



**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**REGULAR AUDIT**

**FOR THE YEARS ENDED JUNE 30, 2007 and 2006**



**Mary Taylor, CPA**  
Auditor of State



**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT  
CUYAHOGA COUNTY**

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CUYAHOGA COUNTY**

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# Mary Taylor, CPA

Auditor of State

## 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, each major fund, and the aggregate remaining fund information of Richmond Heights Local School District, Cuyahoga County, Ohio (the District) as of and for the years ended June 30, 2007 and June 30, 2006, 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, each major fund, and the aggregate remaining fund information of Richmond Heights Local School District, Cuyahoga County, Ohio, as of June 30, 2007 and June 30, 2006, and the respective changes in financial position and where applicable, cash flows, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2009, 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 "Mary Taylor". The signature is written in a cursive, flowing style.

**Mary Taylor, CPA**  
Auditor of State

February 6, 2009

## **Richmond Heights Local School District**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
Unaudited*

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The discussion and analysis of Richmond Heights Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the transmittal letter, the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

### **Financial Highlights**

Key financial highlights for 2007 are as follows:

- Total net assets decreased \$443,532, a decrease of \$514,718 in Governmental Activities and an increase of \$71,186 in Business-Type Activities.
- General revenues accounted for \$12,199,071 or 94.7 percent of all revenues for all Governmental Activities. Program specific revenues in the form of charges for services and sales and operating grants and contributions accounted for \$684,137 or 5.3 percent of total revenues of \$12,883,208.
- Total program expenses were \$13,292,464 in Governmental Activities and \$513,105 in Business-Type Activities.

### **Using this Annual Basic Financial Statement Report (BFS)**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Richmond Heights Local School District as an entire operating entity. The statements begin at a summary level and expand to detailed financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the entire School District, presenting both an aggregate view of the School District's current finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements present how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant governmental funds with all other nonmajor funds presented in total in one column. The general fund is the most significant fund.

### ***Reporting the School District as a Whole***

#### *Statement of Net Assets and the Statement of Activities*

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as an entity looks at all financial transactions and asks the question, "How did we do financially during the 2007 fiscal year?" 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 of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. Changes to our net assets are a direct result of property tax

## Richmond Heights Local School District

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
Unaudited*

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base, current property tax laws in Ohio restricting revenue growth, facility conditions, mandated educational programs, state funding, student enrollment, and general inflation.

In the Statement of Net Assets and the Statement of Activities, the School District is divided into two major activities:

- **Governmental Activities** – Most of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities and general administration.
- **Business-Type Activities** – These services are provided on a fee basis to recover all of the expenses of the goods or services provided. The School District's business-type activities are the food service and latchkey/summer camp operational activities.

### ***Reporting the School District's Most Significant Funds***

#### *Fund Financial Statements*

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for its financial transactions. However, these fund financial statements concentrate on the School District's most significant funds. The School District's major governmental fund is the general fund.

***Governmental Funds*** Most of the School District's activities are reported in governmental funds, which accounts for flow of money into and out of those funds and the year-end balances available for spending in future years. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps the reader determine the amount of financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

***Proprietary Funds*** Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

#### **The School District as a Whole**

The Statement of Net Assets provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net assets for 2007 compared to 2006:

## Richmond Heights Local School District

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
Unaudited*

(Table 1)  
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
<b>Assets</b>						
Current and Other Assets	\$11,050,421	\$12,091,328	\$136,760	\$71,543	\$11,187,181	\$12,162,871
Capital Assets, Net	1,166,059	1,221,967	13,740	15,808	1,179,799	1,237,775
<b>Total Assets</b>	<b>12,216,480</b>	<b>13,313,295</b>	<b>150,500</b>	<b>87,351</b>	<b>12,366,980</b>	<b>13,400,646</b>
<b>Liabilities</b>						
Current and Other Liabilities	8,779,296	9,285,453	23,052	31,894	8,802,348	9,317,347
Long-Term Liabilities:						
Due Within One Year	103,783	101,244	0	0	103,783	101,244
Due in More than One Year	796,067	874,546	7,868	7,063	803,935	881,609
<b>Total Liabilities</b>	<b>9,679,146</b>	<b>10,261,243</b>	<b>30,920</b>	<b>38,957</b>	<b>9,710,066</b>	<b>10,300,200</b>
<b>Net Assets</b>						
Invested in Capital						
Assets, Net of Debt	978,182	993,480	15,808	15,808	993,990	1,009,288
Restricted						
Capital Projects	59,968	40,610	0	0	59,968	40,610
Other Purpose	58,016	30,591	0	0	58,016	30,591
Unrestricted	1,441,168	1,987,371	103,772	32,586	1,544,940	2,019,957
<b>Total Net Assets</b>	<b>\$2,537,334</b>	<b>\$3,052,052</b>	<b>\$119,580</b>	<b>\$48,394</b>	<b>\$2,656,914</b>	<b>\$3,100,446</b>

Total assets of governmental activities decreased \$1,096,815. The majority of the decrease is attributable to cash decreasing \$1,137,332 due to increased spending at the School District during the fiscal year.

Total liabilities for governmental activities decreased \$582,097. This decrease was predominantly due to decreases in deferred revenue of \$397,741 and long-term liabilities of \$75,940, respectively.

The net impact for governmental activities was a decrease of net assets by \$514,718.

Table 2 shows the changes in net assets for the fiscal year 2007 for both our Governmental activities and our Business-Type activities. Revenue and expense comparisons can be made between the years 2006 and 2007.

## Richmond Heights Local School District

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
Unaudited*

**Table 2**  
Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$415,974	\$508,531	\$344,707	\$334,999	\$760,681	\$843,530
Operating Grants and Contributions	268,163	269,559	134,122	127,771	402,285	397,330
<i>Total Program Revenues</i>	<u>684,137</u>	<u>778,090</u>	<u>478,829</u>	<u>462,770</u>	<u>1,162,966</u>	<u>1,240,860</u>
General Revenues:						
Property Taxes	9,455,918	10,081,374	0	0	9,455,918	10,081,374
Grants and Entitlements	2,565,314	2,397,258	0	0	2,565,314	2,397,258
Investment Earnings	164,974	142,794	0	0	164,974	142,794
Miscellaneous	12,865	14,304	0	23,225	12,865	37,529
<i>Total General Revenues</i>	<u>12,199,071</u>	<u>12,635,730</u>	<u>0</u>	<u>23,225</u>	<u>12,199,071</u>	<u>12,658,955</u>
<b>Total Revenues</b>	<u>12,883,208</u>	<u>13,413,820</u>	<u>478,829</u>	<u>485,995</u>	<u>13,362,037</u>	<u>13,899,815</u>
<b>Program Expenses</b>						
Instruction	7,237,562	7,059,107	0	0	7,237,562	7,059,107
Support Services:						
Pupil and Instructional Staff	795,122	1,127,005	0	0	795,122	1,127,005
Board of Education, Administration, Fiscal and Business	1,994,832	1,772,470	0	0	1,994,832	1,772,470
Operation and Maintenance of Plant	1,600,296	1,223,116	0	0	1,600,296	1,223,116
Pupil Transportation	1,044,167	1,145,697	0	0	1,044,167	1,145,697
Central	206,730	173,017	0	0	206,730	173,017
Operation of Non-Instructional Services	1,000	2,000	0	0	1,000	2,000
Enterprise Operations	0	0	513,105	485,362	513,105	485,362
Extracurricular Activities	403,074	435,575	0	0	403,074	435,575
Interest and Fiscal Charges	9,681	12,079	0	0	9,681	12,079
<b>Total Program Expenses</b>	<u>13,292,464</u>	<u>12,950,066</u>	<u>513,105</u>	<u>485,362</u>	<u>13,805,569</u>	<u>13,435,428</u>
Excess Revenues Over (Under) Expenses	(409,256)	463,754	(34,276)	633	(443,532)	464,387
Transfers	(105,462)	0	105,462	0	0	0
<b>Change in Net Assets</b>	<u>(514,718)</u>	<u>463,754</u>	<u>71,186</u>	<u>633</u>	<u>(443,532)</u>	<u>464,387</u>
<i>Net Assets Beginning of Year</i>	<u>3,052,052</u>	<u>2,588,298</u>	<u>48,394</u>	<u>47,761</u>	<u>3,100,446</u>	<u>2,636,059</u>
<i>Net Assets End of Year</i>	<u>\$2,537,334</u>	<u>\$3,052,052</u>	<u>\$119,580</u>	<u>\$48,394</u>	<u>\$2,656,914</u>	<u>\$3,100,446</u>

Total governmental activities net assets decreased \$514,718. Property taxes decreased \$625,456; grants were and entitlements increased \$168,056 and an overall decrease in revenues of \$530,612.

The increase of \$178,455 in instructional program expenses was due to substitutes used during the strike paid at \$175 per day compared to the normal \$90 per day substitute salary paid by the School District. The strike duration was in excess of three weeks. The decrease of \$331,883 in pupil and instructional staff was due to non-instructional staff on strike receiving no pay and no substitute employees being brought in to cover their job responsibilities.

## Richmond Heights Local School District

### Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

Unaudited

The unusual nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. As a result of legislation enacted in 1976, the overall revenue generated by a voted tax levy does not increase as a result of inflation. As an example, a homeowner with a home valued at \$100,000 (Assessed value of \$35,000) and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home was reappraised and increased to \$200,000 (assessed value of \$70,000) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Our School District, which is dependent upon property taxes, is hampered by a lack of revenue growth and must periodically ask the voters to increase property taxes to maintain a constant level of service. Property taxes made up 73.4 percent of revenues for governmental activities for the Richmond Heights Schools in fiscal year 2007.

The largest Governmental Activities program expense remains instruction, comprising 54.4 percent of total expenses. When combined with board of education, administration, fiscal and business support these categories make up 69.5 percent of expenses.

Management recognizes a continued loss of personal property tax revenue due to the continued phase-out of personal property tax and phase-in of public utility deregulation as well as board of revision and board of tax appeal decisions.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, (services supported by tax revenue and unrestricted State entitlements), the total cost of services and the net cost of services.

Table 3  
Governmental Activities

	Total Cost of Services 2007	Net Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2006
Instruction	\$7,237,562	\$6,857,755	\$7,059,107	\$6,689,551
Support Services:				
Pupils and Instructional Staff	795,122	698,395	1,127,005	980,211
Board of Education, Administration				
Fiscal and Business	1,994,832	1,935,307	1,772,470	1,708,778
Operation and Maintenance	1,600,296	1,563,493	1,223,116	1,187,377
Pupil Transportation	1,044,167	1,019,228	1,145,697	1,103,488
Central	206,730	192,476	173,017	148,650
Operating of Non-Instructional Services	1,000	(332)	2,000	1,235
Extracurricular Activities	403,074	332,324	435,575	340,607
Interest and Fiscal Charges	9,681	9,681	12,079	12,079
Total	<u>\$13,292,464</u>	<u>\$12,608,327</u>	<u>\$12,950,066</u>	<u>\$12,171,976</u>

The dependence upon tax revenues for governmental activities is apparent. Over 94 percent of instruction activities are supported through taxes and other general revenues. Our community is responsible for the primary support for Richmond Heights Local School District students.

## **Richmond Heights Local School District**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
Unaudited*

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### ***Business-Type Activities***

Business-type activities include the food service, uniform school supplies, and latchkey/summer school programs.

Overall net assets increased \$71,186 in 2007. Business-type activities increased due to the additional reliance on the general fund to support the food service and latchkey/summer camp operational activities for the fiscal year.

### **The School District's Funds**

Information about the School District's major funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. The general fund had total revenues of \$12,196,776 and expenditures and transfers of \$12,978,574. The net change in fund balance for the year was a decrease of \$781,798.

### ***General Fund Budgeting Highlights***

The School 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 2007, the School District amended its general fund budget several times to allow for advances to athletics and State and Federal grants.

For the general fund, original and final budget basis estimated revenues were \$9,697,425 and \$9,114,178, respectively. Total actual revenues were \$11,611,660.

Final appropriations for the general fund increased by \$119,000 from the original appropriations, due to an increase in the School District's support programs. Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$13,308,381.

### ***Capital Assets and Debt***

#### **Capital Assets**

At the end of fiscal 2007 the School District had \$1,179,799 invested in land, buildings and improvements, furniture and equipment, and vehicles, \$1,166,059 of which is in governmental activities. Table 4 shows fiscal 2007 balances compared to 2006:

## Richmond Heights Local School District

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
Unaudited*

Table 4  
Capital Assets at June 30  
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$311,214	\$311,214	\$0	\$0	\$311,214	\$311,214
Buildings and Improvements	318,326	353,720	0	0	318,326	353,720
Furniture and Equipment	166,836	149,749	13,740	15,808	180,576	165,557
Vehicles	369,683	407,284	0	0	369,683	407,284
Totals	\$1,166,059	\$1,221,967	\$13,740	\$15,808	\$1,179,799	\$1,237,775

For fiscal year 2007, an Ohio law required school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks. For fiscal year 2007, this amounted to \$168,397 for each set aside. For fiscal year 2007, the School District had qualifying disbursements or offsets exceeding these requirements. See Note 7 to the basic financial statements for additional information on capital assets.

### Debt

At June 30, 2007, the School District had no bonded debt outstanding. The School District had a balance of \$144,868 remaining on a capital lease. More information on the capital lease can be found in Note 13 to the basic financial statements.

### School District Outlook

The Board of Education and administration are aware of their limited financial resources. They are working within a five-year budget plan and actively pursuing additional funding through local levies. As of yet, no new monies have been generated since May of 2003.

Significant legislative and judicial actions continue to occur that will have a major impact on the School District. We believe that the ultimate resolution of funding reform is still sometime away. The downturn in the economy has put pressures on both the State budget as well as the local School District budget. We are concerned that the State may not have the ability to fully fund the previously approved subsidies for primary and secondary education in the State budget. We are also concerned that the local tax base may be weakened as a result of the current economic conditions and therefore negatively impact local tax revenues.

The Richmond Heights Local School District has committed itself to a fiscal discipline based on long-term plans as well as a commitment to full disclosure of financial information and utilization of the highest standards of financial reporting.

**Richmond Heights Local School District**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
Unaudited*

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**Contacting the School District Fiscal Management**

This financial report was designed to comply with the most current reporting requirements and is intended to provide our parents, citizens, taxpayers, investors and creditors an understanding of the School District's financial position. Brenda Break, Treasurer, can be contacted at the Richmond Heights Local School District, 447 Richmond Road, Richmond Heights, Ohio 44143 or by email at [bbreak@richmondheightsschools.org](mailto:bbreak@richmondheightsschools.org).

**Richmond Heights Local School District**

*Statement of Net Assets*

*June 30, 2007*

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$855,173	\$113,225	\$968,398
Cash with a Fiscal Agent	0	30,000	30,000
Accounts Receivable	17,110	0	17,110
Intergovernmental Receivable	58,671	0	58,671
Internal Balances	11,400	(11,400)	0
Materials and Supplies Inventory	0	2,098	2,098
Inventory Held for Resale	0	2,837	2,837
Property Taxes Receivable	10,108,067	0	10,108,067
Nondepreciable Capital Assets	311,214	0	311,214
Depreciable Capital Assets, Net	854,845	13,740	868,585
<i>Total Assets</i>	<u>12,216,480</u>	<u>150,500</u>	<u>12,366,980</u>
<b>Liabilities</b>			
Accounts Payable	183,041	12,046	195,087
Accrued Wages and Benefits	978,600	6,411	985,011
Intergovernmental Payable	324,176	4,595	328,771
Deferred Revenue	7,293,479	0	7,293,479
Long-Term Liabilities:			
Due Within One Year	103,783	0	103,783
Due In More Than One Year	796,067	7,868	803,935
<i>Total Liabilities</i>	<u>9,679,146</u>	<u>30,920</u>	<u>9,710,066</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	1,021,191	13,740	1,034,931
Restricted for:			
Capital Projects	59,968	0	59,968
Other Purposes	58,016	0	58,016
Unrestricted	1,398,159	105,840	1,503,999
<i>Total Net Assets</i>	<u>\$2,537,334</u>	<u>\$119,580</u>	<u>\$2,656,914</u>

See accompanying notes to the basic financial statements

**Richmond Heights Local School District**

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2007*

	Expenses	Program Revenues	
		Charges for Services and Sales	Operating Grants and Contributions
<b>Governmental Activities</b>			
Instruction:			
Regular	\$5,785,874	\$184,502	\$21,471
Special	1,281,371	28,293	141,592
Vocational	170,317	3,949	0
Support Services:			
Pupils	595,939	20,428	338
Instructional Staff	199,183	2,734	73,227
Board of Education	220,550	5,164	0
Administration	1,298,575	30,415	12,689
Fiscal	434,964	10,346	0
Business	40,743	911	0
Operation and Maintenance of Plant	1,600,296	36,803	0
Pupil Transportation	1,044,167	24,939	0
Central	206,730	4,556	9,698
Operation of Non-Instructional Services	1,000	0	1,332
Extracurricular Activities	403,074	62,934	7,816
Interest and Fiscal Charges	9,681	0	0
<i>Total Governmental Activities</i>	<u>13,292,464</u>	<u>415,974</u>	<u>268,163</u>
<b>Business-Type Activities</b>			
Food Service	369,792	221,340	134,122
Latchkey/Preschool	143,313	123,367	0
<i>Total Business-Type Activities</i>	<u>513,105</u>	<u>344,707</u>	<u>134,122</u>
<i>Totals</i>	<u>\$13,805,569</u>	<u>\$760,681</u>	<u>\$402,285</u>

**General Revenues**

Property Taxes Levied for:

General Purposes

Capital Projects

Grants and Entitlements not

Restricted to Specific Programs

Investment Earnings

Miscellaneous

*Total General Revenues*

Transfers

*Total General Revenues and Transfers*

Change in Net Assets

*Net Assets Beginning of Year*

*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
(\$5,579,901)	\$0	(\$5,579,901)
(1,111,486)	0	(1,111,486)
(166,368)	0	(166,368)
(575,173)	0	(575,173)
(123,222)	0	(123,222)
(215,386)	0	(215,386)
(1,255,471)	0	(1,255,471)
(424,618)	0	(424,618)
(39,832)	0	(39,832)
(1,563,493)	0	(1,563,493)
(1,019,228)	0	(1,019,228)
(192,476)	0	(192,476)
332	0	332
(332,324)	0	(332,324)
(9,681)	0	(9,681)
<u>(12,608,327)</u>	<u>0</u>	<u>(12,608,327)</u>
0	(14,330)	(14,330)
<u>0</u>	<u>(19,946)</u>	<u>(19,946)</u>
0	(34,276)	(34,276)
<u>(12,608,327)</u>	<u>(34,276)</u>	<u>(12,642,603)</u>
9,313,729	0	9,313,729
142,189	0	142,189
2,565,314	0	2,565,314
164,974	0	164,974
<u>12,865</u>	<u>0</u>	<u>12,865</u>
12,199,071	0	12,199,071
<u>(105,462)</u>	<u>105,462</u>	<u>0</u>
<u>12,093,609</u>	<u>105,462</u>	<u>12,199,071</u>
(514,718)	71,186	(443,532)
<u>3,052,052</u>	<u>48,394</u>	<u>3,100,446</u>
<u>\$2,537,334</u>	<u>\$119,580</u>	<u>\$2,656,914</u>

**Richmond Heights Local School District**

*Balance Sheet*

*Governmental Funds*

*June 30, 2007*

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$622,813	\$232,360	\$855,173
Accounts Receivable	16,805	305	17,110
Intergovernmental Receivable	0	58,671	58,671
Interfund Receivable	169,787	0	169,787
Property Taxes Receivable	9,969,674	138,393	10,108,067
<i>Total Assets</i>	<u>\$10,779,079</u>	<u>\$429,729</u>	<u>\$11,208,808</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts Payable	\$165,195	\$17,846	\$183,041
Accrued Wages and Benefits	966,622	11,978	978,600
Intergovernmental Payable	321,418	2,758	324,176
Interfund Payable	0	158,387	158,387
Deferred Revenue	8,344,692	178,046	8,522,738
<i>Total Liabilities</i>	<u>9,797,927</u>	<u>369,015</u>	<u>10,166,942</u>
<b>Fund Balances</b>			
Reserved for Encumbrances	306,552	37,721	344,273
Reserved for Property Taxes	1,624,982	19,018	1,644,000
Unreserved, Undesignated (Deficit)			
Reported in:			
General Fund	(950,382)	0	(950,382)
Special Revenue Funds	0	(17,957)	(17,957)
Capital Projects Funds	0	21,932	21,932
<i>Total Fund Balances</i>	<u>981,152</u>	<u>60,714</u>	<u>1,041,866</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$10,779,079</u>	<u>\$429,729</u>	<u>\$11,208,808</u>

See accompanying notes to the basic financial statements

**Richmond Heights Local School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2007*

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<b>Total Governmental Fund Balances</b>		\$1,041,866
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		1,166,059
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds:		
Delinquent Property Taxes	1,170,588	
Grants	<u>58,671</u>	
Total		1,229,259
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Capital Lease Payable	(144,868)	
Compensated Absences	<u>(754,982)</u>	
Total		<u>(899,850)</u>
<i>Net Assets of Governmental Activities</i>		<u><u>\$2,537,334</u></u>

**Richmond Heights Local School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2007*

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Property Taxes	\$9,159,838	\$133,249	\$9,293,087
Intergovernmental	2,555,541	242,780	2,798,321
Interest	164,785	189	164,974
Tuition and Fees	302,356	14,107	316,463
Extracurricular Activities	1,391	95,945	97,336
Rentals	0	1,877	1,877
Charges for Services	0	298	298
Contributions and Donations	0	13,256	13,256
Miscellaneous	12,865	0	12,865
<i>Total Revenues</i>	<u>12,196,776</u>	<u>501,701</u>	<u>12,698,477</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	5,777,921	62,542	5,840,463
Special	1,189,124	91,031	1,280,155
Vocational	170,317	0	170,317
Support Services:			
Pupils	588,250	6,079	594,329
Instructional Staff	124,186	74,292	198,478
Board of Education	220,550	0	220,550
Administration	1,227,320	11,224	1,238,544
Fiscal	432,473	0	432,473
Business	40,168	0	40,168
Operation and Maintenance of Plant	1,547,900	0	1,547,900
Pupil Transportation	1,005,359	0	1,005,359
Central	187,894	12,806	200,700
Operation of Non-Instructional Services	0	1,000	1,000
Extracurricular Activities	286,863	115,061	401,924
Capital Outlay	0	87,446	87,446
Debt Service:			
Principal Retirement	43,009	0	43,009
Interest and Fiscal Charges	9,681	0	9,681
<i>Total Expenditures</i>	<u>12,851,015</u>	<u>461,481</u>	<u>13,312,496</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(654,239)</u>	<u>40,220</u>	<u>(614,019)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers In	0	22,097	22,097
Transfers Out	(127,559)	0	(127,559)
<i>Total Other Financing Sources (Uses)</i>	<u>(127,559)</u>	<u>22,097</u>	<u>(105,462)</u>
<i>Net Change in Fund Balances</i>	(781,798)	62,317	(719,481)
<i>Fund Balances Beginning of Year</i>	<u>1,762,950</u>	<u>(1,603)</u>	<u>1,761,347</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$981,152</u>	<u>\$60,714</u>	<u>\$1,041,866</u>

See accompanying notes to the basic financial statements

**Richmond Heights Local School District**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2007*

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**Net Change in Fund Balances - Total Governmental Funds** (\$719,481)

*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 are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Capital Asset Additions	102,389	
Current Year Depreciation	(158,297)	
Total		(55,908)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Delinquent Property Taxes	162,831	
Grants	21,900	
Total		184,731

Repayment of bond, loan, and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 43,009

Compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as an expenditure in governmental funds. 32,931

*Change in Net Assets of Governmental Activities* (\$514,718)

**Richmond Heights Local School District**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2007*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original Budget	Revised Budget	Actual	
<b>Revenues</b>				
Property Taxes	\$7,175,719	\$6,744,440	\$8,591,179	\$1,846,739
Intergovernmental	2,133,327	2,004,914	2,555,541	550,627
Interest	137,488	129,148	164,785	35,637
Tuition and Fees	238,848	224,406	285,931	61,525
Extracurricular Activities	1,004	943	1,359	416
Miscellaneous	11,039	10,327	12,865	2,538
<i>Total Revenues</i>	9,697,425	9,114,178	11,611,660	2,497,482
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	5,472,502	5,526,426	5,699,048	(172,622)
Special	1,343,657	1,354,962	1,389,980	(35,018)
Vocational	162,564	164,111	224,193	(60,082)
Support Services:				
Pupils	598,597	604,285	632,258	(27,973)
Instructional Staff	148,368	149,630	143,774	5,856
Board of Education	219,808	221,772	272,120	(50,348)
Administration	1,191,217	1,198,344	1,295,689	(97,345)
Fiscal	422,310	428,397	432,823	(4,426)
Business	40,016	42,000	42,157	(157)
Operation and Maintenance of Plant	1,512,182	1,516,664	1,576,283	(59,619)
Pupil Transportation	1,037,493	1,060,942	1,137,918	(76,976)
Central	188,544	188,725	192,182	(3,457)
Extracurricular Activities	270,500	270,500	269,956	544
<i>Total Expenditures</i>	12,607,758	12,726,758	13,308,381	(581,623)
<i>Excess of Revenues Under Expenditures</i>	(2,910,333)	(3,612,580)	(1,696,721)	1,915,859
<b>Other Financing Sources (Uses)</b>				
Advances In	338,200	318,422	399,385	80,963
Advances Out	(112,000)	(112,000)	(107,600)	4,400
Transfers Out	(125,000)	(125,000)	(127,559)	(2,559)
<i>Total Other Financing Sources (Uses)</i>	101,200	81,422	164,226	82,804
<i>Net Change in Fund Balance</i>	(2,809,133)	(3,531,158)	(1,532,495)	1,998,663
<i>Fund Balance Beginning of Year</i>	1,343,722	1,343,722	1,343,722	0
Prior Year Encumbrances Appropriated	339,839	339,839	339,839	0
<i>Fund Balance End of Year</i>	(\$1,125,572)	(\$1,847,597)	\$151,066	\$1,998,663

See accompanying notes to the basic financial statements

**Richmond Heights Local School District**

*Statement of Fund Net Assets*

*Enterprise Funds*

*June 30, 2007*

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Latchkey/ Summer Camp</u>	<u>Total Enterprise Funds</u>
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$8,558	\$458	\$104,209	\$113,225
Cash with a Fiscal Agent	30,000	0	0	30,000
Materials and Supplies Inventory	2,098	0	0	2,098
Inventory Held for Resale	2,837	0	0	2,837
<i>Total Current Assets</i>	<u>43,493</u>	<u>458</u>	<u>104,209</u>	<u>148,160</u>
Capital Assets, Net	<u>13,740</u>	<u>0</u>	<u>0</u>	<u>13,740</u>
<i>Total Assets</i>	<u>57,233</u>	<u>458</u>	<u>104,209</u>	<u>161,900</u>
<b>Liabilities</b>				
<i>Current Liabilities:</i>				
Accounts Payable	3,431	0	8,615	12,046
Accrued Wages	0	0	6,411	6,411
Intergovernmental Payable	0	0	4,595	4,595
Interfund Payable	11,400	0	0	11,400
<i>Total Current Liabilities</i>	<u>14,831</u>	<u>0</u>	<u>19,621</u>	<u>34,452</u>
<i>Long-Term Liabilities:</i>				
Compensated Absences Payable	<u>0</u>	<u>0</u>	<u>7,868</u>	<u>7,868</u>
<i>Total Liabilities</i>	<u>14,831</u>	<u>0</u>	<u>27,489</u>	<u>42,320</u>
<b>Net Assets</b>				
Invested in Capital Assets	13,740	0	0	13,740
Unrestricted (Deficit)	28,662	458	76,720	105,840
<i>Total Net Assets</i>	<u>\$42,402</u>	<u>\$458</u>	<u>\$76,720</u>	<u>\$119,580</u>

See accompanying notes to the basic financial statements

**Richmond Heights Local School District**  
*Statement of Revenues,  
Expenses and Changes in Fund Net Assets  
Enterprise Funds  
For the Fiscal Year Ended June 30, 2007*

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Latchkey/ Summer Camp</u>	<u>Total Enterprise Funds</u>
<b>Operating Revenues</b>				
Tuition	\$0	\$0	\$123,217	\$123,217
Sales	221,340	0	150	221,490
<i>Total Operating Revenues</i>	<u>221,340</u>	<u>0</u>	<u>123,367</u>	<u>344,707</u>
<b>Operating Expenses</b>				
Salaries	0	0	88,102	88,102
Fringe Benefits	0	0	30,315	30,315
Purchased Services	226,488	0	18,737	245,225
Materials and Supplies	19,604	0	6,159	25,763
Cost of Sales	121,057	0	0	121,057
Depreciation	2,068	0	0	2,068
Other	575	0	0	575
<i>Total Operating Expenses</i>	<u>369,792</u>	<u>0</u>	<u>143,313</u>	<u>513,105</u>
<i>Operating Loss</i>	(148,452)	0	(19,946)	(168,398)
<b>Non-Operating Revenues</b>				
Operating Grants	134,122	0	0	134,122
<i>Loss Before Transfers</i>	(14,330)	0	(19,946)	(34,276)
Transfers In	105,462	0	0	105,462
<i>Change in Net Assets</i>	91,132	0	(19,946)	71,186
<i>Net Assets (Deficit) Beginning of Year</i>	<u>(48,730)</u>	<u>458</u>	<u>96,666</u>	<u>48,394</u>
<i>Net Assets End of Year</i>	<u>\$42,402</u>	<u>\$458</u>	<u>\$76,720</u>	<u>\$119,580</u>

See accompanying notes to the basic financial statements

**Richmond Heights Local School District**

*Statement of Cash Flows*

*Enterprise Funds*

*For the Fiscal Year Ended June 30, 2007*

	Food Service	Uniform School Supplies	Latchkey/ Summer Camp	Total Enterprise Funds
<b>Increase (Decrease) in Cash and Cash Equivalents</b>				
<b>Cash Flows from Operating Activities</b>				
Cash Received from Customers	\$222,382	\$0	\$123,367	\$345,749
Cash Payments to Employees for Services	0	0	(92,653)	(92,653)
Cash Payments for Employee Benefits	0	0	(28,417)	(28,417)
Cash Payments for Goods and Services	(376,431)	0	(23,835)	(400,266)
Other Cash Payments	(575)	0	0	(575)
<i>Net Cash Used for Operating Activities</i>	<u>(154,624)</u>	<u>0</u>	<u>(21,538)</u>	<u>(176,162)</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Operating Grants Received	151,782	0	0	151,782
Transfers In	105,462	0	0	105,462
Advances In	11,400	0	0	11,400
Advances Out	(144,000)	0	(10,000)	(154,000)
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>124,644</u>	<u>0</u>	<u>(10,000)</u>	<u>114,644</u>
<i>Net Increase in Cash and Cash Equivalents</i>	(29,980)	0	(31,538)	(61,518)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>38,538</u>	<u>458</u>	<u>135,747</u>	<u>174,743</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$8,558</u>	<u>\$458</u>	<u>\$104,209</u>	<u>\$113,225</u>

(continued)

**Richmond Heights Local School District**

*Statement of Cash Flows*

*Enterprise Funds (continued)*

*For the Fiscal Year Ended June 30, 2007*

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Latchkey/ Summer Camp</u>	<u>Total Enterprise Funds</u>
<b>Reconciliation of Operating Loss to Net Cash Used for Operating Activities</b>				
Operating Loss	(\$148,452)	\$0	(\$19,946)	(\$168,398)
Adjustments:				
Depreciation	2,068	0	0	2,068
(Increase) Decrease in Assets:				
Accounts Receivable	1,042	0	0	1,042
Inventory Held for Resale	(2,837)	0	0	(2,837)
Increase (Decrease) in Liabilities:				
Accounts Payable	(6,445)	0	1,061	(5,384)
Accrued Wages and Benefits	0	0	(4,551)	(4,551)
Compensated Absences Payable	0	0	805	805
Intergovernmental Payable	0	0	1,093	1,093
<i>Net Cash Used for Operating Activities</i>	<u>(\$154,624)</u>	<u>\$0</u>	<u>(\$21,538)</u>	<u>(\$176,162)</u>

See accompanying notes to the basic financial statements

**Richmond Heights Local School District**

*Statement of Fiduciary Assets and Liabilities*

*Agency Funds*

*June 30, 2007*

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**Assets**

Equity in Pooled Cash and Cash Equivalents

\$11,098

**Liabilities**

Due to Students

\$11,098

See accompanying notes to the basic financial statements

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## Richmond Heights Local School District

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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#### **Note 1 - Description of the School District and Reporting Entity**

Richmond Heights Local School District (School District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by state and federal agencies. This Board of Education controls the School District's two instructional/support facilities staffed by 56 non-certified and 71 certificated full time teaching personnel who provide services to 1,000 students and other community members.

#### *Reporting Entity*

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

***Nonpublic School*** Within the School District boundaries, Richmond Heights Christian School is operated independently. Current State legislation provides funding to these nonpublic schools. These monies are received and disbursed on behalf of the nonpublic schools by the Treasurer of the School District, as directed by the nonpublic schools. These transactions are reported as a governmental activity of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes for the organization. The School District does not have any component units.

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

***Cuyahoga County*** The Cuyahoga County government is a separate body politic and corporate with functions allocated to counties by Ohio law, such as elections, health and human services, and judicial.

***City of Richmond Heights*** The City of Richmond Heights is a separate body politic and corporate with municipal corporation responsibilities.

The School District participates in two jointly governed organizations. These organizations are the Lakeshore Northeast Ohio Computer Association and Ohio Schools Council Association, both jointly governed organizations. These organizations are discussed in Note 14 of the basic financial statements.

# Richmond Heights Local School District

## *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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### **Note 2 - Summary of Significant Accounting Policies**

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

#### ***A. Basis of Presentation***

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities and fund financial statements which provide a more detailed level of financial information.

***Government-wide Financial Statements*** The statement of net assets and the statement of activities display information about the School 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 School District that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities and for two business-type activities of the School District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School 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 School District.

***Fund Financial Statements*** During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

#### ***B. Fund Accounting***

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The funds of the School District are divided into three categories: governmental, proprietary and fiduciary.

# Richmond Heights Local School District

## *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

**General Fund** The general fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

**Proprietary Fund Type** Proprietary funds focus on the determination of operating income, changes in net assets, financial position and cash flows and are classified as either enterprise or internal service. The School District only has enterprise funds.

**Enterprise Funds** Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The School District's enterprise funds are used to account for food service operations, uniform school supplies operations and latchkey/summer camp operations.

**Fiduciary Fund Type** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary funds are agency funds which reflect resources that belong to the student bodies of the various schools for student activities.

### **C. Measurement Focus**

**Government-wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

**Fund Financial Statements** All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide 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.

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement

# Richmond Heights Local School District

## *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

### ***D. 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 and the statements presented for the proprietary and fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

***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. Measurable means the amount of transaction can be determined. 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 School District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6). 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 year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange 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 year-end: property taxes available as an advance, interest, tuition, grants, fees and rentals.

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

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 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 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.

## **Richmond Heights Local School District**

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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#### ***E. Cash and Cash Equivalents***

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "equity in pooled cash and cash equivalents."

During fiscal year 2007, investments were limited to STAROhio. Investments are reported at fair value which is based on quoted market prices.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2007.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$164,785 which includes \$37,873 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents.

#### ***F. Inventory***

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used.

Inventories consist of purchased food and school supplies held for resale, and materials and supplies held for consumption.

#### ***G. 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 School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one thousand dollars. The School 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.

## Richmond Heights Local School District

### Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Land Improvements	20 years	N/A
Buildings and Improvements	10-30 years	N/A
Furniture and Equipment	5-20 years	12 years
Vehicles	15 years	N/A

#### **H. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans and unpaid amounts for interfund services are classified as "interfund receivables/payables." 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.

#### **I. 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 employer will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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 benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

#### **J. 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, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, contractually required pension contributions 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 are due for the payment during the current fiscal year. Capital leases are recognized as a liability on the governmental fund financial statements when due.

#### **K. 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

## **Richmond Heights Local School District**

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$117,984 of restricted net assets none of which is restricted by enabling legislation. Net assets restricted for other purposes include student activities, special education, computer networking, and programs to help students prepare for the proficiency test.

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

#### ***L. Fund Balance Reserves***

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

#### ***M. Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are sales and fees for food service, adult continuing education and extended daycare/preschool programs. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. All revenue and expenses not meeting these definitions are reported as non-operating.

#### ***N. 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 nonoperating 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.

#### ***O. Estimates***

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

#### ***P. Budgetary Data***

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated

# Richmond Heights Local School District

## *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer has been given the authority to allocate Board appropriations to the function and object levels.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that was in effect at the time the final appropriations were passed by the Board of Education.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues by fund. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

### **Note 3 – Accountability and Compliance**

#### ***A. Accountability***

Fund balances at June 30, 2007, included the following individual fund deficits:

<b>Special Revenue Funds</b>	
District Managed Activity	(\$51,028)
Network Connectivity	(4,587)
State Grants	(9,253)
Title I	(20,925)
Drug Free Schools	(391)
Classroom Reduction	(2,026)
Miscellaneous Federal Grants	(4,387)

The special revenue funds' deficits are due to adjustments for accrued liabilities. The capital project fund's deficit is due to an interfund payable to the general fund. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, rather than when accruals occur.

#### ***B. Compliance***

The following funds had original appropriations in excess of original estimated resources plus carryover balances in violation of Section 5705.39, Ohio Revised Code:



## Richmond Heights Local School District

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances-In and Advances-Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP).

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis for the general fund.

#### Net Change in Fund Balance

GAAP Basis	(\$781,798)
Net Adjustment for Revenue Accruals	(585,116)
Advances In	399,385
Net Adjustment for Expenditure Accruals	14,381
Advances Out	(107,600)
Adjustment for Encumbrances	<u>(471,747)</u>
Budget Basis	<u><u>(\$1,532,495)</u></u>

#### **Note 5 – Deposits and Investments**

Monies held by the School District are classified by State statute into three categories.

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

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

Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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;

## Richmond Heights Local School District

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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2. Bonds, notes, debentures, or any other obligation or security 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;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio);
8. Commercial paper and banker's acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

#### Deposits

*Custodial Credit Risk.* Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$823,697 of the School District's bank balance of \$923,697 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

#### Investments

As of June 30, 2007, the School District had the following investments:

## Richmond Heights Local School District

### Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Maturity</u>
STAROhio	<u>\$473,515</u>	35 days

All investments are in an internal investment pool.

*Interest Rate Risk.* The School District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

*Credit Risk.* STAROhio carries a rating of AAA by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no policy regarding credit risk other than statutory guidelines which limit investment choices.

*Custodial Credit Risk.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

*Concentration of Credit Risk.* The School District places no limit on the amount it may invest in any one issuer. At June 30, 2007, the School District invested in only STAROhio.

### Note 6 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. 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.

Public utility property tax revenue received in calendar 2007 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

## Richmond Heights Local School District

### Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

Tangible personal property tax revenue received during calendar 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008 and zero for 2009. Payments 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. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Cuyahoga County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 and the personal property tax settlements were levied to finance current fiscal year operations and are reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2007 was \$1,624,982 in the general fund and \$19,018 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2006, was \$1,008,265 in the general fund and \$14,746 in the permanent improvement capital projects fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second Half Collections		2007 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$225,565,370	91.67 %	\$251,598,230	93.91 %
Public Utility Personal	3,576,050	1.45	3,380,520	1.26
Tangible Personal Property	16,914,875	6.88	12,942,809	4.83
Total	<u>\$246,056,295</u>	<u>100.00 %</u>	<u>\$267,921,559</u>	<u>100.00 %</u>
Tax rate per \$1,000 of assessed valuation	\$78.60		\$78.60	

### Note 7 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

## Richmond Heights Local School District

### Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

	Balance 6/30/2006	Additions	Deletions	Balance 6/30/2007
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$311,214	\$0	\$0	311,214
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	6,244,248	0	0	6,244,248
Furniture and Equipment	614,386	102,389	0	716,775
Vehicles	811,246	0	0	811,246
<i>Total Capital Assets, being depreciated</i>	<u>7,669,880</u>	<u>102,389</u>	<u>0</u>	<u>7,772,269</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(5,890,528)	(35,394)	0	(5,925,922)
Furniture and Equipment	(464,637)	(85,302)	0	(549,939)
Vehicles	(403,962)	(37,601)	0	(441,563)
Total Accumulated Depreciation	<u>(6,759,127)</u>	<u>(158,297)*</u>	<u>0</u>	<u>(6,917,424)</u>
Total Capital Assets, being depreciated, net	<u>910,753</u>	<u>(55,908)</u>	<u>0</u>	<u>854,845</u>
Governmental Activities Capital Assets, Net	<u>\$1,221,967</u>	<u>(\$55,908)</u>	<u>\$0</u>	<u>\$1,166,059</u>

\* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$50,329
Support Services:	
Pupils	3,330
Instructional Staff	5,305
Administration	4,538
Fiscal	1,482
Operation and Maintenance of Plant	47,597
Pupil Transportation	40,196
Central	4,370
Extracurricular Activities	1,150
Total Depreciation	<u>\$158,297</u>

	Balance 6/30/2006	Additions	Deletions	Balance 6/30/2007
<b>Business-Type Activities</b>				
Furniture and Equipment	\$75,858	\$0	\$0	\$75,858
Less Accumulated Depreciation:				
Furniture and Equipment	(60,050)	(2,068)	0	(62,118)
Business-Type Activities Capital Asset, Net	<u>\$15,808</u>	<u>(\$2,068)</u>	<u>\$0</u>	<u>\$13,740</u>

All depreciation expense for business-type activities was charged to the food service fund.

## Richmond Heights Local School District

### Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

#### Note 8 - Receivables

Receivables at June 30, 2007, consisted of taxes, accounts (rent and tuition), interfund and intergovernmental grants. 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 fiscal year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amounts</u>
Title I	\$32,931
Title VI	6,077
Drug Free Schools	7,560
Classroom Reduction	11,345
Miscellaneous Federal Grants	758
Total Governmental Activities	<u>\$58,671</u>

#### Note 9 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. At June 30, 2007, the School District contracted with the following insurance companies:

<u>Company</u>	<u>Type of Coverage</u>	<u>Limit</u>	<u>Deductible</u>
Indiana Insurance Company	Auto Liability	\$1,000,000	N/A
	Uninsured Motorist	100,000	N/A
	Comprehensive General Liability		
	General Liability	1,000,000	N/A
	Personal Injury	1,000,000	N/A
	General Aggregate	2,000,000	N/A
	Errors and Omissions	1,000,000	N/A
	Property Coverage		
	Blanket Building and Contents	22,138,800	2,500

Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from last year.

The School District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

#### Note 10 - Pension Plans

##### A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish

## **Richmond Heights Local School District**

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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and amend benefits is provided by 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 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were \$212,600, \$201,790, and \$174,672, respectively; 33.56 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

#### ***B. State Teachers Retirement System***

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

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

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement

## **Richmond Heights Local School District**

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$691,187, \$587,978, and \$585,689, respectively; 74.75 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were \$4,424 made by the School District and \$13,864 made by the plan members.

#### **Note 11 - Postemployment Benefits**

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$53,145 for fiscal year 2007.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2007, the balance in the Fund was \$4.1 billion. For the fiscal year ended June 30, 2007, net health care costs paid by STRS were \$265,558,000 and STRS had 122,934 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. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. 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 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$66,074.

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 projected claims less premium contributions for the next year. Expenses for health

**Richmond Heights Local School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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care for the fiscal year ended June 30, 2006, (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive benefits.

**Note 12 - Other Employee Benefits**

***A. Compensated Absences***

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Non-certified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment.

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 basis may elect at the time of retirement to pay a severance payment. The payment will be calculated on a percentage of total accumulated and unused sick leave time times the then current daily rate, to a maximum of 220 days in accordance with the following years of experience in the School District's scale:

<u>Years of Experience</u>	<u>Percentage</u>
1-4	6.3 %
5-9	12.5
10+	25.0

***B. Insurance Benefits***

The School District provides life insurance and accidental death and dismemberment insurance through Sun Life. Certificated employees and classified employees receive \$40,000 term life and accidental death and dismemberment coverage. Administrative employees receive \$200,000 coverage.

The School District also provides medical/surgical/prescription drug/vision and dental insurance through Medical Mutual Blue Cross and Blue Shield of Ohio to all eligible employees.

**Note 13 - Long-Term Obligations**

The changes in the School District's long-term obligations during the year consist of the following:

## Richmond Heights Local School District

### Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

	Principal Outstanding 6/30/2006	Additions	(Reductions)	Principal Outstanding 6/30/2007	Amount Due in One Year
<b>Governmental Activities:</b>					
Capital Lease	\$187,877	\$0	(\$43,009)	\$144,868	\$45,547
Compensated Absences	787,913	39,739	(72,670)	754,982	58,236
Total Governmental Activities	<u>\$975,790</u>	<u>\$39,739</u>	<u>(\$115,679)</u>	<u>\$899,850</u>	<u>\$103,783</u>
<b>Business-Type Activities:</b>					
Compensated Absences	<u>\$7,063</u>	<u>\$805</u>	<u>\$0</u>	<u>\$7,868</u>	<u>\$0</u>

The capital leases will be paid from the general fund. Compensated absences will be paid from the employing fund.

The School District's overall legal debt margin was \$22,112,940 with an unvoted debt margin of \$267,922 at June 30, 2007.

### Note 14 - Jointly Governed Organizations

#### A. Lakeshore Northeast Ohio Computer Association

The Lakeshore Northeast Ohio Computer Association (LNOCA) is a jointly governed computer service bureau that was formed for the purpose of providing data services to the seventeen member districts. Major areas of service provided by LNOCA include accounting, payroll, inventory, career guidance services, handicapped student tracking, pupil scheduling, attendance reporting and grade reporting. Each school is represented on the LNOCA Board of Directors by its superintendent. 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. In fiscal year 2007, the School District paid \$46,228 to LNOCA. Financial information can be obtained by contacting the Treasurer of the fiscal agent at 5700 West Canal Road, Valley View, OH 44125.

#### B. Ohio Schools Council Association

The Ohio Schools Council Association (Council) is a jointly governed organization among ninety-one school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council'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. In fiscal year 2007, the School District paid \$1,851 to the Council. Financial information can be obtained by contacting Dr. David A. Cottrell, the Executive Treasurer of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

The School 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 districts 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.

## Richmond Heights Local School District

### Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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

The School District also participates in the Council's prepaid natural gas program which was implemented during fiscal year 1999. This program allows school districts to purchase natural gas at reduced rates, if the school districts 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 their actual usage and any necessary adjustments are made.

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

#### Note 15 - Set-Asides

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

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

	Textbooks Instructional Materials Reserve	Capital Improvement Reserve
Set-aside Reserve Balance as of June 30, 2006	(\$44,710)	\$0
Current Year Set-aside Requirement	168,397	168,397
Qualifying Disbursements	(239,498)	(173,130)
Totals	<u>(\$115,811)</u>	<u>(\$4,733)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$115,811)</u>	<u>\$0</u>
Set-aside Reserve Balance as of June 30, 2007	<u>\$0</u>	<u>\$0</u>

The School District had qualifying disbursements during the fiscal year that reduced the textbook set-aside amount below zero. This extra amount may be used to reduce the set-aside requirements of future fiscal years. Although the School District had qualifying disbursements and offsets during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement for future years. This negative balance is therefore not presented as being carried forward to future years.

**Richmond Heights Local School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

**Note 16 - Interfund Transactions**

Interfund balances at June 30, 2007, consist of the following individual fund receivables and payables:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	<u>\$169,787</u>	<u>\$0</u>
Special Revenue Funds:		
Public School Support	0	25,781
District Managed Student Activities	0	64,706
Network Connectivity	0	4,600
State Grants	0	9,300
Title I	0	6,900
Drug Free Schools	0	400
Classroom Reduction	0	15,200
Miscellaneous Federal Grants	0	6,500
<i>Total Special Revenue Funds</i>	<u>0</u>	<u>133,387</u>
Capital Projects Fund:		
Permanent Improvements	<u>0</u>	<u>25,000</u>
Enterprise Funds:		
Food Service	<u>0</u>	<u>11,400</u>
<b>Total All Funds</b>	<u><u>\$169,787</u></u>	<u><u>\$169,787</u></u>

Interfund payables in the special revenue funds are due to the timing of the receipt of grant monies received by the various funds. The capital projects payable is due to the start of improvement projects before the permanent improvement tax levy collections began. Interfund payables exist in the enterprise fund due to the timing of the receipt of various revenue sources. All balances are expected to be paid next fiscal year.

Transfers made during the year ended June 30, 2007 were as follows:

	<u>Transfers To</u>		
	<u>Nonmajor Governmental</u>	<u>Food Service Business-Type</u>	<u>Total</u>
<u>Transfers From</u>			
Major Funds:			
General	<u>\$22,097</u>	<u>\$105,462</u>	<u>\$127,559</u>

The transfers are to move unrestricted balances to support programs and projects accounted for in other funds.

## Richmond Heights Local School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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### Note 17 - Contingencies

#### A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2007.

#### B. Litigation

The School District is not a party to legal proceedings. The School Board is of the opinion that legal proceedings will not have a material effect, if any, on the financial condition of the School District.

### Note 18 - Capital Leases

The School District entered into capital leases for a sub service building in fiscal year 2001. As a part of the agreement, Fifth Third Bank, as lessor, provided \$400,000 for the construction. This lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases." The leased equipment is reported as a group in governmental activities at a cost of \$400,000; accumulated depreciation through June 30, 2007 amounted to \$280,000 leaving a book value of \$120,000. The agreements provide for minimum, annual lease payments as follows:

	Governmental Activities
2008	\$52,689
2009	52,689
2010	52,690
Total Minimum Lease Payments	158,068
Less: Amounts Representing Interest	(13,200)
Present Value of Minimum Lease Payments	<u>\$144,868</u>

### Note 19 – Subsequent Event

The School District placed two levies on the November 6, 2007 ballot. The levies were an 8.5 mill continuing general operating and a 3 mill permanent improvement. The levies were anticipated to generate \$1,749,562 and \$617,492, annually. The levies failed. The School District placed one levy on the March 4, 2008 ballot. A 6.5 mill emergency five year general operating levy anticipated to generate \$1,651,300 annually failed. The School District placed one levy on the November 4, 2008 ballot. A 6.5 mill emergency five year general operating levy anticipated to generate \$1,651,300 annually failed.

## **Richmond Heights Local School District**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited*

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The discussion and analysis of Richmond Heights Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the transmittal letter, the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

### **Financial Highlights**

Key financial highlights for 2006 are as follows:

- Total net assets increased \$464,387, an increase of \$463,754 in Governmental Activities and \$633 in Business-Type Activities.
- General revenues accounted for \$12,635,730 or 94.2 percent of all revenues for all Governmental Activities. Program specific revenues in the form of charges for services and sales and operating grants and contributions accounted for \$778,090 or 5.8 percent of total revenues of \$13,413,820.
- Total program expenses were \$12,950,066 in Governmental Activities and \$485,362 in Business-Type Activities.

### **Using this Basic Financial Statement Report (BFS)**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Richmond Heights Local School District as an entire operating entity. The statements begin at a summary level and expand to detailed financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the entire School District, presenting both an aggregate view of the School District's current finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements present how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant governmental funds with all other nonmajor funds presented in total in one column. The general fund is the most significant fund.

### ***Reporting the School District as a Whole***

#### *Statement of Net Assets and the Statement of Activities*

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as an entity looks at all financial transactions and asks the question, "How did we do financially during the 2006 fiscal year?" 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 of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. Changes to our net assets are a direct result of property tax

## Richmond Heights Local School District

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited*

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base, current property tax laws in Ohio restricting revenue growth, facility conditions, mandated educational programs, state funding, student enrollment, and general inflation.

In the Statement of Net Assets and the Statement of Activities, the School District is divided into two major activities:

- **Governmental Activities** – Most of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities and general administration.
- **Business-Type Activities** – These services are provided on a fee basis to recover all of the expenses of the goods or services provided. The School District's business-type activities are food service, adult continuing education and extended daycare/preschool.

### ***Reporting the School District's Most Significant Funds***

#### *Fund Financial Statements*

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for its financial transactions. However, these fund financial statements concentrate on the School District's most significant funds. The School District's major governmental fund is the general fund.

***Governmental Funds*** Most of the School District's activities are reported in governmental funds, which accounts for flow of money into and out of those funds and the year-end balances available for spending in future years. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps the reader determine the amount of financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

***Proprietary Funds*** Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

#### **The School District as a Whole**

The Statement of Net Assets provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net assets for 2006 compared to 2005:

**Richmond Heights Local School District**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited*

(Table 1)  
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Assets</b>						
Current and Other Assets	\$12,091,328	\$12,563,216	\$71,543	\$63,509	\$12,162,871	\$12,626,725
Capital Assets, Net	1,221,967	1,140,480	15,808	17,876	1,237,775	1,158,356
<b>Total Assets</b>	<b>13,313,295</b>	<b>13,703,696</b>	<b>87,351</b>	<b>81,385</b>	<b>13,400,646</b>	<b>13,785,081</b>
<b>Liabilities</b>						
Current and Other Liabilities	9,285,453	10,385,249	31,894	27,955	9,317,347	10,413,204
Long-Term Liabilities:						
Due Within One Year	101,244	40,610	0	0	101,244	40,610
Due in More than One Year	874,546	1,191,201	7,063	5,669	881,609	1,196,870
<b>Total Liabilities</b>	<b>10,261,243</b>	<b>11,617,060</b>	<b>38,957</b>	<b>33,624</b>	<b>10,300,200</b>	<b>11,650,684</b>
<b>Net Assets</b>						
Invested in Capital						
Assets, Net of Debt	993,480	911,994	15,808	17,876	1,009,288	929,870
Restricted						
Capital Projects	40,610	37,399	0	0	40,610	37,399
Other Purpose	30,591	79,788	0	0	30,591	79,788
Unrestricted	1,987,371	1,559,117	32,586	29,885	2,019,957	1,589,002
<b>Total Net Assets</b>	<b>\$3,052,052</b>	<b>\$2,588,298</b>	<b>\$48,394</b>	<b>\$47,761</b>	<b>\$3,100,446</b>	<b>\$2,636,059</b>

Total assets of governmental activities decreased \$390,401. The majority of the decrease is attributable to taxes receivable decreasing \$624,118, offset by an increase in equity in pooled cash and cash equivalents of \$162,091.

Total liabilities for governmental activities decreased \$1,355,817. This decrease was the result of decreased accrued wages of \$214,737, decreased deferred revenue of \$1,640,217 offset by increases in accounts payable and intergovernmental payables of \$73,403 and \$180,093 respectively.

The net impact for governmental activities was an increase of net assets by \$463,754.

Table 2 shows the changes in net assets for the fiscal year 2006 for both our Governmental activities and our Business-Type activities. Revenue and expense comparisons can be made between the years 2005 and 2006.

## Richmond Heights Local School District

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited*

**Table 2**  
Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$508,531	\$364,963	\$334,999	\$358,145	\$843,530	\$723,108
Operating Grants and Contributions	269,559	279,065	127,771	98,883	397,330	377,948
<i>Total Program Revenues</i>	<u>778,090</u>	<u>644,028</u>	<u>462,770</u>	<u>457,028</u>	<u>1,240,860</u>	<u>1,101,056</u>
General Revenues:						
Property Taxes	10,081,374	8,542,602	0	0	10,081,374	8,542,602
Grants and Entitlements	2,397,258	2,450,664	0	0	2,397,258	2,450,664
Investment Earnings	142,794	61,661	0	0	142,794	61,661
Miscellaneous	14,304	153,081	23,225	0	37,529	153,081
<i>Total General Revenues</i>	<u>12,635,730</u>	<u>11,208,008</u>	<u>23,225</u>	<u>0</u>	<u>12,658,955</u>	<u>11,208,008</u>
<b>Total Revenues</b>	<u>13,413,820</u>	<u>11,852,036</u>	<u>485,995</u>	<u>457,028</u>	<u>13,899,815</u>	<u>12,309,064</u>
<b>Program Expenses</b>						
Instruction	7,059,107	6,608,166	0	0	7,059,107	6,608,166
Support Services:						
Pupil and Instructional Staff	1,127,005	966,207	0	0	1,127,005	966,207
Board of Education, Administration, Fiscal and Business	1,772,470	1,556,559	0	0	1,772,470	1,556,559
Operation and Maintenance of Plant	1,223,116	1,190,925	0	0	1,223,116	1,190,925
Pupil Transportation	1,145,697	840,810	0	0	1,145,697	840,810
Central	173,017	126,152	0	0	173,017	126,152
Operation of Non-Instructional Services	2,000	0	0	0	2,000	0
Enterprise Operations	0	0	485,362	489,473	485,362	489,473
Extracurricular Activities	435,575	460,360	0	0	435,575	460,360
Interest and Fiscal Charges	12,079	0	0	0	12,079	0
<b>Total Program Expenses</b>	<u>12,950,066</u>	<u>11,749,179</u>	<u>485,362</u>	<u>489,473</u>	<u>13,435,428</u>	<u>12,238,652</u>
<b>Change in Net Assets</b>	463,754	102,857	633	(32,445)	464,387	70,412
<i>Net Assets Beginning of Year</i>	<u>2,588,298</u>	<u>2,485,441</u>	<u>47,761</u>	<u>80,206</u>	<u>2,636,059</u>	<u>2,565,647</u>
<i>Net Assets End of Year</i>	<u>\$3,052,052</u>	<u>\$2,588,298</u>	<u>\$48,394</u>	<u>\$47,761</u>	<u>\$3,100,446</u>	<u>\$2,636,059</u>

Total governmental activities net assets increased \$463,754. Property taxes increased \$1,538,772; grants and entitlements decreased \$32,912 and an overall increase in revenues of \$1,561,784.

The increase of \$450,941 in instructional program expenses and \$160,798 in pupil and instructional staff was due to increased costs in special education contracts and placements.

The unusual nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. As a result of legislation enacted in 1976, the overall revenue generated by a voted tax levy does not increase as a result of inflation. As an example, a homeowner with a home valued at \$100,000 (Assessed value of \$35,000) and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three

## Richmond Heights Local School District

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited*

years later the home was reappraised and increased to \$200,000 (assessed value of \$70,000) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Our School District, which is dependent upon property taxes, is hampered by a lack of revenue growth and must periodically ask the voters to increase property taxes to maintain a constant level of service. Property taxes made up 75.2 percent of revenues for governmental activities for the Richmond Heights Schools in fiscal year 2006.

The largest Governmental Activities program expense remains instruction, comprising 54.5 percent of total expenses. When combined with pupils and instructional support these categories make up 63.2 percent of expenses.

Management recognizes a continued loss of personal property tax revenue due to the continued phase-out of personal property tax and phase-in of public utility deregulation as well as board of revision and board of tax appeal decisions.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, (services supported by tax revenue and unrestricted State entitlements), the total cost of services and the net cost of services.

Table 3  
Governmental Activities

	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
Instruction	\$7,059,107	\$6,689,551	\$6,608,166	\$6,118,828
Support Services:				
Pupils and Instructional Staff	1,127,005	980,211	966,207	901,246
Board of Education, Administration				
Fiscal and Business	1,772,470	1,708,778	1,556,559	1,547,504
Operation and Maintenance	1,223,116	1,187,377	1,190,925	1,190,925
Pupil Transportation	1,145,697	1,103,488	840,810	834,474
Central	173,017	148,650	126,152	109,467
Operating of Non-Instructional Services	2,000	1,235	0	0
Extracurricular Activities	435,575	340,607	460,360	402,707
Interest and Fiscal Charges	12,079	12,079	0	0
Total	<u>\$12,950,066</u>	<u>\$12,171,976</u>	<u>\$11,749,179</u>	<u>\$11,105,151</u>

The dependence upon tax revenues for governmental activities is apparent. Over 94 percent of instruction activities are supported through taxes and other general revenues. Our community is responsible for the primary support for Richmond Heights Local School District students.

## **Richmond Heights Local School District**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited*

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### ***Business-Type Activities***

Business-type activities include the food service, uniform school supplies, and latchkey/summer school programs.

Overall net assets increased \$633 in 2006. Business-type activities increased due to the other non-operating revenue received for the fiscal year.

### **The School District's Funds**

Information about the School District's major funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. The general fund had total revenues of \$11,846,455 and expenditures and transfers of \$11,680,022. The net change in fund balance for the year was an increase of \$166,433.

### ***General Fund Budgeting Highlights***

The School 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 2006, the School District amended its general fund budget several times to allow for advances to athletics and State and Federal flow through grants.

For the general fund, original and final budget basis estimated revenues were \$11,868,540 and \$12,167,460, respectively. Total actual revenues were \$11,841,363.

Final appropriations for the general fund increased by \$152,000 from the original appropriations, due to an increase in the School District's support programs. Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$11,876,017.

### ***Capital Assets and Debt***

#### **Capital Assets**

At the end of fiscal 2006 the School District had \$1,237,775 invested in land, buildings and improvements, furniture and equipment, and vehicles, \$1,221,967 of which is in governmental activities. Table 4 shows fiscal 2006 balances compared to 2005:

## Richmond Heights Local School District

*Management's Discussion and Analysis  
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Unaudited*

Table 4  
Capital Assets at June 30  
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$311,214	\$311,214	\$0	\$0	\$311,214	\$311,214
Buildings and Improvements	353,720	389,114	0	0	353,720	389,114
Furniture and Equipment	149,749	59,567	15,808	17,876	165,557	77,443
Vehicles	407,284	380,585	0	0	407,284	380,585
Totals	<u>\$1,221,967</u>	<u>\$1,140,480</u>	<u>\$15,808</u>	<u>\$17,876</u>	<u>\$1,237,775</u>	<u>\$1,158,356</u>

For fiscal year 2006, an Ohio law required school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks. For fiscal year 2006, this amounted to \$154,259 for each set aside. For fiscal year 2006, the School District had qualifying disbursements or offsets exceeding these requirements. See Note 8 to the basic financial statements for additional information on capital assets.

### Debt

At June 30, 2006, the School District had no bonded debt outstanding. The School District had a balance of \$187,877 remaining on a capital lease. More information on the capital lease can be found in Note 14 to the basic financial statements.

### *School District Outlook*

The Board of Education and administration are aware of their limited financial resources. They are working within a five-year budget plan and actively pursuing additional funding through local levies. As of yet, no new monies have been generated since May of 2003.

Significant legislative and judicial actions continue to occur that will have a major impact on the School District. We believe that the ultimate resolution of funding reform is still sometime away. The downturn in the economy has put pressures on both the State budget as well as the local School District budget. We are concerned that the State may not have the ability to fully fund the previously approved subsidies for primary and secondary education in the State budget. We are also concerned that the local tax base may be weakened as a result of the current economic conditions and therefore negatively impact local tax revenues.

The Richmond Heights Local School District has committed itself to a fiscal discipline based on long-term plans as well as a commitment to full disclosure of financial information and utilization of the highest standards of financial reporting.

**Richmond Heights Local School District**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited*

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**Contacting the School District Fiscal Management**

This financial report was designed to comply with the most current reporting requirements and is intended to provide our parents, citizens, taxpayers, investors and creditors an understanding of the School District's financial position. Brenda Break, Treasurer, can be contacted at the Richmond Heights Local School District, 447 Richmond Road, Richmond Heights, Ohio 44143 or by email at [bbreak@richmondheightsschools.org](mailto:bbreak@richmondheightsschools.org).

**Richmond Heights Local School District**

*Statement of Net Assets*

*June 30, 2006*

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$1,992,505	\$174,743	\$2,167,248
Cash with a Fiscal Agent	0	30,000	30,000
Accounts Receivable	1,334	1,042	2,376
Intergovernmental Receivable	36,771	17,660	54,431
Internal Balances	154,000	(154,000)	0
Materials and Supplies Inventory	0	2,098	2,098
Property Taxes Receivable	9,906,718	0	9,906,718
Nondepreciable Capital Assets	311,214	0	311,214
Depreciable Capital Assets, Net	910,753	15,808	926,561
<i>Total Assets</i>	<u>13,313,295</u>	<u>87,351</u>	<u>13,400,646</u>
<b>Liabilities</b>			
Accounts Payable	231,371	17,430	248,801
Accrued Wages and Benefits	895,108	10,962	906,070
Intergovernmental Payable	283,023	3,502	286,525
Deferred Revenue	7,875,951	0	7,875,951
Long-Term Liabilities:			
Due Within One Year	101,244	0	101,244
Due In More Than One Year	874,546	7,063	881,609
<i>Total Liabilities</i>	<u>10,261,243</u>	<u>38,957</u>	<u>10,300,200</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	1,034,090	15,808	1,049,898
Restricted for:			
Other Purposes	30,591	0	30,591
Unrestricted	1,987,371	32,586	2,019,957
<i>Total Net Assets</i>	<u>\$3,052,052</u>	<u>\$48,394</u>	<u>\$3,100,446</u>

See accompanying notes to the basic financial statements

**Richmond Heights Local School District**

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2006*

	Program Revenues		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions
<b>Governmental Activities</b>			
Instruction:			
Regular	\$6,197,088	\$232,028	\$38,968
Special	862,019	22,465	76,095
Support Services:			
Pupils	820,241	36,514	887
Instructional Staff	306,764	6,629	102,764
Board of Education	111,201	3,315	36
Administration	1,190,363	36,174	10,021
Fiscal	462,737	13,626	148
Business	8,169	368	4
Operation and Maintenance of Plant	1,223,116	35,355	384
Pupil Transportation	1,145,697	33,145	9,064
Central	173,017	4,419	19,948
Operation of Non-Instructional Services	2,000	0	765
Extracurricular Activities	435,575	84,493	10,475
Interest and Fiscal Charges	12,079	0	0
<i>Total Governmental Activities</i>	<u>12,950,066</u>	<u>508,531</u>	<u>269,559</u>
<b>Business-Type Activities</b>			
Food Service	327,505	186,179	127,771
Latchkey/Preschool	157,857	148,820	0
<i>Total Business-Type Activities</i>	<u>485,362</u>	<u>334,999</u>	<u>127,771</u>
<i>Totals</i>	<u>\$13,435,428</u>	<u>\$843,530</u>	<u>\$397,330</u>

**General Revenues**

Property Taxes Levied for:

    General Purposes

    Capital Projects

Grants and Entitlements not

    Restricted to Specific Programs

Investment Earnings

Miscellaneous

*Total General Revenues*

Change in Net Assets

*Net Assets Beginning of Year*

*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
(\$5,926,092)	\$0	(\$5,926,092)
(763,459)	0	(763,459)
(782,840)	0	(782,840)
(197,371)	0	(197,371)
(107,850)	0	(107,850)
(1,144,168)	0	(1,144,168)
(448,963)	0	(448,963)
(7,797)	0	(7,797)
(1,187,377)	0	(1,187,377)
(1,103,488)	0	(1,103,488)
(148,650)	0	(148,650)
(1,235)	0	(1,235)
(340,607)	0	(340,607)
(12,079)	0	(12,079)
<u>(12,171,976)</u>	<u>0</u>	<u>(12,171,976)</u>
0	(13,555)	(13,555)
<u>0</u>	<u>(9,037)</u>	<u>(9,037)</u>
0	(22,592)	(22,592)
<u>(12,171,976)</u>	<u>(22,592)</u>	<u>(12,194,568)</u>
9,933,989	0	9,933,989
147,385	0	147,385
2,397,258	0	2,397,258
142,794	0	142,794
14,304	23,225	37,529
<u>12,635,730</u>	<u>23,225</u>	<u>12,658,955</u>
463,754	633	464,387
<u>2,588,298</u>	<u>47,761</u>	<u>2,636,059</u>
<u>\$3,052,052</u>	<u>\$48,394</u>	<u>\$3,100,446</u>

**Richmond Heights Local School District**

*Balance Sheet*

*Governmental Funds*

*June 30, 2006*

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$1,683,561	\$308,944	\$1,992,505
Accounts Receivable	349	985	1,334
Intergovernmental Receivable	0	36,771	36,771
Interfund Receivable	461,572	0	461,572
Property Taxes Receivable	9,766,510	140,208	9,906,718
<i>Total Assets</i>	<u>\$11,911,992</u>	<u>\$486,908</u>	<u>\$12,398,900</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts Payable	\$229,860	\$1,511	\$231,371
Accrued Wages and Benefits	881,088	14,020	895,108
Intergovernmental Payable	279,848	3,175	283,023
Interfund Payable	0	307,572	307,572
Deferred Revenue	8,758,246	162,233	8,920,479
<i>Total Liabilities</i>	<u>10,149,042</u>	<u>488,511</u>	<u>10,637,553</u>
<b>Fund Balances</b>			
Reserved for Encumbrances	109,979	48,118	158,097
Reserved for Property Taxes	1,008,265	14,746	1,023,011
Unreserved, Undesignated (Deficit)			
Reported in:			
General Fund	644,706	0	644,706
Special Revenue Funds	0	(35,095)	(35,095)
Capital Projects Funds	0	(29,372)	(29,372)
<i>Total Fund Balances</i>	<u>1,762,950</u>	<u>(1,603)</u>	<u>1,761,347</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$11,911,992</u>	<u>\$486,908</u>	<u>\$12,398,900</u>

See accompanying notes to the basic financial statements

**Richmond Heights Local School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2006*

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<b>Total Governmental Fund Balances</b>		\$1,761,347
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		1,221,967
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds:		
Delinquent Property Taxes	1,007,757	
Grants	36,771	
Total		1,044,528
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Capital Lease Payable	(187,877)	
Compensated Absences	(787,913)	
Total		(975,790)
<i>Net Assets of Governmental Activities</i>		<b>\$3,052,052</b>

**Richmond Heights Local School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2006*

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Property Taxes	\$8,936,310	\$137,307	\$9,073,617
Intergovernmental	2,385,663	223,998	2,609,661
Interest	142,652	142	142,794
Tuition and Fees	364,709	11,873	376,582
Extracurricular Activities	3,569	126,702	130,271
Rentals	0	1,549	1,549
Charges for Services	0	600	600
Contributions and Donations	4,000	16,385	20,385
Miscellaneous	9,552	4,752	14,304
<i>Total Revenues</i>	<u>11,846,455</u>	<u>523,308</u>	<u>12,369,763</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	5,539,155	78,273	5,617,428
Special	750,103	92,713	842,816
Support Services:			
Pupils	750,334	11,966	762,300
Instructional Staff	205,912	87,378	293,290
Board of Education	111,201	0	111,201
Administration	1,115,122	11,516	1,126,638
Fiscal	447,368	0	447,368
Business	8,169	0	8,169
Operation and Maintenance of Plant	1,150,025	0	1,150,025
Pupil Transportation	1,066,383	830	1,067,213
Central	145,087	22,599	167,686
Operation of Non-Instructional Services	0	2,000	2,000
Extracurricular Activities	279,157	155,814	434,971
Capital Outlay	0	200,927	200,927
Debt Service:			
Principal Retirement	40,610	0	40,610
Interest and Fiscal Charges	12,079	0	12,079
<i>Total Expenditures</i>	<u>11,620,705</u>	<u>664,016</u>	<u>12,284,721</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>225,750</u>	<u>(140,708)</u>	<u>85,042</u>
<b>Other Financing Sources (Uses)</b>			
Transfers In	0	59,317	59,317
Transfers Out	(59,317)	0	(59,317)
<i>Total Other Financing Sources (Uses)</i>	<u>(59,317)</u>	<u>59,317</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	166,433	(81,391)	85,042
<i>Fund Balances Beginning of Year</i>	<u>1,596,517</u>	<u>79,788</u>	<u>1,676,305</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$1,762,950</u>	<u>(\$1,603)</u>	<u>\$1,761,347</u>

**Richmond Heights Local School District**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2006*

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**Net Change in Fund Balances - Total Governmental Funds** \$85,042

*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 are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Capital Asset Additions	229,545	
Current Year Depreciation	(148,058)	
Total		81,487

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Delinquent Property Taxes	1,007,757	
Grants	36,771	
Total		1,044,528

Repayment of bond, loan, and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 40,610

Compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as an expenditure in governmental funds. (787,913)

*Change in Net Assets of Governmental Activities* \$463,754

**Richmond Heights Local School District**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2006*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original Budget	Revised Budget	Actual	
<b>Revenues</b>				
Property Taxes	\$8,952,540	\$9,000,000	\$8,930,278	(\$69,722)
Intergovernmental	2,400,000	2,400,000	2,385,663	(14,337)
Interest	150,000	150,000	142,652	(7,348)
Tuition and Fees	350,000	350,000	365,705	15,705
Extracurricular Activities	4,000	4,000	3,569	(431)
Contributions and Donations	4,000	4,000	4,000	0
Miscellaneous	8,000	259,460	9,496	(249,964)
<i>Total Revenues</i>	11,868,540	12,167,460	11,841,363	(326,097)
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	5,558,729	5,509,550	5,493,191	16,359
Special	1,176,912	1,086,985	961,263	125,722
Vocational	190,000	190,000	111,426	78,574
Support Services:				
Pupils	661,560	746,076	712,926	33,150
Instructional Staff	256,916	237,645	223,703	13,942
Board of Education	172,201	170,029	129,639	40,390
Administration	1,131,776	1,104,604	1,098,952	5,652
Fiscal	386,140	451,864	449,152	2,712
Business	5,000	2,000	1,859	141
Operation and Maintenance of Plant	1,079,213	1,217,201	1,201,760	15,441
Pupil Transportation	1,002,401	1,039,171	1,008,950	30,221
Central	132,038	175,761	153,110	22,651
Extracurricular Activities	316,674	290,674	277,397	13,277
Debt Service:				
Principal Retirement	40,610	40,610	40,610	0
Interest and Fiscal Charges	12,079	12,079	12,079	0
<i>Total Expenditures</i>	12,122,249	12,274,249	11,876,017	398,232
<i>Excess of Revenues Under Expenditures</i>	(253,709)	(106,789)	(34,654)	72,135
<b>Other Financing Sources (Uses)</b>				
Advances In	0	0	316,196	316,196
Advances Out	(3,000)	(498,000)	(456,368)	41,632
Transfers Out	(65,000)	(65,000)	(59,317)	5,683
<i>Total Other Financing Sources (Uses)</i>	(68,000)	(563,000)	(199,489)	363,511
<i>Net Change in Fund Balance</i>	(321,709)	(669,789)	(234,143)	435,646
<i>Fund Balance Beginning of Year</i>	1,271,685	1,271,685	1,271,685	0
Prior Year Encumbrances Appropriated	306,180	306,180	306,180	0
<i>Fund Balance End of Year</i>	\$1,256,156	\$908,076	\$1,343,722	\$435,646

See accompanying notes to the basic financial statements

**Richmond Heights Local School District**

*Statement of Fund Net Assets*

*Enterprise Funds*

*June 30, 2006*

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Latchkey/ Summer Camp</u>	<u>Total Enterprise Funds</u>
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$38,538	\$458	\$135,747	\$174,743
Cash with a Fiscal Agent	30,000	0	0	30,000
Accounts Receivable	1,042	0	0	1,042
Intergovernmental Receivable	17,660	0	0	17,660
Materials and Supplies Inventory	2,098	0	0	2,098
<i>Total Current Assets</i>	<u>89,338</u>	<u>458</u>	<u>135,747</u>	<u>225,543</u>
Capital Assets, Net	<u>15,808</u>	<u>0</u>	<u>0</u>	<u>15,808</u>
<i>Total Assets</i>	<u>105,146</u>	<u>458</u>	<u>135,747</u>	<u>241,351</u>
<b>Liabilities</b>				
<i>Current Liabilities:</i>				
Accounts Payable	9,876	0	7,554	17,430
Accrued Wages	0	0	10,962	10,962
Intergovernmental Payable	0	0	3,502	3,502
Interfund Payable	144,000	0	10,000	154,000
<i>Total Current Liabilities</i>	<u>153,876</u>	<u>0</u>	<u>32,018</u>	<u>185,894</u>
<i>Long-Term Liabilities:</i>				
Compensated Absences Payable	<u>0</u>	<u>0</u>	<u>7,063</u>	<u>7,063</u>
<i>Total Liabilities</i>	<u>153,876</u>	<u>0</u>	<u>39,081</u>	<u>192,957</u>
<b>Net Assets</b>				
Invested in Capital Assets	15,808	0	0	15,808
Unrestricted (Deficit)	<u>(64,538)</u>	<u>458</u>	<u>96,666</u>	<u>32,586</u>
<i>Total Net Assets (Deficit)</i>	<u>(\$48,730)</u>	<u>\$458</u>	<u>\$96,666</u>	<u>\$48,394</u>

See accompanying notes to the basic financial statements

**Richmond Heights Local School District**  
*Statement of Revenues,  
Expenses and Changes in Fund Net Assets  
Enterprise Funds  
For the Fiscal Year Ended June 30, 2006*

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Latchkey/ Summer Camp</u>	<u>Total Enterprise Funds</u>
<b>Operating Revenues</b>				
Tuition	\$0	\$0	\$147,630	\$147,630
Sales	186,179	0	1,190	187,369
<i>Total Operating Revenues</i>	<u>186,179</u>	<u>0</u>	<u>148,820</u>	<u>334,999</u>
<b>Operating Expenses</b>				
Salaries	0	0	109,759	109,759
Fringe Benefits	0	0	24,632	24,632
Purchased Services	175,621	0	9,717	185,338
Materials and Supplies	34,700	0	13,749	48,449
Cost of Sales	114,622	0	0	114,622
Depreciation	2,068	0	0	2,068
Other	494	0	0	494
<i>Total Operating Expenses</i>	<u>327,505</u>	<u>0</u>	<u>157,857</u>	<u>485,362</u>
<i>Operating Loss</i>	<u>(141,326)</u>	<u>0</u>	<u>(9,037)</u>	<u>(150,363)</u>
<b>Non-Operating Revenues</b>				
Other	23,225	0	0	23,225
Operating Grants	127,771	0	0	127,771
<i>Total Non-Operating Revenues</i>	<u>150,996</u>	<u>0</u>	<u>0</u>	<u>150,996</u>
<i>Change in Net Assets</i>	9,670	0	(9,037)	633
<i>Net Assets (Deficit) Beginning of Year</i>	<u>(58,400)</u>	<u>458</u>	<u>105,703</u>	<u>47,761</u>
<i>Net Assets (Deficit) End of Year</i>	<u><u>(\$48,730)</u></u>	<u><u>\$458</u></u>	<u><u>\$96,666</u></u>	<u><u>\$48,394</u></u>

See accompanying notes to the basic financial statements

**Richmond Heights Local School District***Statement of Cash Flows**Enterprise Funds**For the Fiscal Year Ended June 30, 2006*

	Food Service	Uniform School Supplies	Latchkey/ Summer Camp	Total Enterprise Funds
<b>Increase (Decrease) in Cash and Cash Equivalents</b>				
<b>Cash Flows from Operating Activities</b>				
Cash Received from Customers	\$185,137	\$0	\$148,820	\$333,957
Cash Payments to Employees for Services	0	0	(107,898)	(107,898)
Cash Payments for Employee Benefits	0	0	(28,269)	(28,269)
Cash Payments for Goods and Services	(317,831)	0	(21,594)	(339,425)
Other Cash Payments	(494)	0	0	(494)
<i>Net Cash Used for Operating Activities</i>	<u>(133,188)</u>	<u>0</u>	<u>(8,941)</u>	<u>(142,129)</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Operating Grants Received	110,111	0	0	110,111
Other Cash Receipts	23,225	0	0	23,225
Cash Deposited with Fiscal Agent	(30,000)	0	0	(30,000)
Advances In	144,000	0	10,000	154,000
Advances Out	(86,000)	0	0	(86,000)
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>161,336</u>	<u>0</u>	<u>10,000</u>	<u>171,336</u>
<i>Net Increase in Cash and Cash Equivalents</i>	28,148	0	1,059	29,207
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>10,390</u>	<u>458</u>	<u>134,688</u>	<u>145,536</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$38,538</u>	<u>\$458</u>	<u>\$135,747</u>	<u>\$174,743</u>

(continued)

**Richmond Heights Local School District**

*Statement of Cash Flows*

*Enterprise Funds (continued)*

*For the Fiscal Year Ended June 30, 2006*

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Latchkey/ Summer Camp</u>	<u>Total Enterprise Funds</u>
<b>Reconciliation of Operating Loss to Net Cash Used for Operating Activities</b>				
Operating Loss	(\$141,326)	\$0	(\$9,037)	(\$150,363)
Adjustments:				
Depreciation	2,068	0	0	2,068
(Increase) Decrease in Assets:				
Accounts Receivable	(1,042)	0	0	(1,042)
Materials and Supplies Inventory	1,875	0	0	1,875
Increase (Decrease) in Liabilities:				
Accounts Payable	9,876	0	1,872	11,748
Accrued Wages and Benefits	0	0	(6,672)	(6,672)
Compensated Absences Payable	0	0	1,394	1,394
Intergovernmental Payable	(4,639)	0	3,502	(1,137)
<i>Net Cash Used for Operating Activities</i>	<u>(\$133,188)</u>	<u>\$0</u>	<u>(\$8,941)</u>	<u>(\$142,129)</u>

See accompanying notes to the basic financial statements

**Richmond Heights Local School District**

*Statement of Fiduciary Assets and Liabilities*

*Agency Funds*

*June 30, 2006*

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**Assets**

Equity in Pooled Cash and Cash Equivalents

\$14,326

**Liabilities**

Due to Students

\$14,326

See accompanying notes to the basic financial statements

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# Richmond Heights Local School District

## *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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### **Note 1 - Description of the School District and Reporting Entity**

Richmond Heights Local School District (School District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by state and federal agencies. This Board of Education controls the School District's two instructional/support facilities staffed by 57 noncertified and 71 certificated full time teaching personnel who provide services to 1,000 students and other community members.

#### *Reporting Entity*

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

***Nonpublic School*** Within the School District boundaries, Richmond Heights Christian School is operated independently. Current State legislation provides funding to these nonpublic schools. These monies are received and disbursed on behalf of the nonpublic schools by the Treasurer of the School District, as directed by the nonpublic schools. These transactions are reported as a governmental activity of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes for the organization. The School District does not have any component units.

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

***Cuyahoga County*** The Cuyahoga County government is a separate body politic and corporate with functions allocated to counties by Ohio law, such as elections, health and human services, and judicial.

***City of Richmond Heights*** The City of Richmond Heights is a separate body politic and corporate with municipal corporation responsibilities.

The School District participates in two jointly governed organizations. These organizations are the Lakeshore Northeast Ohio Computer Association and Ohio Schools Council Association, both jointly governed organizations. These organizations are discussed in Note 15 of the basic financial statements.

# Richmond Heights Local School District

## *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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### **Note 2 - Summary of Significant Accounting Policies**

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

#### ***A. Basis of Presentation***

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities and fund financial statements which provide a more detailed level of financial information.

***Government-wide Financial Statements*** The statement of net assets and the statement of activities display information about the School 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 School District that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities and for two business-type activities of the School District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School 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 School District.

***Fund Financial Statements*** During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

#### ***B. Fund Accounting***

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The funds of the School District are divided into three categories: governmental, proprietary and fiduciary.

# Richmond Heights Local School District

## *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

**General Fund** The general fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

**Proprietary Fund Type** Proprietary funds focus on the determination of operating income, changes in net assets, financial position and cash flows and are classified as either enterprise or internal service. The School District only has enterprise funds.

**Enterprise Funds** Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The School District's enterprise funds are used to account for food service operations, uniform school supplies operations and latchkey/summer camp operations.

**Fiduciary Fund Type** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary funds are agency funds which reflect resources that belong to the student bodies of the various schools for student activities.

### **C. Measurement Focus**

**Government-wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

**Fund Financial Statements** All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide 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.

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement

## Richmond Heights Local School District

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

#### ***D. 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 and the statements presented for the proprietary and fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

***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. Measurable means the amount of transaction can be determined. 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 School District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange 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 year-end: property taxes available as an advance, interest, tuition, grants, fees and rentals.

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

Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 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 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.

## **Richmond Heights Local School District**

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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#### ***E. Cash and Cash Equivalents***

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "equity in pooled cash and cash equivalents."

During fiscal year 2006, investments were limited to STAROhio. Investments are reported at fair value which is based on quoted market prices.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2006.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$142,652 which includes \$32,455 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents.

#### ***F. Inventory***

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used.

Inventories consist of purchased food and school supplies held for resale, and materials and supplies held for consumption.

#### ***G. 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 School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one thousand dollars. The School 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.

## Richmond Heights Local School District

### Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Land Improvements	20 years	N/A
Buildings and Improvements	10-30 years	N/A
Furniture and Equipment	5-20 years	12 years
Vehicles	15 years	N/A

#### **H. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans and unpaid amounts for interfund services are classified as "interfund receivables/payables." 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.

#### **I. 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 employer will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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 benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

#### **J. 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, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, contractually required pension contributions 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 are due for the payment during the current fiscal year. Capital leases are recognized as a liability on the governmental fund financial statements when due.

#### **K. 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

## **Richmond Heights Local School District**

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$30,591 of restricted net assets none of which is restricted by enabling legislation. Net assets restricted for other purposes include student activities, special education, computer networking, and programs to help students prepare for the proficiency test.

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

#### ***L. Fund Balance Reserves***

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

#### ***M. Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are sales and fees for food service, adult continuing education and extended daycare/preschool programs. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. All revenue and expenses not meeting these definitions are reported as non-operating.

#### ***N. 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 nonoperating 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.

#### ***O. Estimates***

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

#### ***P. Budgetary Data***

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated

# Richmond Heights Local School District

## Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer has been given the authority to allocate Board appropriations to the function and object levels.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that was in effect at the time the final appropriations were passed by the Board of Education.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues by fund. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

### Note 3 – Change in Accounting Principles

For fiscal year 2006, the School District has implemented GASB Statement No. 47, "Accounting for Termination Benefits."

GASB Statement No. 47 established standards of accounting and financial reporting for termination benefits. The implementation of GASB Statement No. 47 did not materially affect the presentation of the financial statements of the School District.

### Note 4 – Accountability and Compliance

#### A. Accountability

Fund balances at June 30, 2006, included the following individual fund deficits:

<b>Special Revenue Funds</b>	
District Managed Activity	(\$22,132)
Ohio Reads	(13)
State Grants	(9,253)
Title I	(39,976)
Drug Free Schools	(747)
Classroom Reduction	(9,687)
<b>Capital Projects Fund</b>	
Permanent Improvement	(16,748)
<b>Enterprixe Fund</b>	
Food Service	(48,730)

# Richmond Heights Local School District

## Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

The special revenue funds' deficits are due to adjustments for accrued liabilities. The capital project fund's deficit is due to an interfund payable to the general fund. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, rather than when accruals occur.

The food service enterprise fund had deficit net assets of \$48,730 at June 30, 2006. Management is currently analyzing their operations to determine appropriate steps to alleviate the deficit.

### **B. Compliance**

The following funds had original appropriations in excess of original estimated revenue plus carryover balances in violation of Section 5705.39, Ohio Revised Code:

	Original Estimated Revenue Plus Carryover Balances	Original Appropriations	Excess
<b>Special Revenue Funds</b>			
District Managed Student Activity	\$151,951	\$208,775	\$56,824
State Grants	9,138	39,866	30,728
Summer Intervention	4,151	21,226	17,075
Title I	131,609	209,514	77,905
<b>Enterprise Fund</b>			
Food Service	268,885	443,305	174,420

The following funds had final appropriations in excess of final estimated revenue plus carryover balances in violation of Section 5705.39, Ohio Revised Code:

	Final Estimated Revenue Plus Carryover Balances	Final Appropriations	Excess
<b>Special Revenue Funds</b>			
Public School Support	\$175,569	\$175,910	\$341
Other Grants	17,835	18,024	189

Contrary to Ohio Revised Code Section 5705.41(D) the District did not encumber all expenditures in a timely manner. Also, Contrary to Ohio Revised Code Section 117.38 the District did not file its financial reports with the Auditor of State in a timely manner or publish the availability of the report.

Management has indicated that appropriations will be closely monitored to ensure no future violations.

### **Note 5 - Budgetary Basis of Accounting**

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

## Richmond Heights Local School District

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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GAAP Basis) and Actual, General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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 liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances-In and Advances-Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP).

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis for the general fund.

#### Net Change in Fund Balance

GAAP Basis	\$166,433
Net Adjustment for Revenue Accruals	(5,092)
Advances In	316,196
Net Adjustment for Expenditure Accruals	84,527
Advances Out	(456,368)
Adjustment for Encumbrances	<u>(339,839)</u>
Budget Basis	<u><u>(\$234,143)</u></u>

#### **Note 6 – Deposits and Investments**

Monies held by the School District are classified by State statute into three categories.

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

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

## Richmond Heights Local School District

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 obligation or security 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;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio);
8. Commercial paper and banker's acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

#### Deposits

*Custodial Credit Risk.* Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$866,718 of the School District's bank balance of \$966,718 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

#### Investments

As of June 30, 2006, the School District had the following investments:

## Richmond Heights Local School District

### Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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<u>Investment Type</u>	<u>Value</u>	<u>Maturity</u>
STAROhio	<u>\$1,520,608</u>	35 days

All investments are in an internal investment pool.

*Interest Rate Risk.* The School District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

*Credit Risk.* STAROhio carries a rating of AAA by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no policy regarding credit risk other than statutory guidelines which limit investment choices.

*Custodial Credit Risk.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

*Concentration of Credit Risk.* The School District places no limit on the amount it may invest in any one issuer. At June 30, 2006, the School District invested in only STAROhio.

### Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. 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.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

**Richmond Heights Local School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. Payments 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. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30. This year, the June 2006 tangible personal property tax settlement was not received until July 2006.

The School District receives property taxes from Cuyahoga County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 and the personal property tax settlements were levied to finance current fiscal year operations and are reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006 was \$1,008,265 in the general fund and \$14,746 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2005, was \$1,002,233 in the general fund and \$12,435 in the permanent improvement capital projects fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second		2006 First	
	Half Collections		Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$223,112,980	92.02 %	\$225,565,370	91.67 %
Public Utility Personal	3,843,040	1.58	3,576,050	1.45
Tangible Personal Property	15,513,284	6.40	16,914,875	6.88
<b>Total</b>	<b>\$242,469,304</b>	<b>100.00 %</b>	<b>\$246,056,295</b>	<b>100.00 %</b>
Tax rate per \$1,000 of assessed valuation		\$78.60		\$78.60

**Note 8 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

## Richmond Heights Local School District

### Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

	Balance 6/30/2005	Additions	Deletions	Balance 6/30/2006
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$311,214	\$0	\$0	311,214
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	6,244,248	0	0	6,244,248
Furniture and Equipment	449,141	165,245	0	614,386
Vehicles	746,946	64,300	0	811,246
<i>Total Capital Assets, being depreciated</i>	7,440,335	229,545	0	7,669,880
Less Accumulated Depreciation:				
Buildings and Improvements	(5,855,134)	(35,394)	0	(5,890,528)
Furniture and Equipment	(389,574)	(75,063)	0	(464,637)
Vehicles	(366,361)	(37,601)	0	(403,962)
Total Accumulated Depreciation	(6,611,069)	(148,058)*	0	(6,759,127)
Total Capital Assets, being depreciated, net	829,266	81,487	0	910,753
Governmental Activities Capital Assets, Net	\$1,140,480	\$81,487	\$0	\$1,221,967

\* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$47,051
Support Services:	
Pupils	3,115
Instructional Staff	4,971
Administration	4,254
Fiscal	1,386
Operation and Maintenance of Plant	44,514
Pupil Transportation	37,601
Central	4,091
Extracurricular Activities	1,075
Total Depreciation	\$148,058

	Balance 6/30/2005	Additions	Deletions	Balance 6/30/2006
<b>Business-Type Activities</b>				
Furniture and Equipment	\$75,858	\$0	\$0	\$75,858
Less Accumulated Depreciation:				
Furniture and Equipment	(57,982)	(2,068)	0	(60,050)
Business-Type Activities Capital Asset, Net	\$17,876	(\$2,068)	\$0	\$15,808

All depreciation expense for business-type activities were charged to the food service fund.

## Richmond Heights Local School District

### Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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#### Note 9 - Receivables

Receivables at June 30, 2006, consisted of taxes, accounts (rent and tuition), interfund and intergovernmental grants. 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 fiscal year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amounts</u>
Title I	\$1,136
Title VI	2,957
Drug Free Schools	4,987
Classroom Reduction	25,327
Miscellaneous Federal Grants	2,364
Total Governmental Activities	<u>\$36,771</u>
<u>Business-Type Activities</u>	
Food Service	<u>\$17,660</u>

#### Note 10 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. At June 30, 2006, the School District contracted with the following insurance companies:

<u>Company</u>	<u>Type of Coverage</u>	<u>Limit</u>	<u>Deductible</u>
Indiana Insurance Company	Auto Liability	\$1,000,000	N/A
	Uninsured Motorist	1,000,000	N/A
	Comprehensive General Liability		
	General Liability	1,000,000	N/A
	Personal Injury	1,000,000	N/A
	General Aggregate	2,000,000	N/A
	Errors and Omissions	1,000,000	25,000
	Property Coverage		
	Blanket Building and Contents	22,138,800	2,500

Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from last year.

The School District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

## **Richmond Heights Local School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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### **Note 11 - Pension Plans**

#### ***A. School Employees Retirement System***

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension 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 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 43215-3476, by calling (800) 878-5853, or by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org).

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$201,790, \$174,672, and \$143,712, respectively; 33.56 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

#### ***B. State Teachers Retirement System***

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad Street, Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

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

## **Richmond Heights Local School District**

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$587,978, \$585,689, and \$547,157, respectively; 74.75 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$4,424 made by the School District and \$13,864 made by the plan members.

#### **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.

STRS retirees who participated in the DB or Combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. 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, 2006, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$45,210 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 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. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

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, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. 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

## Richmond Heights Local School District

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$65,234.

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 projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2006, were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive benefits.

### **Note 13 - Other Employee Benefits**

#### ***A. Compensated Absences***

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Non-certified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment.

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 basis may elect at the time of retirement to pay a severance payment. The payment will be calculated on a percentage of total accumulated and unused sick leave time times the then current daily rate, to a maximum of 220 days in accordance with the following years of experience in the School District's scale:

<u>Years of Experience</u>	<u>Percentage</u>
1-4	6.3 %
5-9	12.5
10+	25.0

#### ***B. Insurance Benefits***

The School District provides life insurance and accidental death and dismemberment insurance through Sun Life. Certificated employees and classified employees receive \$40,000 term life and accidental death and dismemberment coverage. Administrative employees receive \$200,000 coverage.

The School District also provides medical/surgical/prescription drug/vision and dental insurance through Medical Mutual Blue Cross and Blue Shield of Ohio to all eligible employees.

## Richmond Heights Local School District

### Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

#### Note 14 - Long-Term Obligations

The changes in the School District's long-term obligations during the year consist of the following:

	Principal Outstanding 6/30/2005	Additions	(Reductions)	Principal Outstanding 6/30/2006	Amount Due in One Year
<b>Governmental Activities:</b>					
Capital Lease	\$228,487	\$0	(\$40,610)	\$187,877	\$43,009
Compensated Absences	501,662	344,486	(58,235)	787,913	58,235
Total Governmental Activities	<u>\$730,149</u>	<u>\$344,486</u>	<u>(\$98,845)</u>	<u>\$975,790</u>	<u>\$101,244</u>
<b>Business-Type Activities:</b>					
Compensated Absences	<u>\$5,669</u>	<u>\$1,394</u>	<u>\$0</u>	<u>\$7,063</u>	<u>\$0</u>

The capital leases will be paid from the general fund. Compensated absences will be paid from the employing fund.

The School District's overall legal debt margin was \$22,145,067 with an unvoted debt margin of \$246,056 at June 30, 2006.

#### Note 15 - Jointly Governed Organizations

##### A. Lakeshore Northeast Ohio Computer Association

The Lakeshore Northeast Ohio Computer Association (LNOCA) is a jointly governed computer service bureau that was formed for the purpose of providing data services to the seventeen member districts. Major areas of service provided by LNOCA include accounting, payroll, inventory, career guidance services, handicapped student tracking, pupil scheduling, attendance reporting and grade reporting. Each school is represented on the LNOCA Board of Directors by its superintendent. 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. In fiscal year 2006, the School District paid \$26,225 to LNOCA. Financial information can be obtained by contacting the Treasurer of the fiscal agent at 5700 West Canal Road, Valley View, OH 44125.

##### B. Ohio Schools Council Association

The Ohio Schools Council Association (Council) is a jointly governed organization among ninety-one school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council'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. In fiscal year 2006, the School District paid \$2,116 to the Council. Financial information can be obtained by contacting Dr. David A. Cottrell, the Executive Treasurer of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

## Richmond Heights Local School District

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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The School 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 districts 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.

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

The School District also participates in the Council's prepaid natural gas program which was implemented during fiscal year 1999. This program allows school districts to purchase natural gas at reduced rates, if the school districts 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 their actual usage and any necessary adjustments are made.

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

#### **Note 16 - Set-Asides**

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

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

	Textbooks Instructional Materials Reserve	Capital Improvement Reserve
Set-aside Reserve Balance as of June 30, 2005	(\$4,943)	\$38,881
Current Year Set-aside Requirement	154,259	154,259
Qualifying Disbursements	(194,026)	(208,627)
Totals	(\$44,710)	(\$15,487)
Set-aside Balance Carried Forward to Future Fiscal Years	(\$44,710)	\$0
Set-aside Reserve Balance as of June 30, 2006	\$0	\$0

## Richmond Heights Local School District

### Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

The School District had qualifying disbursements during the fiscal year that reduced the textbook set-aside amount below zero. This extra amount may be used to reduce the set-aside requirements of future fiscal years. Although the School District had qualifying disbursements and offsets during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement for future years. This negative balance is therefore not presented as being carried forward to future years.

#### Note 17 - Interfund Transactions

Interfund balances at June 30, 2006, consist of the following individual fund receivables and payables:

	Interfund Receivable	Interfund Payable
General Fund	\$461,572	\$0
Special Revenue Funds:		
Public School Support	0	36,166
District Managed Student Activities	0	101,406
Summer Intervention	0	4,000
State Grants	0	10,000
Title I	0	62,000
Drug Free Schools	0	1,000
Title VI-R	0	36,000
Miscellaneous Federal Grants	0	2,000
<i>Total Special Revenue Funds</i>	<u>0</u>	<u>252,572</u>
Capital Projects Fund:		
Permanent Improvements	0	55,000
Enterprise Funds:		
Food Service	0	144,000
Latchkey/Summer Camp	0	10,000
<i>Total Enterprise Funds</i>	<u>0</u>	<u>154,000</u>
Total All Funds	<u>\$461,572</u>	<u>\$461,572</u>

Interfund payables in the special revenue funds are due to the timing of the receipt of grant monies received by the various funds. The capital projects payable is due to the start of improvement projects before the permanent improvement tax levy collections began. Interfund payables exist in the enterprise funds due to the timing of the receipt of various revenue sources. All balances are expected to be paid next fiscal year.

Transfers made during the year ended June 30, 2006 were as follows:

**Richmond Heights Local School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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<u>Transfers From</u>	<u>Transfers To</u> <u>Nonmajor</u> <u>Governmental</u>
Major Funds:	
General	\$59,317

The transfers are to move unrestricted balances to support programs and projects accounted for in other funds.

**Note 18 - Contingencies**

***A. Grants***

The School District received financial assistance from federal and state agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

***B. Litigation***

The School District is not a party to legal proceedings. The School Board is of the opinion that legal proceedings will not have a material effect, if any, on the financial condition of the School District.

**Note 19 - Capital Leases**

The School District entered into capital leases for a sub service building in fiscal year 2001. As a part of the agreement, Fifth Third Bank, as lessor, provided \$400,000 for the construction. This lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases." The leased equipment is reported as a group in governmental activities at a cost of \$400,000; accumulated depreciation through June 30, 2006 amounted to \$264,001 leaving a book value of \$136,999. The agreements provide for minimum, annual lease payments as follows:

	<u>Governmental</u> <u>Activities</u>
2007	\$52,690
2008	52,689
2009	52,689
2010	52,690
Total Minimum Lease Payments	210,758
Less: Amounts Representing Interest	(22,881)
Present Value of Minimum Lease Payments	<u>\$187,877</u>

## **Richmond Heights Local School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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### **Note 20 – Subsequent Event**

The School District placed an 18.07 mill levy on the November 7, 2006 ballot. The levy was expected to generate a total of \$4,209,000 annually. The millage and revenue generated is broken down as follows: a 8.2 mill Bond Issue generating \$1,865,000, 5.87 mill Operating generating \$1,394,000 and a 4.0 mill permanent improvement five year issue generating \$950,000 annually. The levy failed.

The School District then placed two levies on the November 6, 2007 ballot. The levies were an 8.5 mill continuing general operating and a 3 mill permanent improvement. The levies were anticipated to generate \$1,749,562 and \$617,492, annually. The levies failed.

The School District also placed one levy on the March 4, 2008 ballot. A 6.5 mill emergency five year general operating levy anticipated to generate \$1,651,300 annually failed.

The School District placed one levy on the November 4, 2008 ballot. A 6.5 mill emergency five year general operating levy anticipated to generate \$1, 651,300 annually failed.

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# Mary Taylor, CPA

Auditor of State

## 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, business type activities, each 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 years ended June 30, 2007 and June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 6, 2009. 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 as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more than inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the District's management in a separate letter dated February 6, 2009.

#### **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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2007-001 through 2007-003.

We noted certain noncompliance or other matters that we reported to the District's management in a separate letter dated February 6, 2009.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management and the Board of Education. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

February 6, 2009

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006  
SCHEDULE OF FINDINGS**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2007-001**

**Proper Encumbering – Noncompliance Finding**

**Ohio Rev. Code § 5705.41(D)(1)** prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Twenty one out of sixty transactions tested (35%) were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the District followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the District's funds exceeding budgetary spending limitations, we recommend the Treasurer certify that funds are or will be available prior to obligation by the District. When prior certification is not possible, "then and now" certification should be used.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006  
SCHEDULE OF FINDINGS**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**FINDING NUMBER 2007-001 (Continued)**

We recommend the District certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Treasurer should sign the certification at the time the District incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**Official's Response:**

The 2007 and 2006 Fiscal Year Audits were under the operation of the prior Treasurer in the Richmond Heights Local Schools. The current Treasurer began employment in the District on October 8, 2007. The current Treasurer is aware of the requirements of ORC 5705.41(D) and has changed the procedures within the District to comply with State Law.

**FINDING NUMBER 2007-002**

**Appropriations Exceed Estimated Resources and a "Do Not Exceed" Certificate was Not Obtained – Noncompliance Finding**

**Ohio Rev. Code § 5705.39** provides in part that total appropriations from each fund shall not exceed the total estimated resources. Further, no appropriation measure is effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

For 2006, the following funds had original appropriations in excess of original estimated resources:

<u>Fund</u>	<u>Original Estimated Resources</u>	<u>Original Appropriations</u>	<u>Excess</u>
District Managed Student Activity	\$151,951	\$208,775	\$56,824
State Grants	9,138	39,866	30,728
Summer Intervention	4,151	21,226	17,075
Title I	131,609	209,514	77,905
Food Service	268,885	443,305	174,420

For 2006, the following funds had final appropriations in excess of final estimated resources:

<u>Fund</u>	<u>Final Estimated Resources</u>	<u>Final Appropriations</u>	<u>Excess</u>
Public School Support	\$175,569	\$175,910	\$341
Other Grants	17,835	18,024	189

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006  
SCHEDULE OF FINDINGS**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2007-002**

**Appropriations Exceed Estimated Resources and a “Do Not Exceed” Certificate was Not Obtained – Noncompliance Finding (Continued)**

For 2007, the following funds had original appropriations in excess of original estimated resources:

<u>Fund</u>	<u>Original Estimated Resources</u>	<u>Original Appropriations</u>	<u>Excess</u>
General Fund	\$11,719,186	\$12,844,758	\$1,125,572
Classroom Reduction	63,213	73,148	9,935
Food Service	399,938	530,983	131,045

For 2007, the following funds had final appropriations in excess of final estimated resources:

<u>Fund</u>	<u>Final Estimated Resources</u>	<u>Final Appropriations</u>	<u>Excess</u>
General Fund	\$11,116,161	\$12,963,758	\$1,847,597
District Managed Student Activity	268,446	270,832	2,386
Auxiliary Services	78,765	81,127	2,362
Classroom Reduction	63,213	81,152	17,939
Miscellaneous Federal Grants	5,385	22,367	16,982
Food Service	399,938	530,983	131,045

In addition, the District did not obtain the required county auditor’s does not exceed certificate for all three amendment appropriations and the final appropriation resolutions passed in fiscal year 2007. These weaknesses may result in the District entering into obligations it does not have the financial resources for.

We recommend the District compare appropriations to certified resources on a regular basis and make the necessary revisions to avoid future negative variances. Furthermore, the District should also obtain the required does not exceed certificate from the County Auditor for all appropriation documents approved by the Board. The certificate is a control mechanism which should ensure that appropriations do not exceed the total estimated resources.

**Official’s Response:**

The 2007 and 2006 Fiscal Year Audits were under the operation of the prior Treasurer in the Richmond Heights Local Schools. The current Treasurer began employment in the District on October 8, 2007. The current Treasurer is aware of the requirements of ORC 5705.39. Amended Certificates of Resources are being requested of the Cuyahoga County Budget Commission as appropriation or fund changes occur in the District. The permanent Appropriation Resolution and amendments, as approved by the Board, are being maintained within the confines of the Amended Certificate of Resources.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006  
SCHEDULE OF FINDINGS**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**FINDING NUMBER 2007-003**

**Filing Annual Reports**

**Ohio Revised Code § 117.38**, requires the District to file its GAAP-basis financial reports with the Auditor of State within 150 days of the fiscal year end. Also, the District must publish that the financial report is available for public inspection at the office of the chief financial officer in a local newspaper.

It was noted the financial reports for fiscal year 2006 and 2007 had not been filed with the Auditor of State and that there was insufficient evidence provided that the District published notification that the reports were available for public inspection.

We recommend the District file their annual reports with the Auditor of State and publish the availability of the annual reports for public inspection in compliance with ORC code section 117.38.

**Official's Response:**

The 2007 and 2006 Fiscal Year Audits were under the operations of the prior Treasurer in the Richmond Heights Local Schools. The current Treasurer began employment in the District on October 8, 2007. The current Treasurer is aware of the annual reporting requirements of ORC 117.38, and will maintain the schedule of annual filings. Upon taking employment with the District in October 2007, the Treasurer found that the reporting requirements had not been met with the GASB financial reports for 2006 and 2007. The State was contacted by the current Treasurer to report the incomplete financial reports. The reports were completed for both years, expediently, and filed with the Auditor of State's Office. The audit of the District and these reports followed shortly.



Mary Taylor, CPA  
Auditor of State

**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  
JUNE 23, 2009**