to twenty days of vacation per

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

(Note 14 continued)

year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment.

Each employee earns sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated without limit. Upon eligibility for benefits from STRS or SERS, and actual retirement from the District, any employee working regularly each week on a permanent part-time or full-time bases may elect at the time of retirement to be paid a severance payment. The payment will be calculated on a percentage of total accumulated and unused sick leave time the then current daily rate, to a maximum of 220 days in accordance with the following years of experience in the District scale:

<u>Years of Experience</u>	<u>Percentage</u>
1-4	6.25%
5-9	12.50
10+	25.00

NOTE 15 - INTERFUND TRANSACTIONS

Short term interfund loans at June 30, 2004 are as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General	\$307,100	
Special Revenue		
Education Management Information Services		\$2,000
Student Intervention		15,000
Miscellaneous State Grants		27,000
Title I		73,000
Title VI		5,300
Drug Free Education		7,300
Title VIR		32,000
Miscellaneous Federal Grants		<u>5,500</u>
		\$167,100
Capital Projects		
Permanent Improvement		<u>60,000</u>
Enterprise		
Food Service		<u>80,000</u>
	<u>\$307,100</u>	<u>307,100</u>

For fiscal year 2004, the general fund reported transfers out of \$152,325 and other non-major governmental funds reported transfers in of \$152,325.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 16 - CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 District at June 30, 2004.

B. Litigation

As of June 30, 2004, the District was a party to various legal proceedings, seeking damages or injunctive relief arising in the ordinary course of business. The ultimate disposition of these proceedings is not presently determinable. The District carries adequate insurance coverage for most risks including property damage and personal liability and the District's management does not believe that any potential claims not covered by such insurance would have a material effect on the financial condition of the District.

C. School Finance

As of June 30, 2004, there were pending several challenges to real estate market valuation filed by property owners within the District. If successful, these challenges will result in a decrease of real property market valuation and therefore real estate property tax revenue received by the District. However, in the opinion of management, the disposition of all valuation challenges is not expected in the aggregate to have a material adverse effect on the financial position of the District.

NOTE 17 - STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "....the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its operations.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 18 - STATUTORY RESERVES

The 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 textbooks and other educational materials and an equal amount for the acquisition and maintenance of capital improvements. Amounts not spent by the end of the 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.

The following cash basis information describes the changes in the year-end set aside amounts for educational materials and capital maintenance. Disclosure of this information is require by State statute.

	Balance	Capital	Budget
	<u>Textbooks</u>	<u>Improvement</u>	<u>Reserve</u>
Set-Aside Reserve Balance as of June, 30, 2003	\$26,298		\$40,252
Current Year Set-Aside Requirement	145,511	145,511	
Qualifying Disbursements	<u>(183,664)</u>	<u>(170,727)</u>	<u>(40,252)</u>
Totals	<u>(\$11,855)</u>	<u>(\$25,216)</u>	<u>\$ ---</u>
Set-Aside Balance Carried Forward to Future Years	<u>(\$11,855)</u>	<u>---</u>	<u>\$ ---</u>

The District had qualifying disbursements during the fiscal year that reduced the textbook reserve set-aside amounts below zero. This amount may be carried forward to reduce future fiscal year requirements. A negative capital improvements set-aside balance may not be carried forward. The disbursement of the budget reserve was not authorized by board resolution.

NOTE 19 - CAPITAL LEASES – LESSEE DISCLOSURE

The District entered into a capitalized lease for a sub service building in fiscal year 2001. As part of the agreement, Fifth Third Banks, as lessor, provided \$400,000 for the construction. 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 capital lease generally as one which transfers benefits and risks of ownership to the lessee.

The lease has been capitalized in the general fund in the amount of \$400,000. Principal payments in fiscal year 2004 totaled \$36,209 in the general fund.

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, 2004.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

(Note 19 continued)

	Fiscal Year <u>End June 30</u>	Annual <u>Total</u>
	2005	\$52,689
	2006	52,689
	2007	52,689
	2008	52,689
	2009	52,689
	2010	<u>52,689</u>
Total Minimum Lease Payments		316,134
Amount Representing Interest		<u>(52,240)</u>
Present Value Minimum Lease Payments		<u>\$263,894</u>



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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 governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the Richmond Heights Local School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the Government's basic financial statements and have issued our report thereon dated October 18, 2005, where in we reported the District implemented the provisions of Governmental Accounting Standards Board Statement No. 34. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated October 18, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated October 18, 2005, we reported other matters related to noncompliance we deemed immaterial.

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www.auditor.state.oh.us

Richmond Heights Local School District
Cuyahoga County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of management and the Board of Education. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

October 18, 2005



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

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
FEBRUARY 9, 2006**