

RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT

AUDIT REPORT

For the Year Ended June 30, 2005

Charles E. Harris & Associates, Inc.
Certified Public Accountants and Government Consultants



**Auditor of State
Betty Montgomery**

Board of Education
Richmond Heights Local School District
447 Richmond Road
Richmond Heights, Ohio 44143

We have reviewed the *Report of Independent Accountants* of the Richmond Heights Local School District, Cuyahoga County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Richmond Heights Local School District is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

December 19, 2006

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RICHMOND HEIGHTS SCHOOL DISTRICT
AUDIT REPORT
For the Year Ended June 30, 2005

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Accountant’s Report	1 - 2
Management’s Discussion and Analysis	3 - 11
Statement of Net Assets	13
Statement of Activities	14
Balance Sheet – Governmental Funds	16
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual – General Fund	20
Statement of Net Assets – Proprietary Funds	21
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	22
Statement of Cash Flows – Proprietary Funds	23
Statement of Fiduciary Assets and Liabilities	24
Notes to the Basic Financial Statements	25 - 54
Independent Accountant’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Required by <i>Government Auditing Standards</i>	55-56
Status of Prior Year’s Citations and Recommendations	57

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REPORT OF INDEPENDENT ACCOUNTANTS

**Board of Education
Richmond Heights Local School District
Cuyahoga County
447 Richmond Road
Richmond Heights, Ohio 44114**

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 the Richmond Heights Local School District, Cuyahoga County, Ohio, (the District), as of and for the year ended June 30, 2005, 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 an opinion on these financial statements based on our audit.

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

In our opinion, the basic 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 the Richmond Heights Local School District, Cuyahoga County, Ohio, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers*.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2006 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, 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 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.

Charles E. Harris & Associates, Inc.
August 28, 2006

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005 (unaudited)**

The discussion and analysis of the Richmond Heights Local School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements as well as the statements themselves to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2005 are as follows (figures rounded):

- In total, net assets increased \$70 thousand, a 3.4 percent increase over fiscal year 2004. Net assets of governmental activities increased \$103 thousand, which represents a 5.2 percent increase from fiscal year 2004. Net assets of business-type activities decreased \$32 thousand, a 40.4 percent decrease over fiscal year 2004.
- General revenues accounted for \$11,208 thousand in revenue or 91.1 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,101 thousand or 8.9 percent of total revenues of \$12,309 thousand.
- Net assets of governmental activities increased \$103 thousand in 2005, but the increase compares to an increase of \$673 thousand in 2004. Both program revenue and general revenue decreased in 2005. While total revenue of \$11,851 thousand exceeded total expense of \$11,749 thousand, total revenue fell from \$12,083 thousand in 2004, and expenses increased from \$11,410 thousand to \$11,749 thousand.
- The District had \$11,749 thousand in expenses related to governmental activities; only \$644 thousand of these expenses were offset by program specific charges for services, grants and contributions. General revenues related to governmental activities of \$11,208 thousand and the fund balance from 2004 were adequate to provide for these programs.
- The District recognizes one major governmental fund: the general fund. In terms of dollars received and dollars spent, the general fund is significantly larger than all the other funds of the District combined. The general fund had \$11,250 thousand in revenues and \$11,009 thousand in expenses. The general fund's balance increased \$195 thousand in 2005.
- The District's business activities – made up of food service, summer camp, latchkey program and summer schools – had revenues of \$457 thousand and expenses of \$489 thousand. Net assets of business activities declined by \$32 thousand, or 40.5% in 2005.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005 (unaudited)**

Using This Basic Annual Financial Report

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

The view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially in 2005?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all the current fiscal year's revenues and expenses regardless of when cash is received or paid.

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

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

- 1.) **Governmental Activities** -- Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.
- 2.) **Business-type Activities** -- These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The District has six programs reported as business-type activity, including food service.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005 (unaudited)**

Reporting the District's Funds

Governmental Funds

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

Proprietary Funds

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

The District as a Whole

Recall that the *Statement of Net Assets* provides the perspective of the District as a whole, showing assets, liabilities and the difference between them (net assets). Table 1 provides a summary of the District's net assets for fiscal year 2005 compared to fiscal years 2004 and 2003:

**Table 1
Net Assets
(In Thousands)**

	Governmental Activities			Business Activities			Total		
	2005	2004	2003	2005	2004	2003	2005	2004	2003
Assets									
Current and Other	\$12,563	\$11,510	\$10,115	\$64	\$102	\$155	\$12,627	\$11,612	\$10,270
Capital	<u>1,140</u>	<u>1,157</u>	<u>1,260</u>	<u>18</u>	<u>15</u>	<u>17</u>	<u>1,158</u>	<u>1,172</u>	<u>1,277</u>
Total	<u>\$13,703</u>	<u>\$12,667</u>	<u>\$11,375</u>	<u>\$82</u>	<u>\$117</u>	<u>\$172</u>	<u>\$13,785</u>	<u>\$12,784</u>	<u>\$11,547</u>
Liabilities									
Long-term	\$730	\$795	\$870	\$6	\$5	\$0	\$736	\$800	\$870
Other	<u>10,887</u>	<u>9,889</u>	<u>9,194</u>	<u>28</u>	<u>32</u>	<u>62</u>	<u>10,915</u>	<u>9,921</u>	<u>9,256</u>
Total	<u>11,617</u>	<u>10,684</u>	<u>10,064</u>	<u>34</u>	<u>37</u>	<u>62</u>	<u>11,651</u>	<u>10,721</u>	<u>10,126</u>
Net Assets	<u>\$2,086</u>	<u>\$1,983</u>	<u>\$1,311</u>	<u>\$48</u>	<u>\$80</u>	<u>\$110</u>	<u>\$2,134</u>	<u>\$2,063</u>	<u>\$1,421</u>

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005 (unaudited)**

The increase in net assets from fiscal year 2004 to fiscal year 2005 is primarily due to an increase in tax revenues on a cash basis. See further discussion on Governmental and Business-type activities on pages 7 and 8. Table 2 shows changes in net assets for fiscal year 2005 and 2004.

**Table 2
Changes in Net Assets
(In Thousands)**

	Governmental Activities		Business Activities		Total	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues						
Program Revenues						
Charges for Services	\$365	\$381	\$358	\$354	\$723	\$735
Operating Grants	279	352	99	91	378	443
Capital Grants	--	7	--	--	--	7
General Revenues						
Property Taxes	8,542	8,844	--	--	8,542	8,844
Grants & Entitlements	2,450	2,326	--	--	2,450	2,326
Other	<u>215</u>	<u>173</u>	<u>--</u>	<u>--</u>	<u>215</u>	<u>173</u>
Total Revenues	11,851	12,083	457	445	12,308	12,528
Program Expenses						
Instruction						
Regular	5,396	4,845	--	--	5,396	4,845
Special	1,047	1,124	--	--	1,047	1,124
Vocational	166	172	--	--	166	172
Support Services:						
Pupil	706	741	--	--	706	741
Instructional Staff	260	260	--	--	260	260
Board of Education	104	141	--	--	104	141
Administration	1,043	1,072	--	--	1,043	1,072
Fiscal	405	400	--	--	405	400
Business	4	--	--	--	4	--
Operation and Maintenance of Plant	1,191	1,136	--	--	1,191	1,136
Pupil Transportation	841	885	--	--	841	885
Central	126	100	--	--	126	100
Operation of Non-Instructional Services	0	2	--	--	0	2
Extracurricular Activities	460	430	--	--	460	430
Debt Service:						
Interest and Fiscal Charges	--	102	--	--	--	102
Food Service	--	--	329	296	329	296
Summer School	--	--	62	58	62	58
Adult and Community Education	--	--	93	121	93	121
Recreation	--	--	4	--	4	--
Special Enterprises	--	--	1	--	1	--
Total Expenses	<u>11,749</u>	<u>11,410</u>	<u>489</u>	<u>475</u>	<u>12,238</u>	<u>11,885</u>
Change in Net Assets	102	673	(32)	(30)	70	643
Net Assets -- Beginning of Year	<u>1,984</u>	<u>1,311</u>	<u>80</u>	<u>110</u>	<u>2,064</u>	<u>1,421</u>
Net Assets -- End of Year	<u>\$2,086</u>	<u>\$1,984</u>	<u>\$48</u>	<u>\$80</u>	<u>\$2,134</u>	<u>\$2,064</u>

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005 (unaudited)**

Governmental Activities

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

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

The District is heavily dependent on property taxes and is hampered by a lack of revenue growth. Thus, the District must regularly return to the voters to maintain a constant level of service. Property taxes made up 72.1 percent of revenues for governmental activities in the Richmond Heights Local School District for fiscal year 2005.

Instruction accounts for 56.3 percent of governmental program expenses. The *Statement of Activities* shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005 (unaudited)**

Table 3
Net Cost of Governmental Activities
(In Thousands)

	2005	2005	2004	2004
	<u>Total</u>	<u>Net</u>	<u>Total</u>	<u>Net</u>
Instruction				
Regular	\$5,396	\$4,984	\$4,846	\$4,488
Special	1,047	972	1,124	994
Vocational	166	166	172	172
Other	--	(3)	--	--
Support Services:				
Pupil	706	669	741	705
Instructional Staff	260	232	260	213
Board of Education	104	104	141	141
Administration	1,043	1,034	1,072	1,061
Fiscal	405	405	400	400
Business	4	4	--	--
Operation and Maintenance of Plant	1,191	1,191	1,136	1,134
Pupil Transportation	841	834	885	877
Central	126	110	100	94
Operations on Non-instructional Services	0	0	2	2
Extracurricular Activities	460	403	430	287
Debt Service:				
Interest and Fiscal Charges	--	--	102	102
Total Expenses	<u>\$11,749</u>	<u>\$11,105</u>	<u>\$11,411</u>	<u>\$10,670</u>

The dependence on tax revenues and state subsidies for governmental activities is apparent. 92.6 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 94.5 percent.

Business-type Activities

The most significant business-type activity of the District is the food service operation. The program had revenues of \$279 thousand and expenses of \$330 thousand in fiscal year 2005 and a net reduction in assets of (\$51 thousand). The food service operated at a deficit after operating revenues and state and federal grants. This deficit will be offset by a transfer from the general operating fund of the District. The District also operates a latchkey program which had revenues of \$100 thousand and expenses of \$93 thousand, and a net change in assets of \$7 thousand, as well as a Summer Camp program which had revenues of \$77 thousand and expenses of \$62 thousand and a net change in assets of \$15 thousand.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005 (unaudited)**

The General Fund

Information about the District's general fund starts on page 16. This fund is accounted for using the modified accrual basis of accounting. (See Notes 2 and 3 for discussions of significant accounting methods and policies.) As previously discussed, the District will remain stable in 2005, but will be unable to maintain program as well as meet inflationary cost increases in the long-term without additional tax levies.

General Fund Budgeting Highlights

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

During the course of fiscal year 2005, the District amended its general fund budget several times, but no change was significant. The District uses a modified site-based budget technique which is designed to tightly control site budgets while providing flexibility for site management.

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the District had, at cost, \$7,827 thousand invested in land, buildings, vehicles, furniture and equipment of which \$7,751 thousand was in governmental activities, and \$76 thousand was in business-type activities. Total investment carries an accumulated depreciation of \$6,669 thousand of which \$6,611 thousand was in governmental activities and \$58 thousand was in business-type activities. Table 4 shows fiscal year 2005 balances compared to fiscal year 2004.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005 (unaudited)**

Table 4
Capital Assets & Accumulated Depreciation at June 30, 2005
(In Thousands)

	2005	2004
Governmental Activities		
Land and Improvements	\$311	\$311
Buildings and Improvements	6,244	6,244
Furniture & Equipment	449	433
Vehicles	<u>747</u>	<u>723</u>
Totals at Historical Cost	7,751	7,711
Less Accumulated Depreciation		
Buildings and Improvements	(5,855)	(5,820)
Furniture & Equipment	(390)	(348)
Vehicles	<u>(366)</u>	<u>(386)</u>
Total Accumulated Depreciation	<u>(6,611)</u>	<u>(6,554)</u>
Governmental Activities Capital Assets, Net	<u>\$1,140</u>	<u>\$1,157</u>
Business Type Activities		
Furniture and Equipment	\$76	\$78
Less Accumulated Depreciation	<u>(58)</u>	<u>(63)</u>
Business-type Activities Capital Assets, Net	<u>\$18</u>	<u>\$15</u>

Because the government-wide *Statement of Net Assets* reports all government assets, a significant portion of the net assets reported there typically reflect a district's investment in capital assets. To draw the financial statement user's attention to this important information, accounting principals generally accepted in the United States of America ("GAAP") require the amount of net assets invested in capital assets to be reported as a separate category of net assets. The specific amount reported for governmental activities is calculated as shown in Table 5. The "related debt" is the total of the principal on obligations. Table 4 – and footnote 9 Capital Assets shows that the District's assets are substantially depreciated and that annual depreciation expense in fiscal year 2005 was more than five times as great as additions to capital assets. Repair and replacement of capital assets will be a challenge for the District in the future.

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

Governmental Capital Assets	\$7,751
Less: Accumulated Depreciation	(6,611)
Less: Outstanding Principal of Related Debt	<u>(228)</u>
Net Assets Invested in Capital Assets, Net of Related Debt	<u>\$912</u>

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005 (unaudited)**

Debt

At June 30, 2005, the District had no bonded debt outstanding. The District had a balance of \$228 thousand remaining on the lease purchase of a transportation facility.

For the Future

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

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

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

Contacting the School District's Financial Management

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

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Richmond Heights Local School District

Statement of Net Assets

June 30, 2005

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,830,414	\$145,536	\$1,975,950
Receivables:			
Taxes - Current	9,199,570	-	9,199,570
Taxes - Delinquent	1,331,266	-	1,331,266
Accounts	1,288	-	1,288
Intergovernmental	114,678	-	114,678
Internal Balances	86,000	(86,000)	-
Materials and Supplies Inventory	-	3,973	3,973
Nondepreciable Capital Assets	311,214	-	311,214
Depreciable Capital Assets, Net	<u>829,266</u>	<u>17,876</u>	<u>847,142</u>
 Total Assets	 13,703,696	 81,385	 13,785,081
Liabilities			
Accounts Payable	157,968	5,682	163,650
Accrued Wages and Benefits	1,109,845	17,634	1,127,479
Due Other Governments	102,930	4,639	107,569
Deferred Revenue	9,516,168	-	9,516,168
 Long Term Liabilities:			
Due Within One Year	40,610	-	40,610
Due Within More Than One Year	<u>689,539</u>	<u>5,669</u>	<u>695,208</u>
 Total Liabilities	 11,617,060	 33,624	 11,650,684
Net Assets			
Invested in Capital Assets, Net of Related Debt	911,994	17,876	929,870
Restricted for:			
Other Purposes	79,788	-	79,788
Unrestricted (Deficit)	<u>1,094,854</u>	<u>29,885</u>	<u>1,124,739</u>
 Total Net Assets	 <u>\$2,086,636</u>	 <u>\$47,761</u>	 <u>\$2,134,397</u>

See Accompanying Notes to the Basic Financial Statements

Richmond Heights Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2005

	Expenses	Program Revenues	
		Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities			
Instruction			
Regular	\$5,395,467	\$286,129	\$125,136
Special	1,046,493	-	75,082
Vocational	166,206	-	-
Other	-	-	2,991
Support Services:			
Pupil	706,183	12,126	25,027
Instructional Staff	260,024	-	27,808
Board of Education	103,747	-	-
Administration	1,043,400	9,055	-
Fiscal	404,995	-	-
Business	4,417	-	-
Operation and Maintenance of Plant	1,190,925	-	-
Pupil Transportation	840,810	-	6,336
Central	126,152	-	16,685
Extracurricular Activities	460,360	57,653	-
Total Governmental Activities	11,749,179	364,963	279,065
Business-type Activities			
Food Service	329,551	179,962	98,883
Uniform School Supplies	-	20	-
Summer Camp	61,762	76,505	-
Latchkey	93,131	100,058	-
Elementary Summer School	4,522	1,600	-
Middle Summer School	507	-	-
Total Business-type Activities	489,473	358,145	98,883
Totals	\$12,238,652	\$723,108	\$377,948

General Revenues

Property Taxes Levied for:
 General Purposes
 Capital Outlay
Grants and Entitlements not Restricted to Specific Programs
Investment Earnings
Gain on Sale of Capital Assets
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
(\$4,984,202)	\$ -	(\$4,984,202)
(971,411)	-	(971,411)
(166,206)	-	(166,206)
2,991	-	2,991
(669,030)	-	(669,030)
(232,216)	-	(232,216)
(103,747)	-	(103,747)
(1,034,345)	-	(1,034,345)
(404,995)	-	(404,995)
(4,417)	-	(4,417)
(1,190,925)	-	(1,190,925)
(834,474)	-	(834,474)
(109,467)	-	(109,467)
(402,707)	-	(402,707)
<u>(11,105,151)</u>	<u>-</u>	<u>(11,105,151)</u>
-	(50,706)	(50,706)
-	20	20
-	14,743	14,743
-	6,927	6,927
-	(2,922)	(2,922)
-	(507)	(507)
<u>-</u>	<u>(32,445)</u>	<u>(32,445)</u>
<u>(11,105,151)</u>	<u>(32,445)</u>	<u>(11,137,596)</u>
8,412,926	-	8,412,926
129,676	-	129,676
2,450,664	-	2,450,664
61,661	-	61,661
3,352	-	3,352
149,729	-	149,729
<u>11,208,008</u>	<u>-</u>	<u>11,208,008</u>
102,857	(32,445)	70,412
<u>1,983,779</u>	<u>80,206</u>	<u>2,063,985</u>
<u>\$2,086,636</u>	<u>\$47,761</u>	<u>\$2,134,397</u>

Richmond Heights Local School District
Balance Sheet
Governmental Funds
June 30, 2005

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,538,984	\$252,549	\$1,791,533
Receivables:			
Taxes - Current	9,062,227	137,343	9,199,570
Taxes - Delinquent	1,311,579	19,687	1,331,266
Accounts	1,288	-	1,288
Intergovernmental	-	114,678	114,678
Interfund Loans	321,400	-	321,400
Restricted Assets:			
Restricted for Capital Improvements	38,881	-	38,881
Total Assets	\$12,274,359	\$524,257	\$12,798,616
 Liabilities, and Fund Balances			
Liabilities:			
Accounts Payable	\$112,149	\$45,819	\$157,968
Accrued Wages and Benefits	1,091,365	18,480	1,109,845
Interfund Loans Payable	-	235,400	235,400
Due to Other Governments	102,755	175	102,930
Deferred Revenue	9,371,573	144,595	9,516,168
Total Liabilities	10,677,842	444,469	11,122,311
Fund Balances:			
Reserved for Encumbrances	98,977	13,188	112,165
Reserved for Capital Improvements	38,881	-	38,881
Reserved for Property Tax Advance	1,002,233	12,435	1,014,668
Unreserved - Undesignated			
General Fund	456,426	-	456,426
Special Revenue Funds	-	29,201	29,201
Capital Projects Funds	-	24,964	24,964
Total Fund Balances	1,596,517	79,788	1,676,305
Total Liabilities and Fund Balances	\$12,274,359	\$524,257	\$12,798,616

See Accompanying Notes to the Basic Financial Statements

Total Governmental Fund Balances	\$1,676,305
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

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

Nondepreciable Capital Assets	311,214
Depreciable Capital Assets, Net	829,266

Long-term liabilities, including compensated absences and capital leases, are not due and payable in the current period, and therefore are not reported in the funds. See Note 13

Due Within One Year	(40,610)
Due Within More Than One Year	(689,539)

Net Assets of Governmental Activities	<u><u>\$2,086,636</u></u>
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Richmond Heights Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$8,412,926	\$129,676	\$8,542,602
Tuition and Fees	222,170	-	222,170
Earnings on Investments	61,661	-	61,661
Intergovernmental	2,446,866	291,205	2,738,071
Extracurricular Activities	5,478	128,973	134,451
Miscellaneous	101,300	48,429	149,729
Total Revenues	<u>11,250,401</u>	<u>598,283</u>	<u>11,848,684</u>
Expenditures			
Current:			
Instruction			
Regular	5,104,743	216,968	5,321,711
Special	948,800	97,693	1,046,493
Vocational	166,206	-	166,206
Support Services:			
Pupils	657,811	46,343	704,154
Instructional Staff	221,755	33,933	255,688
Board of Education	103,747	-	103,747
Administration	1,030,985	10,642	1,041,627
Fiscal	403,786	-	403,786
Business	4,417	-	4,417
Operation and Maintenance of Plant	1,048,553	-	1,048,553
Pupil Transportation	922,693	-	922,693
Central	110,916	12,668	123,584
Extracurricular Activities	284,353	176,178	460,531
Capital Outlay	-	103,517	103,517
Total Expenditures	<u>11,008,765</u>	<u>697,942</u>	<u>11,706,707</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>241,636</u>	<u>(99,659)</u>	<u>141,977</u>
Other Financing Sources (Uses)			
Sale of Assets	3,352	-	3,352
Transfers In	-	50,000	50,000
Transfers Out	(50,000)	-	(50,000)
Total Other Financing Sources (Uses)	<u>(46,648)</u>	<u>50,000</u>	<u>3,352</u>
Net Change in Fund Balances	194,988	(49,659)	145,329
Fund Balance - Beginning of Year - Restated	<u>1,401,529</u>	<u>129,447</u>	<u>1,530,976</u>
Fund Balance - End of Year	<u>\$1,596,517</u>	<u>\$79,788</u>	<u>\$1,676,305</u>

See Accompanying Notes to the Basic Financial Statements

Net change in Fund Balances - Total Governmental Funds **\$145,329**

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

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

Furniture & equipment capitalization	33,090
Vehicle capitalization	61,635
Vehicle depreciation	(17,571)
Furniture & equipment depreciation	(58,538)
Building depreciation	(35,394)

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

35,407

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

(61,101)

Change in Net Assets of Governmental Activities

\$102,857

Richmond Heights Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Budget Basis) - General Fund
For the Fiscal Year Ended June 30, 2005

	General			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Taxes	\$8,809,827	\$8,809,827	\$8,819,592	\$9,765
Tuition	200,000	200,000	201,004	1,004
Earnings on Investments	20,000	20,000	61,661	41,661
Miscellaneous	200,000	200,000	101,674	(98,326)
Intergovernmental	2,033,289	2,033,289	2,446,867	413,578
Total Revenues	11,263,116	11,263,116	11,630,798	367,682
Expenditures				
Current:				
Instruction:				
Regular	4,815,660	5,128,958	5,088,040	40,918
Special	1,009,140	1,029,635	1,027,270	2,365
Vocational Education	204,876	204,876	166,206	38,670
Support Services:				
Pupil	759,386	696,647	667,507	29,140
Instructional Staff	230,336	257,974	246,643	11,331
Board of Education	126,945	132,945	103,420	29,525
Administration	952,030	1,062,383	1,037,200	25,183
Fiscal	384,803	415,203	410,266	4,937
Business	-	4,500	4,417	83
Operation and Maintenance of Plant	1,092,091	1,115,958	1,084,746	31,212
Pupil Transportation	1,019,687	1,012,587	988,913	23,674
Central	104,122	153,122	126,589	26,533
Extracurricular Activities	288,909	286,809	284,297	2,512
Total Expenditures	10,987,985	11,501,597	11,235,514	266,083
Excess (Deficiency) of Revenues Over (Under) Expenditures	275,131	(238,481)	395,284	633,765
Other Financing Sources (Uses)				
Advances In	306,100	306,100	340,772	34,672
Transfers Out	(65,000)	(75,000)	(50,000)	25,000
Advances Out	-	(320,400)	(320,400)	-
Contingencies	(5,000)	-	-	-
Total Other Financing Sources (Uses)	236,100	(89,300)	(29,628)	59,672
Net Change in Fund Balance	511,231	(327,781)	356,656	693,437
Fund Balance - Beginning of Year	898,328	898,328	898,328	-
Encumbrances - End of Year	-	-	313,881	313,881
Fund Balance - End of Year	\$1,409,559	\$570,547	\$1,577,865	\$1,007,318

See Accompanying Notes to the Basic Financial Statements

Richmond Heights Local School District
Statement of Fund Net Assets
Proprietary Funds
June 30, 2005

	Food Service Fund	Non-major Enterprise Funds	Total Enterprise Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$10,390	\$135,146	\$145,536
Materials and Supplies Inventory	3,973	-	3,973
Total Current Assets	14,363	135,146	149,509
Capital Assets, Net	17,876	-	17,876
Total Assets	32,239	135,146	167,385
Liabilities			
Accounts Payable	-	5,682	5,682
Accrued Wages and Benefits	-	17,634	17,634
Interfund Loans Payable	86,000	-	86,000
Due to Other Governments	4,639	-	4,639
Total Current Liabilities	90,639	23,316	113,955
Long-term Liabilities:			
Compensated Absences Payable	-	5,669	5,669
Total Liabilities	90,639	28,985	119,624
Net Assets			
Invested in Capital Assets	17,876	-	17,876
Unrestricted (Deficit)	(76,276)	106,161	29,885
Total Net Assets (Deficit)	(\$58,400)	\$106,161	\$47,761

See Accompanying Notes to the Basic Financial Statements

Richmond Heights Local School District
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2005*

	Food Service Fund	Non-major Enterprise Funds	Total Enterprise Funds
Operating Revenues			
Tuition and Fees	\$ -	\$176,563	\$176,563
Sales	179,962	-	179,962
Charges for Services	-	1,620	1,620
Total Operating Revenues	179,962	178,183	358,145
Operating Expenses			
Salaries and Wages	-	96,490	96,490
Fringe Benefits	4,638	35,037	39,675
Purchased Services	197,231	24,207	221,438
Depreciation	1,796	272	2,068
Materials and Supplies	125,886	3,916	129,802
Total Operating Expenses	329,551	159,922	489,473
Operating Income (Loss)	(149,589)	18,261	(131,328)
Non-Operating Revenues (Expenses)			
State and Federal Grants	80,711	-	80,711
Other Revenues	18,172	-	18,172
Total Non-Operating Revenues (Expenses)	98,883	-	98,883
Change in Net Assets	(50,706)	18,261	(32,445)
Net Assets (Deficit) Beginning of Year	(7,694)	87,900	80,206
Net Assets (Deficit) End of Year	(\$58,400)	\$106,161	\$47,761

See Accompanying Notes to the Basic Financial Statements

Richmond Heights Local School District
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2005

	Food Service Fund	Non-major Enterprise Funds	Total Enterprise Funds
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities:			
Cash Received from Tuition and Fees	\$ -	\$178,163	\$178,163
Cash Received from Sales	179,962	20	179,982
Cash Payments for Personal Services	-	(133,633)	(133,633)
Cash Payments for Purchased Services	(197,231)	(24,207)	(221,438)
Cash Payments for Materials and Supplies	(114,940)	-	(114,940)
Cash Payments for Other Expenses	-	(9,887)	(9,887)
Net Cash Provided by (Used for) Operating Activities	(132,209)	10,456	(121,753)
Cash Flows from Noncapital Financing Activities:			
Cash Received from Grants	77,086	-	77,086
Other Revenues	18,352	-	18,352
Cash Received - Interfund Loans	86,000	-	86,000
Cash (Used) - Interfund Loans	(80,000)	-	(80,000)
Net Cash Provided by (Used For) Noncapital Financing Activities	101,438	-	101,438
Cash Flows from Capital and Related Financing Activities:			
Acquisition of Capital Assets	(4,520)	-	(4,520)
Net Cash (Used for) Capital and Related Financing Activities	(4,520)	-	(4,520)
Net Increase (Decrease) in Cash and Cash Equivalents	(35,291)	10,456	(24,835)
Cash and Cash Equivalents - Beginning of Year	45,681	124,690	170,371
Cash and Cash Equivalents - End of Year	\$10,390	\$135,146	\$145,536
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities			
Operating Income (Loss)	(\$149,589)	\$18,261	(\$131,328)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:			
Depreciation	1,796	272	2,068
Donated Commodities Used	13,000	-	13,000
Decrease (Increase) in Materials and Supplies Inventory	(2,054)	-	(2,054)
Increase (Decrease) in Accounts Payable	4,638	(5,971)	(1,333)
Increase (Decrease) in Accrued Wages and Benefits	-	(2,106)	(2,106)
Total Adjustments	17,380	(7,805)	9,575
Net Cash Provided by (Used for) Operating Activities	(\$132,209)	\$10,456	(\$121,753)

Richmond Heights Local School District
Statement of Fiduciary Assets & Liabilities
Fiduciary Funds
June 30, 2005

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$13,479</u>
Total Assets	<u><u>\$13,479</u></u>
Liabilities	
Liabilities:	
Due to Students	<u>\$13,479</u>
Total Liabilities	<u><u>\$13,479</u></u>

See Accompanying Notes to the Basic Financial Statements

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 1 - DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY

A. Description of the District

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

The District is located in Richmond Heights, Cuyahoga County Ohio, and serves an area of approximately 4.75 miles. It is staffed by 69 certificated teaching personnel, 55 non-certificated support staff personnel and 9 administrative employees who provide services to 1,119 students and other community members. The District currently operates a primary school, a middle school and a high school.

B. The Reporting Entity

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

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

The Ohio Schools Council (the "Council") is a jointly governed organization among eighty-eight school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. Financial information can be obtained by contacting Mr. John W. Mitchell, the Executive Secretary of the Ohio Schools Council at Rockside Square Building 2, 6133 Rockside Road, Independence, Ohio 44131, and www.osconline.org.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 1 - DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY (continued)

B. The Reporting Entity (continued)

The District participates in the Council's electric purchase program, which was implemented during fiscal year 1998. This program allows school districts to purchase electricity at reduced rates, if the school district will commit to participating for an eight-year period. The participants make monthly payments based on estimated usage. Each June these estimated payments are compared to their actual usage for the year and any necessary adjustments are made. In 1997, Energy Acquisition Corporation, a non-profit corporation with a self-appointing board, issued \$119,140,000 in debt to pre-purchase eight years of electricity from Cleveland Electric Illuminating ("CEI") for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, that district is required to repay savings to CEI and CEI will refund the remaining prepayment related to that participant to Energy Acquisition Corporation.

The District also participates in the Council's prepaid natural gas program, which was implemented during fiscal year 2000. This program allows school districts to purchase natural gas at reduced rates, if the school district will commit to participating for a twelve-year period. The participants make monthly payments based on estimated usage. Each month these estimated payments are compared to actual usage and any necessary adjustments are made. The City of Hamilton, a municipal corporation and a political subdivision duly organized and existing under the laws of the State of Ohio, issued \$89,450,000 in debt to purchase twelve years of natural gas from CMS Energy Corporation for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is entitled to recover the amount, if any, of its contributions to the operating fund, which are not encumbered for its share of program administrative costs.

The Lakeshore Northeast Ohio Computer Association ("LNOCA") is a jointly governed computer service bureau among 15 public school districts and an educational service center. The primary function of LNOCA is to provide data services to the 15 members. Major areas of service provided by LNOCA include accounting, payroll, inventory, career guidance services, handicapped student tracking, pupil scheduling, attendance reporting and grade reporting, and Internet access. Each school district is represented on the LNOCA board of directors by its superintendent or designated representative. Each year, the Board of Directors elects a Chairman, a Vice Chairman and a Recording Secretary. The Treasurer of the fiscal agent is a nonvoting, ex-officio member of the Board of Directors. The Cuyahoga County Educational Service Center serves as the fiscal agent of LNOCA. Each school district supports LNOCA based upon a per pupil charge dependent upon the software packages used. The degree of control exercised by a participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer of the fiscal agent at 7800 Wall Street, Valley View, Ohio 44125.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 1 - DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY (continued)

B. The Reporting Entity (continued)

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Fund Accounting

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

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulation, restrictions or limitations.

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

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Fund Accounting (continued)

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

General Fund - The general fund is the operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

Proprietary Funds - Proprietary funds focus on the determination of the changes in net assets, financial position and cash flows and are classified as 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 District records state and federal grant revenue, including commodities received in the food service fund as non-operating revenue. The District's enterprise funds are:

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

Other Enterprises - The remaining enterprise funds account for financial transactions related to Latchkey, Summer Camp and Summer School programs.

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

B. Basis of Presentation

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

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation (continued)

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segments or governmental function is self-financing or draws from the general revenues of the District.

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

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of fund net assets. The statement of revenues, expenses and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in revenues, expenses and net assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds are reported using the economic resources measurement focus.

RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

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

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

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

Delinquent property taxes and property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 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.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting (continued)

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as state and federal grant revenue.

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

D. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolutions are subject to amendments throughout the year, with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are required to be budgeted and appropriated. The primary level of budgetary control is at the object level. Budgetary modifications may only be made by resolution of the Board of Education.

Tax Budget - Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed tax budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Operational expenditure recommendations are developed assuming "committed costs". Public hearings are announced and conducted to obtain taxpayers' comments. The express purpose of this tax budget document is to reflect the need for existing (or increased) tax rates and to provide a basis for the development of the first permanent appropriations for the coming fiscal year.

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

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Budgetary Process (continued)

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

Estimated Resources - By April 1, or a later date as determined by the Budget Commission, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the Treasurer of the District. The amounts reported in the budgetary statements reflect the amounts in the first and final amended certificate issued during fiscal year 2005.

Appropriations - Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certification saying no new certificate is necessary, the annual appropriation must be legally enacted by the Board of Education at the fund, function and object level, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or other object appropriations within functions, must be approved by the Board of Education. The Board may pass supplemental fund appropriations provided the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the fiscal year 2005, several supplementary appropriations were legally enacted; however, none of these amendments were significant. The budget figures, which appear in the statements of budgetary comparisons, represent the first and final appropriation amounts, including all supplemental appropriations.

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

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Cash and Cash Equivalents

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

During fiscal year 2005, investments were limited to the State Treasury Asset Reserve ("STAR Ohio").

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2005.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. For fiscal year 2005, the District elected to limit the distribution of interest to the general fund.

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

F. Restricted Assets

Restricted assets represent cash and cash equivalents and other current assets whose use is limited by creditors, grantors or legal requirements. Restricted assets in the general fund include amounts required by statute to be set-aside for the purchase of capital improvements. See Note 17 for additional information regarding statutory reserves.

G. Inventory

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

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

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Capital Assets

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

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

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

<u>Description</u>	<u>Governmental Activities Estimated Lives (Years)</u>	<u>Business-Type Activities Estimated Lives (Years)</u>
Buildings & Improvements	10-30	n/a
Computers	5	5
Furniture & Equipment	5-20	12
Vehicles	15	n/a

I. Interfund Balances

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

J. Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*. Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Compensated Absences (continued)

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability. There are no compensated absences determined to be current since none were paid with current resources.

K. Accrued Liabilities and Long-term Obligations

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

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

L. Fund Balance Reserves

The District reserves those portions of fund balance 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 balance that is available for appropriation in future periods. Fund balance reserves have been established for encumbrances, capital improvements, and property taxes. The reserve for property taxes represents taxes recognized as revenue under GAAP but not available for appropriation under State statute.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Net Assets

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

N. Operating Revenues and Expenses

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

O. Interfund Activity

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

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

P. Estimates

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

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2005.

R. Proprietary Activity Accounting

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

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2005, the District has implemented GASB No. 40, *Deposit and Investment Risk Disclosures*, GASB Technical Bulletin 2004-2, *Recognition of Pension and Other Post employment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits. GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other post employment benefit (OPEB) plans. GASB Statement No. 39 further defines the guidelines of GASB Statement No. 14, *The Financial Reporting Entity*.

The implementation of GASB Statement No. 39 and GASB Statement No. 40 did not have an effect on the financial statements of the District. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect:

General Fund Balance - June 30, 2004	\$ 1,492,144
GASB Technical Bulletin 2004-02 Adjustment	<u>(90,615)</u>
Restated General Fund Balance - July, 1 2004	\$ 1,401,529

RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 4 - FUND BALANCE DEFICITS

Fund balances/retained earnings at June 30, 2005 included the following individual fund deficits:

Special Revenue Funds	
District Managed Student Activities	\$ (14,724)
Summer School Subsidy	(596)
Title I	(21,978)
Drug Free Education	(3,634)
Title VIR	(1,035)
Enterprise Funds Funds	
Food Service	(58,400)
E.S. Summer School	(1,872)

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

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations and changes in fund balance/retained earnings on the basis of GAAP, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual (Budget Basis) is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are as follows:

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

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (continued)

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

Net Change in Fund Balance GAAP Basis	\$ 194,988
Net Adjustment for Revenue Accruals	377,045
Advances In	340,772
Net Adjustment for Expenditure Accruals	78,132
Encumbrances	(313,881)
Advances Out	<u>(320,400)</u>
Budget Basis	<u><u>\$ 356,656</u></u>

NOTE 6 - CASH AND INVESTMENTS

A. Legal Requirements

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

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

Inactive Deposits - Those deposits the District has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts, including, but not limited to, passbook accounts.

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

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 6 - CASH AND INVESTMENTS (continued)

A. Legal Requirements (continued)

Interim moneys may be invested in the following securities:

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

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 6 - CASH AND INVESTMENTS (continued)

A. Legal Requirements (continued)

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

B. Deposits

At June 30, 2005 the carrying amount of the District's deposits was \$545,937 and the bank balance was \$817,955. Of the total bank balance, \$100,000 was covered by federal depository insurance, and \$717,955 was unsecured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the federal deposit insurance corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The School District's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 6 - CASH AND INVESTMENTS (continued)

C. Investments

The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. Unless matched to a specific obligation or debt of the School District, the school District will not directly invest in securities maturing more than three years from the date of settlement if such securities bear interest at a fixed rate, and it will not directly invest in such securities maturing more than two years from the date of settlement if they bear interest at a variable rate.

The School District diversifies its investments by security, type, and institution. With the exception of direct obligations of the U. S. Treasury and STAROhio, no more than 25% of the School District's total investment portfolio will be invested in a single security type or with a single financial institution. The School District's only investment at June 30, 2005 is in STAROhio. The School District's investment at June 30, 2005 in STAROhio is rated AAA by Standard & Poor's.

Fair Value	Investment Maturities (In Months) 0-6
\$ 1,443,492	\$ 1,443,492

NOTE 7 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at eighty-eight percent of true value (with certain exceptions) and on real property at thirty-five percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are twenty-four percent of true value. Since property taxes are assessed and levied on a calendar year basis, the District receives property taxes from two taxing years during the District's fiscal year. The assessed values upon which the fiscal year 2005 taxes were collected are as follows:

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 7 - PROPERTY TAXES (continued)

	2005		2004	
	Amount	Percent	Amount	Percent
Real Property				
Residential/Agricultural	\$ 175,185,190	72.25%	\$ 173,253,690	72.73%
Other	47,927,790	19.77%	46,887,670	19.68%
Public Utilities	3,843,040	1.58%	3,741,300	1.57%
Tangible Personal Property				
Personal	15,513,284	6.40%	14,343,900	6.02%
Total Valuation	<u>\$ 242,469,304</u>	<u>100%</u>	<u>\$ 238,226,560</u>	<u>100%</u>

The full tax rate applied to real property for the 2005 collection year is \$78.60 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$36.86 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$43.33 for all other real property. Real property owner's tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the District by the State of Ohio.

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

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. The District receives property taxes from Cuyahoga County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represent delinquent taxes outstanding, the late settlement of personal property taxes, and real property, tangible personal property and public utility taxes which became measurable as of June 30, 2005, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2005 was \$1,014,668 and is recognized as revenue. Of the total amount available at June 30, 2005, \$1,002,233 was available to the general fund, and \$12,435 was available to the permanent improvement fund.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 8 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts receivable (billings for user charged services), interfund loans, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of Federal funds. A summary of the intergovernmental receivables by fund follows:

Special Revenue		
Summer School Subsidy	\$	11,528
Miscellaneous State Grants		21,370
Title I		60,094
Title VI		4,816
Drug Free Education		433
Title VIR		12,888
Miscellaneous Federal Grants		<u>3,549</u>
Total		<u><u>\$ 114,678</u></u>

NOTE 9 - INTERFUND TRANSACTIONS

Short-term interfund loans at June 30, 2005 are as follows:

Fund	Interfund Receivable	Interfund Payable
General	\$ 321,400	
Nonmajor governmental Funds		\$ 235,400
Food Service		<u>86,000</u>
	<u>\$ 321,400</u>	<u>\$ 321,400</u>

For fiscal year 2005, the general fund reported transfers out of \$50,000 and other non-major governmental funds reported transfers in of \$50,000.

**RICHMONT HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 10 -CAPITAL ASSETS

The following is a summary of changes in the District's capital assets at June 30, 2005.

	Balance 7/1/2004	Addition	Deletion	Balance 6/30/2005
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 311,214	\$ -	\$ -	\$ 311,214
<i>Total Capital Assets, not being depreciated:</i>	<u>311,214</u>	<u>-</u>	<u>-</u>	<u>311,214</u>
<i>Capital Asset, being depreciated:</i>				
Buildings and Improvements	6,244,248	-	-	6,244,248
Furniture and Equipment	433,333	33,090	(17,282)	449,141
Vehicles	722,648	61,635	(37,337)	746,946
<i>Total Capital Assets, being depreciated:</i>	<u>7,400,229</u>	<u>94,725</u>	<u>(54,619)</u>	<u>7,440,335</u>
Less Accumulated Depreciation:				
Building and Improvements	(5,819,740)	(35,394)	-	(5,855,134)
Furniture and Equipment	(348,318)	(58,538)	17,282	(389,574)
Vehicles	(386,127)	(17,571)	37,337	(366,361)
<i>Total Accumulated Depreciation</i>	<u>(6,554,185)</u>	<u>(111,503)</u>	<u>54,619</u>	<u>(6,611,069)</u>
<i>Total Capital Assets being depreciated, net</i>	<u>846,044</u>	<u>(16,778)</u>	<u>-</u>	<u>829,266</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,157,258</u>	<u>\$ (16,778)</u>	<u>\$ -</u>	<u>\$ 1,140,480</u>
Business-Type Activities				
Furniture and Equipment	\$ 78,225	\$ 4,520	\$ (6,887)	\$ 75,858
Less Accumulated Depreciation	(62,801)	(2,068)	6,887	(57,982)
Business-Type Capital Assets, Net	<u>\$ 15,424</u>	<u>\$ 2,452</u>	<u>\$ -</u>	<u>\$ 17,876</u>

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 10 -CAPITAL ASSETS (continued)

Depreciation was charged to governmental functions as follows:

Instruction	\$ 41,012
Pupils	2,713
Instructional Staff	4,336
Administration	3,710
Fiscal	1,209
Operation and Maintenance	38,855
Pupil Transportation	15,162
Central	3,568
Extracurricular Activities	<u>938</u>
	<u><u>\$ 111,503</u></u>

NOTE 11 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2005, the District contracted for property and general liability insurance, and boiler and machinery coverage through the 91-member Ohio Schools Council Group Purchasing Consortium. The carrier for District property insurance, and boiler and machinery coverage is The Indiana Insurance Company. Aggregate property coverage is approximately \$24.5 million with a \$2,500 deductible. Aggregate boiler and machinery coverage is approximately \$30 million with a \$1,000 deductible. The policy is renewable on July 1, 2005 for each coverage. Casualty and fleet insurance coverage was provided by Indiana Insurance Company, with a combined single limit of \$1 million and \$1,000 comprehensive and \$1,000 collision deductibles. Education and umbrella liability insurance coverage was provided by the Indiana Insurance and Hartford Steam Boiler Companies, with a combined single limit of \$4 million each occurrence and combined aggregate of \$5 million. The Treasurer is covered by a \$50,000 surety bond and the Superintendent, Board of Education President, and Business Manager are covered by \$20,000 position bonds. Settled claims have not exceeded commercial coverage in any of the past three years. Coverages have not been reduced from previous year.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 11 - RISK MANAGEMENT (continued)

B. Workers Compensation

For fiscal year 2005 the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program ("GRP"), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association ("OSBA"). The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "equity pooling" fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Company provides administrative, cost control and actuarial services to the GRP.

C. Employee Medical Benefits

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The 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, or by calling (614) 222-5853.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

A. School Employees Retirement System (continued)

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 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 District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$174,672, \$143,712 and \$123,571 respectively; 57 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

B. State Teachers Retirement System

The 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 St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC 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.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

B. State Teachers Retirement System

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 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, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The 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 recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$585,689, \$547,157 and \$543,922 respectively; 83 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$21,710 made by the District and \$34,935 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System of the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2005, two members of the Board of Education have selected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 13 – POST-EMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified employees and their dependents through the State 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 funded on a pay-as-you-go basis.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 13 – POST-EMPLOYMENT BENEFITS (continued)

STRS retirees who participate in the defined benefit 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. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$41,835 during the 2005 fiscal year. STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2005 (the latest information available), the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium. 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 June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. 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 2005, the minimum pay has been established at \$27,400. For the District, the amount for fund health care benefits, including surcharge, during the 2005 fiscal year equaled \$84,182. 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 annual health care expenses. Expenses for health care at June 30, 2005 (the latest information available), were \$178,221,113. At June 30, 2005 (the latest information available) SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

NOTE 14 - LONG-TERM OBLIGATIONS

The changes in the District's long-term obligations during the year ended June 30, 2005 consist of the following:

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 14 - LONG-TERM OBLIGATIONS (continued)

	<u>Amount Outstanding 6/30/2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/2005</u>	<u>Amount Due in One Year</u>
<i>Governmental Activities</i>					
Compensated Absences	\$ 440,561	\$ 175,904	\$ (114,803)	\$ 501,662	\$ -
Capital Leases	263,894	-	(35,407)	228,487	40,610
Total Governmental Activities	<u>\$ 704,455</u>	<u>\$ 175,904</u>	<u>\$ (150,210)</u>	<u>\$ 730,149</u>	<u>\$ 40,610</u>
<i>Business-Type Activities</i>					
Compensated Absences	<u>\$ 5,009</u>	<u>\$ 963</u>	<u>\$ (303)</u>	<u>\$ 5,669</u>	<u>\$ -</u>

Compensated absences are paid by the employing fund. The capital lease is paid by the transportation function of the general fund.

Bonds Outstanding

As of June 30, 2005, the District had no outstanding bonded debt.

The District's voted legal debt margin for general obligation bonds was \$21,882,237 with an unvoted legal debt margin of \$242,469 and an unvoted legal energy conservation debt margin of \$2,182,224 at June 30, 2005

Compensated Absences

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

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

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

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 15 - CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2005.

B. Litigation

As of June 30, 2005, the District was a party to various legal proceedings, seeking damages or injunctive relief arising in the ordinary course of business. The ultimate disposition of these proceedings is not presently determinable. The District carries adequate insurance coverage for most risks including property damage and personal liability and the District's management does not believe that any potential claims not covered by such insurance would have a material effect on the financial condition of the District.

C. School Finance

As of June 30, 2005, there were pending several challenges to real estate market valuation filed by property owners within the District. If successful, these challenges will result in a decrease of real property market valuation and therefore real estate property tax revenue received by the District. However, in the opinion of management, the disposition of all valuation challenges is not expected in the aggregate to have a material adverse effect on the financial position of the District.

NOTE 16 - STATE SCHOOL FUNDING DECISION

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

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 17 - STATUTORY RESERVES

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

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

	<u>Textbooks</u>	Capital <u>Improvement</u>	<u>Total</u>
Set aside balance as of June 30, 2005	\$ (11,855)	\$ -	\$ (11,855)
Current year set-aside requirement	158,063	158,063	316,126
Qualifying expenditures	<u>(151,151)</u>	<u>(119,182)</u>	<u>(270,333)</u>
Totals	<u>\$ (4,943)</u>	<u>\$ 38,881</u>	<u>\$ 33,938</u>
Cash balance carried forward to FY2007	<u>\$ (4,943)</u>	<u>\$ 38,881</u>	<u>\$ 33,938</u>

The District had qualifying disbursements during the fiscal year that reduced the textbook reserve set-aside amounts below zero. This amount may be carried forward to reduce future fiscal year requirements.

NOTE 18 - CAPITAL LEASES – LESSEE DISCLOSURE

The District entered into a capitalized lease for a sub service building in fiscal year 2001. As part of the agreement, Fifth Third Bank, as lessor, provided \$400,000 for the construction. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 “Accounting for Leases”, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

The lease has been capitalized in the governmental activities in the amount of \$400,000. Principal payments in fiscal year 2005 totaled \$35,407 in the general fund.

**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 18 - CAPITAL LEASES – LESSEE DISCLOSURE (continued)

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2005.

<u>Year</u>	<u>Amount</u>
2006	\$ 52,689
2007	52,689
2008	52,689
2009	52,689
2010	<u>52,689</u>
Total Minimum Lease Payments	\$ 263,445
Amount Representing Interest	<u>(34,959)</u>
Present Value Minimum Lease Payments	<u><u>\$ 228,486</u></u>

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INDEPENDENT ACCOUNTANT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Board of Education
Richmond Heights Local School District
Cuyahoga County
447 Richmond Road
Richmond Heights, Ohio 44114

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Richmond Heights Local School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 28, 2006, wherein we noted the District implemented GASB Technical Bulletin No. 2004-2. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Richmond Heights Local School District in a separate letter dated August 28, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain immaterial matters of noncompliance that we reported to the management of the District in a separate letter dated August 28, 2006.

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

Charles E. Harris & Associates, Inc.
August 28, 2006

STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

The prior audit report, for the year ending June 30, 2004, reported no material citations or recommendations.



**Auditor of State
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**RICHMOND HEIGHTS LOCAL SCHOOL DISTRICT
CUYAHOGA COUNTY**

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 2, 2007**