



Dave Yost • Auditor of State



**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Warrensville Heights City School District  
Cuyahoga County  
4500 Warrensville Center Road  
Warrensville Heights, Ohio 44128

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Warrensville Heights City School District, Cuyahoga County, Ohio (the District), as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Warrensville Heights City School District, Cuyahoga County, Ohio, as of June 30, 2010, and the respective changes in financial position thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally

accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The federal awards receipts and expenditures schedule provide additional information and is not a required part of the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Dave Yost**  
Auditor of State

June 22, 2012

## Warrensville Heights City School District

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited*

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The discussion and analysis of the Warrensville Heights City School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School District's financial performance.

### **Financial Highlights**

Key financial highlights for fiscal year 2010 are as follows:

- ❑ Net assets increased in fiscal year 2010 due to an increase in cash available at year-end and an increase in taxes receivable.
- ❑ Governmental activities reflected an overall decrease in revenues from fiscal year 2009 from a decrease in property tax, operating grants and investment earnings being collected.
- ❑ The School District had higher program expenses related to governmental activities than the previous fiscal year, mainly due to the increase in instructional and pupil support services related expenses.
- ❑ The general fund had greater expenditures than revenues, resulting in the general fund's fund balance decrease in fiscal year 2010. This decrease was the result of less property tax collections offset by an overall decrease in expenditures.

### **Using this Annual Financial Report**

This report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Warrensville Heights City School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term and what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of Warrensville Heights City School District, the general fund is the most significant fund, although the bond retirement debt service fund is also considered to be a major fund.

## Warrensville Heights City School District

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited*

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### Reporting the School District as a Whole

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

While this document contains all of the funds used by the School District to provide programs and activities, the view of the School District as a whole considers all financial transactions and asks the question "How did we perform financially during fiscal year 2010?" 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. Accrual accounting takes into account all of the current year's revenue and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the *financial position* of the School District has improved or diminished. The causes of this change may be the result of many financial or non-financial factors. Non-financial factors include the School 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*, all of the School District's activities are classified as governmental. The School District's programs and services reported here include instruction, support services, operation of non-instructional services, extracurricular activities and interest and fiscal charges.

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

#### *Fund Financial Statements*

The analysis of the School District's major funds begins on page 9. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus upon the School District's most significant funds. The School District's major governmental funds are the general fund and the bond retirement debt service fund.

**Governmental Funds** Most of the School District's activities are reported in governmental funds, which focus on how cash flows into and out of those funds and the balances remaining at fiscal 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 fund statements provide a detailed *short-term view* of the School District's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the *Statement of Net Assets* and the *Statement of Activities*) and governmental *funds* is reconciled in the financial statements.

**Fiduciary Funds** Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the School District's programs. These funds use the accrual basis of accounting.



## Warrensville Heights City School District

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited

### The School District as a Whole

You may recall that the *Statement of Net Assets* provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for fiscal year 2010 compared to the prior fiscal year:

(Table 1)  
Net Assets  
Governmental Activities

	2010	2009	Change
<b>Assets</b>			
Current and Other Assets	\$40,287,107	\$37,056,042	\$3,231,065
Capital Assets	25,423,647	26,391,731	(968,084)
<i>Total Assets</i>	<u>65,710,754</u>	<u>63,447,773</u>	<u>2,262,981</u>
<b>Liabilities</b>			
Current Liabilities	23,267,144	21,837,233	(1,429,911)
Long-Term Liabilities:			
Due within One Year	1,236,668	1,945,542	708,874
Due in More than One Year	22,454,135	22,770,654	316,519
<i>Total Liabilities</i>	<u>46,957,947</u>	<u>46,553,429</u>	<u>(404,518)</u>
<b>Net Assets</b>			
Invested in Capital Assets			
Net of Related Debt	5,098,644	5,032,680	65,964
Restricted for:			
Capital Projects	898,292	798,244	100,048
Debt Service	3,664,606	3,291,677	372,929
Set Asides	152,466	313,915	(161,449)
Other Purposes	716,321	822,950	(106,629)
Unrestricted	8,222,478	6,634,878	1,587,600
<i>Total Net Assets</i>	<u>\$18,752,807</u>	<u>\$16,894,344</u>	<u>\$1,858,463</u>

As one can see from the increase in overall net assets, the School District continues to provide the services that the School District citizens expect while maintaining the costs of providing those services during the current economic recession.

In order to further understand what makes up the changes in net assets for the current year, the following table gives readers further details regarding the results of activities for fiscal years 2010 and 2009.

**Warrensville Heights City School District**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2010*

*Unaudited*

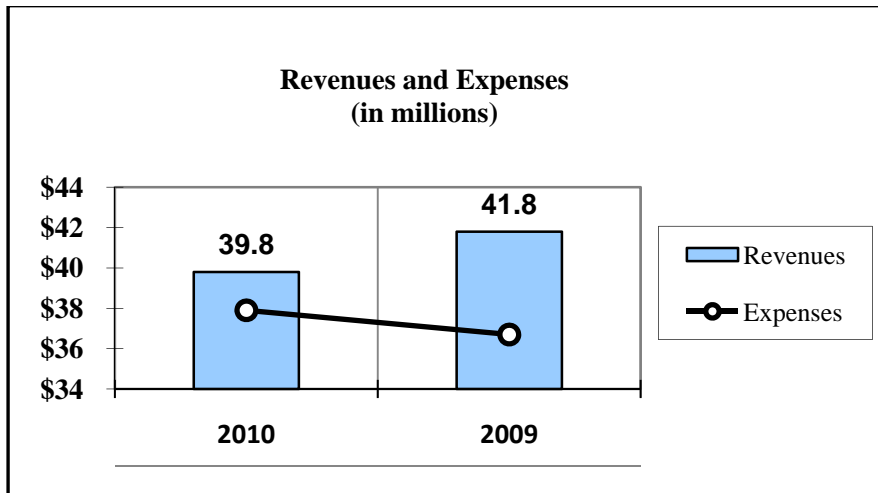
(Table 2)  
Change in Net Assets  
Governmental Activities

	2010	2009	Change
<i>Program Revenues</i>			
Charges for Services	\$296,626	\$271,547	\$25,079
Operating Grants	3,244,570	4,554,553	(1,309,983)
Capital Grants	66,119	46,044	20,075
<b>Total Program Revenues</b>	<b>3,607,315</b>	<b>4,872,144</b>	<b>(1,264,829)</b>
<i>General Revenues</i>			
Property Taxes	19,592,343	22,368,036	(2,775,693)
Grants and Entitlements	16,429,129	14,374,012	2,055,117
Investment Earnings	34,650	69,789	(35,139)
Miscellaneous	91,677	165,931	(74,254)
<b>Total General Revenues</b>	<b>36,147,799</b>	<b>36,977,768</b>	<b>(829,969)</b>
<b>Total Revenues</b>	<b>39,755,114</b>	<b>41,849,912</b>	<b>(2,094,798)</b>
<i>Program Expenses</i>			
Instruction	20,482,845	19,341,206	(1,141,639)
Support Services			
Pupil	1,491,174	1,237,893	(253,281)
Instructional Staff	2,630,541	1,622,372	(1,008,169)
Board of Education	84,208	120,484	36,276
Administration	3,093,130	3,927,568	834,438
Fiscal	940,787	1,062,245	121,458
Business	1,059,678	1,084,210	24,532
Operation and Maintenance of Plant	4,069,589	4,268,880	199,291
Pupil Transportation	1,011,815	1,049,764	37,949
Central	334,981	274,767	(60,214)
Operation of Non-Instructional Services:			
Food Service Operations	1,065,953	1,059,033	(6,920)
Other Non-Instructional Services	178,443	157,120	(21,323)
Extracurricular Activities	341,582	351,926	10,344
Interest and Fiscal Charges	1,111,925	1,139,213	27,288
<b>Total Program Expenses</b>	<b>37,896,651</b>	<b>36,696,681</b>	<b>(1,199,970)</b>
Increase in Net Assets	1,858,463	5,153,231	(3,294,768)
<i>Net Assets Beginning of Year</i>	16,894,344	11,741,113	5,153,231
<i>Net Assets End of Year</i>	\$18,752,807	\$16,894,344	\$1,858,463

**Warrensville Heights City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2010*  
*Unaudited*

**Graph 1**  
**Revenues and Expenses**  
(In Millions)

	2010	2009
Revenues	\$39.8	\$41.8
Expenses	37.9	36.7



***Governmental Activities***

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a voted levy does not increase solely as a result of inflation. It increases as a result of new construction or collection from a new voted levy. Although school districts experience inflationary growth in expenses, tax revenue does not keep pace with the increased expenses due to House Bill 920. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. 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 owner would still pay less than \$35.00 and the School District would collect the same dollar value the levy generated in the year it passed. The 10 percent rollback on all residential/agricultural property and the 2.5 percent rollback on all owner occupied homes would reduce the amount of taxes paid.

Thus School District's dependence upon property taxes is hampered by a lack of revenue growth so it must regularly return to the voters to maintain a constant level of service. Property taxes and grants and entitlements made up the majority of revenues for governmental activities for Warrensville City School District in fiscal year 2010. Through additional Federal and State support, the School District received more than \$2 million in grant and entitlements more than the prior fiscal year which partially offset the decrease in property tax collections.

The School District actively pursues grants and controls expenses while still maintaining the high academic standards the residents expect of the School District.

**Warrensville Heights City School District**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited*

Instruction expenses comprise more than half of the governmental program expenses. Building operations, administration, pupil support, staff support, food service, extracurricular activities and interest and fiscal charges make up the remaining of the governmental program expenses. The Board believes that the main focus of the School District should be to provide the best instruction to its pupils as possible. Therefore, a majority of the expenses of the School District are in the area of instruction, which increased from fiscal year 2009 mainly due to the step increase that took place at the beginning of fiscal year.

The *Statement of Activities* shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows 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.

(Table 3)  
Total and Net Cost of Program Services  
Governmental Activities

	Total Cost of Services 2010	Net Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2009
Instruction	\$20,482,845	\$19,302,220	\$19,341,206	\$16,067,711
Support Services:				
Pupil and Instructional Staff	4,121,715	2,988,243	2,860,265	2,557,728
Board of Education and Administration	3,177,338	3,120,974	4,048,052	4,008,627
Fiscal and Business	2,000,465	1,998,619	2,146,455	2,143,153
Operation and Maintenance of Plant	4,069,589	4,016,409	4,268,880	4,036,562
Pupil Transportation	1,011,815	999,392	1,049,764	1,034,648
Central	334,981	249,846	274,767	243,649
Operation of Food Service	1,065,953	66,549	1,059,033	165,122
Operation of Non-Instructional Services	178,443	121,308	157,120	116,306
Extracurricular Activities	341,582	313,851	351,926	311,818
Interest and Fiscal Charges	1,111,925	1,111,925	1,139,213	1,139,213
<i>Total Expenses</i>	<u>\$37,896,651</u>	<u>\$34,289,336</u>	<u>\$36,696,681</u>	<u>\$31,824,537</u>

Instruction expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil. Pupils and instructional staff include the activities involved with assisting staff with the content and process of teaching to pupils.

Board of education, administration, fiscal and business includes expenses associated with administrative and financial supervision of the School District.

Operation and maintenance of plant activities involve keeping the School District grounds, buildings, and equipment in an effective working condition.

Pupil transportation includes activities involved with the conveyance of students to and from school, as well as to and from school activities, as provided by state law.

## **Warrensville Heights City School District**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited*

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Central includes expenses related to planning, research, development and evaluation of support services, as well as the reporting of this information internally and to the public.

Operation of food service includes the preparation, delivery, and servicing of lunches, snacks and other incidental meals to students and school staff in connection with school activities.

Extracurricular activities include expenses related to student activities provided by the School District which are designed to provide opportunities for pupils to participate in school events, public events, or a combination of these for the purposes of motivation, enjoyment and skill improvement.

Interest and fiscal charges involves the transactions associated with the payment of interest and other related charges to debt of the School District.

The dependence upon general revenues for governmental activities is apparent as local property tax accounts and grants and entitlements account for the majority of the total revenues in fiscal year 2010. All governmental activities general revenue support is 91 percent of total governmental revenues.

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

Information regarding the School District's major funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$37,265,755 and expenditures of \$37,942,033. For fiscal year 2010, the School District had two major funds, the general fund and the bond retirement debt service fund. The general fund had a decrease in fund balance mainly due to a decrease in property tax collections offset by increases in State Foundation revenue. The bond retirement fund had an increase in fund balance due to decreases in principal payments due on the School District's outstanding debt.

### **General Fund Budgeting Highlights**

Information about the School District's budget is prepared in accordance with 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 main operating fund of the School District, the general fund. The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

During the course of fiscal year 2010, the School District amended its general fund budget several times by the end of the fiscal year. For the general fund, the original budget basis revenue was higher than the final budget basis revenue due to expected decreases in property tax collections and intergovernmental monies. Actual revenue came in higher than the final budget basis revenue because of increase in intergovernmental monies. Final appropriations were \$191,554 less than actual expenditures due mainly to the diligence of management to keep costs low while still providing the services the School District citizens expect.

## Warrensville Heights City School District

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited*

### Capital Assets

Table 4 shows fiscal year 2010 balances compared to fiscal year 2009:

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

	2010	2009	Change
Land	\$414,153	\$414,153	\$0
Buildings and Improvements	23,568,773	24,434,299	(865,526)
Furniture and Fixtures	1,209,380	1,269,900	(60,520)
Vehicles	231,341	273,379	(42,038)
Total	<u>\$25,423,647</u>	<u>\$26,391,731</u>	<u>(\$968,084)</u>

Capital assets decreased during fiscal year 2010 compared to fiscal year 2009. This decrease was due to an additional year of depreciation offset by current year additions. During the current fiscal year, various instructional, extracurricular and maintenance items were purchased for the School District. Ohio law requires school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks and instructional materials and supplies. For fiscal year 2010, this amounted to \$384,762 for each set aside. See Note 9 to the basic financial statements for additional information on the School District's capital assets and Note 17 for additional information regarding set-asides.

### Debt

Table 5 summarizes the long-term liabilities outstanding:

(Table 5)  
Outstanding Long-Term Obligations at June 30  
Governmental Activities

	2010	2009	Change
2000 School Improvement Bonds	\$5,150,023	\$5,975,023	(\$825,000)
2007 School Improvement Refunding Bonds	15,680,948	15,771,875	(90,927)
<i>Total General Obligation Bonds</i>	20,830,971	21,746,898	(915,927)
Capital Leases	0	9,049	(9,049)
<i>Totals</i>	<u>\$20,830,971</u>	<u>\$21,755,947</u>	<u>(\$924,976)</u>

The School District's overall legal debt margin increased to \$15.6 million. This is the additional amount of debt the School District could issue. The debt margin increased from fiscal year 2010 due to the School District paying down current debt and an increase in property valuations. Additional information concerning debt issuances can be found in Note 14 to the basic financial statements.

## **Warrensville Heights City School District**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited*

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### **Current Financial Related Activities**

The Warrensville Heights City School District is financially vulnerable. The Board of Education, administration and staff are committed to improving the financial condition of the School District and the community has been supportive of the education system. The 9.5 mill continuous operating levy and the renewal of the \$1,850,000 emergency levy passed in 2009 continue to support the majority of the School District's operating activities.

The ongoing legislative effort to support the existence of community (charter) schools comes at the expense of our current State foundation subsidy. The School District has also been impacted by the continuing national trend of rapidly escalating employee health care benefit costs, and the ever increasing costs associated with the education of special needs students and special needs transportation costs.

Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. The legislators and government officials continue to negotiate the plan for improvement of the financing of public schools in the State of Ohio.

### **Contacting the School District's Financial Management**

The Warrensville Heights City School District has committed itself to a fiscal discipline based on long-term planning as well as a commitment to full disclosure of financial information and utilization of the highest standards of financial reporting. The School District's commitment to improve fiscal management has led to many budgeting, reporting and internal control enhancements.

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the funds it receives. If you have any questions about this report or need additional financial information, please contact Donald Gambal, Treasurer, at the Warrensville Heights City School District, 4500 Warrensville Center Road, Warrensville, Ohio 44128, or [wa\\_gambal@lgca.org](mailto:wa_gambal@lgca.org).

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## **Basic Financial Statements**

**Warrensville Heights City School District**

*Statement of Net Assets*

*June 30, 2010*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$7,666,574
Accounts Receivable	1,287
Intergovernmental Receivable	595,068
Materials and Supplies Inventory	558
Inventory Held for Resale	2,059
Taxes Receivable	31,788,612
Deferred Charges	232,949
Nondepreciable Capital Assets	414,153
Depreciable Capital Assets, Net	<u>25,009,494</u>
<i>Total Assets</i>	<u>65,710,754</u>
<b>Liabilities</b>	
Accounts Payable	199,761
Accrued Wages and Benefits	2,105,134
Intergovernmental Payable	1,373,556
Accrued Interest Payable	80,503
Matured Compensated Absences Payable	164,531
Deferred Revenue	19,343,659
Long-Term Liabilities:	
Due Within One Year	1,236,668
Due In More Than One Year	<u>22,454,135</u>
<i>Total Liabilities</i>	<u>46,957,947</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	5,098,644
Restricted for:	
Capital Projects	898,292
Debt Service	3,664,606
Set Asides	152,466
Food Service	178,935
Public School Support	28,231
Recreation	175,372
Other Purposes	333,783
Unrestricted	<u>8,222,478</u>
<i>Total Net Assets</i>	<u><u>\$18,752,807</u></u>

See accompanying notes to the basic financial statements

**Warrensville Heights City School District**

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2010*

	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions		
<b>Governmental Activities</b>					
Instruction:					
Regular	\$16,197,537	\$13,456	\$443,050	\$32,022	(\$15,709,009)
Special	3,969,465	85,738	606,359	0	(3,277,368)
Vocational	315,843	0	0	0	(315,843)
Support Services:					
Pupil	1,491,174	0	2,515	0	(1,488,659)
Instructional Staff	2,630,541	0	1,130,957	0	(1,499,584)
Board of Education	84,208	0	0	0	(84,208)
Administration	3,093,130	9,664	46,700	0	(3,036,766)
Fiscal	940,787	0	0	1,846	(938,941)
Business	1,059,678	0	0	0	(1,059,678)
Operation and Maintenance of Plant	4,069,589	6,529	14,400	32,251	(4,016,409)
Pupil Transportation	1,011,815	0	12,423	0	(999,392)
Central	334,981	0	85,135	0	(249,846)
Operation of Non-Instructional Services:					
Food Service Operations	1,065,953	135,763	863,641	0	(66,549)
Other Non-Instructional Services	178,443	17,745	39,390	0	(121,308)
Extracurricular Activities	341,582	27,731	0	0	(313,851)
Interest and Fiscal Charges	1,111,925	0	0	0	(1,111,925)
<i>Total Governmental Activities</i>	<u>\$37,896,651</u>	<u>\$296,626</u>	<u>\$3,244,570</u>	<u>\$66,119</u>	<u>(34,289,336)</u>
<b>General Revenues</b>					
Property Taxes Levied for:					
General Purposes					17,005,514
Debt Service					1,949,255
Capital Projects					504,760
Recreation					132,814
Grants and Entitlements not Restricted to Specific Programs					16,429,129
Investment Earnings					34,650
Miscellaneous					91,677
<i>Total General Revenues</i>					<u>36,147,799</u>
Change in Net Assets					1,858,463
<i>Net Assets Beginning of Year</i>					<u>16,894,344</u>
<i>Net Assets End of Year</i>					<u><u>\$18,752,807</u></u>

See accompanying notes to the basic financial statements

**Warrensville Heights City School District**

*Balance Sheet  
Governmental Funds  
June 30, 2010*

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$3,099,949	\$2,466,364	\$1,947,795	\$7,514,108
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	152,466	0	0	152,466
Accounts Receivable	426	0	861	1,287
Intergovernmental Receivable	75,841	0	519,227	595,068
Materials and Supplies Inventory	0	0	558	558
Inventory Held for Resale	0	0	2,059	2,059
Interfund Receivable	847,328	0	0	847,328
Property Taxes Receivable	27,492,448	3,254,654	1,041,510	31,788,612
<i>Total Assets</i>	<u>\$31,668,458</u>	<u>\$5,721,018</u>	<u>\$3,512,010</u>	<u>\$40,901,486</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts Payable	\$136,980	\$0	\$62,781	\$199,761
Accrued Wages and Benefits	1,883,068	0	222,066	2,105,134
Intergovernmental Payable	1,220,952	0	152,604	1,373,556
Interfund Payable	0	0	847,328	847,328
Matured Compensated Absences Payable	164,531	0	0	164,531
Deferred Revenue	27,342,345	3,224,714	1,547,936	32,114,995
<i>Total Liabilities</i>	<u>30,747,876</u>	<u>3,224,714</u>	<u>2,832,715</u>	<u>36,805,305</u>
<b>Fund Balances</b>				
Reserved for Encumbrances	2,294,261	0	697,905	2,992,166
Reserved for Property Taxes	162,442	25,995	7,367	195,804
Reserved for Textbooks	152,466	0	0	152,466
Unreserved, Undesignated				
Reported in:				
General Fund (Deficit)	(1,688,587)	0	0	(1,688,587)
Special Revenue Funds (Deficit)	0	0	(442,257)	(442,257)
Debt Service Fund	0	2,470,309	0	2,470,309
Capital Projects Funds	0	0	416,280	416,280
<i>Total Fund Balances</i>	<u>920,582</u>	<u>2,496,304</u>	<u>679,295</u>	<u>4,096,181</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$31,668,458</u>	<u>\$5,721,018</u>	<u>\$3,512,010</u>	<u>\$40,901,486</u>

See accompanying notes to the basic financial statements

**Warrensville Heights City School District**  
*Reconciliation of Total Governmental Fund Balances to*  
*Net Assets of Governmental Activities*  
*June 30, 2010*

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<b>Total Governmental Fund Balances</b>	\$4,096,181
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	25,423,647
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Delinquent Property Taxes	12,197,233
Grants	<u>574,103</u>
Total	12,771,336
In the statement of activities, bond issuance costs are amortized over the term of bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued.	232,949
In the statement of activities, interest is accrued on outstanding loans, whereas in governmental fund, an interest expenditure is reported when due.	(80,503)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(20,830,971)
Compensated Absences	<u>(2,859,832)</u>
Total	<u>(23,690,803)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$18,752,807</u></u>

See accompanying notes to the basic financial statements

**Warrensville Heights City School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2010*

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$15,037,307	\$1,771,984	\$560,153	\$17,369,444
Intergovernmental	15,162,046	479,419	3,829,378	19,470,843
Interest	34,650	0	0	34,650
Tuition and Fees	99,194	0	18,302	117,496
Extracurricular Activities	0	0	36,838	36,838
Contributions and Donations	0	0	2,515	2,515
Charges for Services	0	0	135,763	135,763
Rentals	6,529	0	0	6,529
Miscellaneous	91,539	0	138	91,677
<i>Total Revenues</i>	<u>30,431,265</u>	<u>2,251,403</u>	<u>4,583,087</u>	<u>37,265,755</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	14,141,251	0	1,614,645	15,755,896
Special	3,256,677	0	626,369	3,883,046
Vocational	307,131	0	0	307,131
Support Services:				
Pupil	1,400,298	0	2,230	1,402,528
Instructional Staff	1,449,378	0	1,111,398	2,560,776
Board of Education	80,105	0	0	80,105
Administration	3,015,828	0	63,687	3,079,515
Fiscal	887,183	44,018	3,332	934,533
Business	1,065,127	0	0	1,065,127
Operation and Maintenance of Plant	3,648,985	0	50,320	3,699,305
Pupil Transportation	1,014,930	0	9,282	1,024,212
Central	253,339	0	79,817	333,156
Operation of Non-Instructional Services				
Food Service Operations	17,457	0	1,021,420	1,038,877
Other Non-Instructional Services	2,329	0	71,897	74,226
Extracurricular Activities	95,143	0	111,339	206,482
Capital Outlay	3,109	0	469,035	472,144
Debt Service:				
Principal Retirement	9,049	1,025,000	0	1,034,049
Interest and Fiscal Charges	59	990,866	0	990,925
<i>Total Expenditures</i>	<u>30,647,378</u>	<u>2,059,884</u>	<u>5,234,771</u>	<u>37,942,033</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(216,113)</u>	<u>191,519</u>	<u>(651,684)</u>	<u>(676,278)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	49,824	0	353,471	403,295
Transfers Out	(353,471)	0	(49,824)	(403,295)
<i>Total Other Financing Sources (Uses)</i>	<u>(303,647)</u>	<u>0</u>	<u>303,647</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(519,760)	191,519	(348,037)	(676,278)
<i>Fund Balances Beginning of Year</i>	<u>1,440,342</u>	<u>2,304,785</u>	<u>1,027,332</u>	<u>4,772,459</u>
<i>Fund Balances End of Year</i>	<u>\$920,582</u>	<u>\$2,496,304</u>	<u>\$679,295</u>	<u>\$4,096,181</u>

See accompanying notes to the basic financial statements

**Warrensville Heights City School District**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2010*

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**Net Change in Fund Balances - Total Governmental Funds** (\$676,278)

*Amounts reported for governmental activities in the  
statement of activities are different because*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Capital Outlay	458,438	
Current Year Depreciation	(1,420,346)	
Total		(961,908)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (6,176)

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

Delinquent Property Taxes	2,222,899	
Grants	266,460	
Total		2,489,359

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

Bond Principal	1,025,000	
Capital Lease Principal	9,049	
Total		1,034,049

In the statement of activities, interest is accrued on outstanding bonds, bond premium, bond issuance costs and deferred accounting gain are amortized over the terms of the bonds whereas in the governmental funds the expenditure is reported when bonds are issued.

Accrued Interest on Bonds	4,139	
Amortization of Deferred Charges	(16,066)	
Amortization of Deferred Accounting Loss	(66,128)	
Amortization of Bond Premium	82,193	
Annual Accretion	(125,138)	
Total		(121,000)

Some expenses reported in the statement of activities, such as special termination benefits payable and compensated absences payable, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Special Termination Benefits	620,906	
Compensated Absences	(520,489)	
Total		100,417

*Change in Net Assets of Governmental Activities* \$1,858,463

See accompanying notes to the basic financial statements

**Warrensville Heights City School District**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2010*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Taxes	\$18,195,246	\$16,807,141	\$17,042,725	\$235,584
Intergovernmental	16,169,339	14,935,790	15,145,143	209,353
Interest	36,993	34,171	34,650	479
Tuition and Fees	105,902	97,823	99,194	1,371
Rentals	6,971	6,439	6,529	90
Miscellaneous	97,274	89,853	91,113	1,260
<i>Total Revenues</i>	<u>34,611,725</u>	<u>31,971,217</u>	<u>32,419,354</u>	<u>448,137</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	14,948,515	14,804,240	14,732,026	72,214
Special	3,466,640	3,819,976	3,819,976	0
Vocational	324,253	335,271	320,711	14,560
Support Services:				
Pupil	1,422,105	1,572,350	1,572,350	0
Instructional Staff	1,527,985	1,579,908	1,482,362	97,546
Board of Education	104,034	112,624	112,624	0
Administration	3,289,761	3,167,813	3,167,813	0
Fiscal	960,570	983,177	977,335	5,842
Business	1,177,251	1,398,082	1,398,082	0
Operation and Maintenance of Plant	3,804,548	4,177,604	4,177,604	0
Pupil Transportation	1,041,688	1,184,127	1,184,127	0
Central	281,228	306,340	306,340	0
Operation of Non-Instructional Services:				
Food Service Operations	18,340	20,542	20,542	0
Other Non-Instructional Services	2,809	2,905	2,674	231
Extracurricular Activities	103,622	107,130	105,969	1,161
Capital Outlay	3,266	8,109	8,109	0
<i>Total Expenditures</i>	<u>32,476,615</u>	<u>33,580,198</u>	<u>33,388,644</u>	<u>191,554</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>2,135,110</u>	<u>(1,608,981)</u>	<u>(969,290)</u>	<u>639,691</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	215,081	16,046	49,824	33,778
Transfers Out	(492,389)	(590,468)	(353,471)	236,997
Advances Out	(890,190)	(920,459)	(847,328)	73,131
<i>Total Other Financing Sources (Uses)</i>	<u>(1,167,498)</u>	<u>(1,494,881)</u>	<u>(1,150,975)</u>	<u>343,906</u>
<i>Net Change in Fund Balance</i>	967,612	(3,103,862)	(2,120,265)	983,597
<i>Fund Balance Beginning of Year</i>	1,654,952	1,654,952	1,654,952	0
Prior Year Encumbrances Appropriated	1,242,600	1,242,600	1,242,600	0
<i>Fund Balance (Deficit) End of Year</i>	<u>\$3,865,164</u>	<u>(\$206,310)</u>	<u>\$777,287</u>	<u>\$983,597</u>

See accompanying notes to the basic financial statements



**Warrensville Heights City School District**

*Statement of Fiduciary Assets and Liabilities*

*Agency Fund*

*June 30, 2010*

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**Assets**

Equity in Pooled Cash and Cash Equivalents

\$55,881

**Liabilities**

Due to Students

\$55,881

See accompanying notes to the basic financial statements

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## Warrensville Heights City School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

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

The Warrensville Heights City School District (School District) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five-members elected at-large for staggered four year terms. The School District provides educational services as authorized and mandated by State statute and federal guidelines. The Board controls the School District's four instructional facilities, staffed by 115 classified employees, 155 certificated full-time teaching personnel, and 18 administrators who provide services to students and other community members.

The School District is located in Warrensville Heights, Ohio, Cuyahoga County. The enrollment for the School District during the 2010 fiscal year was 2,145. The School District operates two elementary schools (K-4), one lower school (5-6) and upper middle school (7-8), and one high school (9-12).

#### ***Reporting Entity***

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

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

The School District participates in two jointly governed organizations. These organizations are the Lake Geauga Computer Association and the Ohio Schools' Council. These organizations are presented in Note 15 of the basic financial statements.

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

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

## Warrensville Heights City School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

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### ***Basis of Presentation***

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

***Government-wide Financial Statements*** The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type. The School District, however, has no business-type activities.

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

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

### ***Fund Accounting***

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

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

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

## Warrensville Heights City School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

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***Bond Retirement Fund*** The bond retirement fund is used to account for the accumulation of property tax revenues for, and the payment of, general obligation bonds issued for school improvements.

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

***Fiduciary Fund Type*** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only agency fund reports resources belonging to the student activities of the various schools.

### ***Measurement Focus***

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

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

### ***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. Fiduciary funds also use the accrual basis of accounting. Differences between the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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

## Warrensville Heights City School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2010, but which were levied to finance fiscal year 2011 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

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

### ***Budgetary Data***

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

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

## Warrensville Heights City School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

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

### ***Cash and Cash Equivalents***

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

During fiscal year 2010, investments were limited to 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, 2010.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2010 amounted to \$34,650 which includes \$19,950 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

### ***Restricted Assets***

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the general fund include amounts required by State statute to be set aside for the purchase of textbooks. See Note 17 for additional information regarding set-asides.

### ***Inventory***

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventories consist of donated food, purchased food and school supplies held for resale, and materials and supplies held for consumption.

### ***Capital Assets***

All of the School District's capital assets are general capital assets. General capital assets are those assets related to activities reported in the governmental 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.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District was able to estimate the historical cost for the initial

**Warrensville Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

reporting of assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one thousand five hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	50 years
Furniture, Fixtures and Equipment	5-20 years
Vehicles	10 years

***Bond Issuance Costs***

Bond issuance costs for underwriting fees and bond insurance for the 2007 school improvement refunding general obligation bonds are being amortized using the straight-line method over the life of the bonds on the government-wide statements. The straight-line method of amortization is not materially different from the effective-interest method. On the governmental financial statements, bond issuance costs are reported as expenditure in the fiscal year in which the bonds were issued. Bond issuance costs are generally paid from bond proceeds.

As permitted by State statute, the School District paid bond issuance costs from the bond proceeds and therefore does not consider that portion of the debt to be capital-related debt. That portion of the debt was offset against the unamortized bond issuance costs which were included in the determination of unrestricted net assets. Reporting both within the same element of net assets prevents one classification from being overstated while another is understated by the same amount.

***Bond Premium***

On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bonds using the effective interest method. Bond premiums are presented as an increase of the face amount of the bonds payable. On the governmental fund statements, bond premiums are received in the year the bonds are issued.

***Gain/Loss on Refunding***

On the government-wide financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt, the gain/loss on refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old or new debt, whichever is shorter.

***Interfund Balances***

On fund financial statements, receivables and payables resulting from short-term interfund loans and interfund services provided and used are classified as "interfund receivables/payables." Interfund balances are eliminated in the governmental activities column of the statement of net assets.



## Warrensville Heights City School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

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### ***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 School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all classified employees.

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

The entire compensated absence liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due to each period upon the occurrence of employee resignations and retirements. These amounts are reported as "matured compensated absences payable" in the funds from which the employees who have resigned or retired will be paid.

### ***Accrued Liabilities and Long-Term Obligations***

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for the payment during the current fiscal year. Bonds, capital lease obligations and long-term notes are recognized as a liability on the governmental fund financial statements when due.

### ***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 by law on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for uniform school supplies and student activities.

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

### ***Internal Activity***

Transfers between governmental activities are eliminated on the government wide financial statements. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Payments for interfund services provided and used are not eliminated.

## Warrensville Heights City School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

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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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

### ***Fund Balance Reserves***

The School 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 which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances, property taxes, and textbooks.

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

### ***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.

### ***Estimates***

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

## **Note 3 – Changes in Accounting Principles**

For fiscal year 2010, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 51, “Accounting and Reporting for Intangible Assets”, Statement No. 53, “Accounting and Financial Reporting for Derivative Instruments”, Statement No. 57, “OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans”, and Statement No. 58, “Accounting and Financial Reporting for Chapter 9 Bankruptcies”.

GASB Statement No. 51 establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies thereby enhancing the comparability of accounting and financial reporting of such assets among state and local governments. The implementation of this statement did not result in any change to the School District’s financial statements.

GASB Statement No. 53 enhances the usefulness and comparability of derivative instrument information reported by state and local governments. This Statement provides a comprehensive framework for the measurement, recognition, and disclosure of derivative instrument transactions. The implementation of this statement did not result in any change to the School District’s financial statements.

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other

## Warrensville Heights City School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

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postemployment benefit (OPEB) plans (that is, agent employers). The requirements in this Statement will allow more agent employers to use the alternative measurement method to produce actuarially based information for purposes of financial reporting and clarify that OPEB measures reported by agent multiple-employer OPEB plans and their participating employers should be determined at the same minimum frequency and as of a common date to improve the consistency of reporting with regard to funded status and funding progress information. The implementation of this statement did not result in any change in the School District's financial statements.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The requirements in this Statement will provide more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy. The implementation of this statement did not result in any change in the School District's financial statements.

### **Note 4 – Accountability and Compliance**

#### ***Accountability***

At June 30, 2010, the following funds had deficit fund balances:

	<u>Amount</u>
<b><i>Non-Major Funds</i></b>	
Public School Preschool	\$12,088
Ohio Reads Grant	1,456
Miscellaneous State Grants	2,835
Title VI-B	52,023
State Fiscal Stabilization	35,591
Title II-D Technology	1,232
Title I School Improvement ARRA	1,584
Title I School Improvement Subsidy G	30,312
Title I	342,006

The deficit balances resulted from adjustments for accrued liabilities. The general fund is liable for any deficits in these funds and provides transfers when cash is required, rather than when accruals occur.

#### ***Compliance***

The general fund had total final appropriations in excess of estimated resources plus carryover balances in the amount of \$206,310, contrary to Section 5705.39, Revised Code. Although this budgetary violation was not corrected by fiscal year-end, management has indicated that appropriations will be closely monitored to ensure no future violations.

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

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

## Warrensville Heights City School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

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The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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

<u>Net Change in Fund Balance</u>	
GAAP Basis	(\$519,760)
Net Adjustment for Revenue Accruals	1,988,089
Net Adjustment for Expenditure Accruals	(266,138)
Advance Out	(847,328)
Adjustment for Encumbrances	<u>(2,475,128)</u>
Budget Basis	<u><u>(\$2,120,265)</u></u>

### **Note 6 - Deposits and Investments**

The School District has chosen to follow State statutes and classify monies held by the School District into three categories.

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

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

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

## Warrensville Heights City School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

### ***Deposits***

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$8,411,608 of the School District's bank balance of \$8,668,240 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been following, noncompliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

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

## Warrensville Heights City School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

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### ***Investments***

As of June 30, 2010, the School District had STAR Ohio as the only investment with an amount of \$9,175 and a maturity of 56 days.

***Interest Rate Risk*** As a means of limiting its exposure to fair value losses caused by rising interest rates, the School District's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the School District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

***Credit Risk*** Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no policy that addresses credit risk.

### **Note 7 - Property Taxes**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2010 represents collections of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed value listed as of January 1, 2009, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2010 represents collections of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien December 31, 2008, were levied after April 1, 2009 and are collected in 2010 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts 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. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Cuyahoga County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2010, are available to finance fiscal year 2010 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**Warrensville Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2010, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the late settlement of tangible personal property taxes and the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2010, was \$162,442 in the general fund, \$25,995 in the bond retirement debt service fund, \$5,832 in the permanent improvement capital projects fund and \$1,535 in the recreation special revenue fund. The amount available as an advance at June 30, 2009, was \$2,167,697 in the general fund, \$335,026 in the bond retirement debt service fund, \$77,221 in the permanent improvement capital projects fund and \$20,321 in the recreation special revenue fund. The difference was in the timing and collection by the County Auditor.

The late tax settlement made by the County for fiscal year 2010 was \$46,599 in the general fund, \$3,945 in the bond retirement debt service fund, \$1,086 in the permanent improvement capital projects fund and \$286 in the recreation special revenue fund.

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

The assessed values upon which the fiscal year 2010 taxes were collected are:

	2009 Second Half Collections		2010 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$355,319,860	93.98 %	\$366,062,370	97.56 %
Public Utility	8,377,050	2.22	9,174,430	2.44
Tangible Personal Property	14,388,508	3.80	0	0.00
Total Assessed Value	<u>\$378,085,418</u>	<u>100.00 %</u>	<u>\$375,236,800</u>	<u>100.00 %</u>
Tax rate per \$1,000 of assessed valuation		\$90.10		\$90.80

Since bond levies are passed based on the dollar amount of the bond issue, the tax rate will increase or decrease based on increases or decreases in the debt payment for principal and interest. The County Auditor extrapolates the tax rate based on the debt payment information.

**Note 8 - Receivables**

Receivables at June 30, 2010, consisted of taxes, accounts (rent, tuition and miscellaneous), and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables are expected to be collected within one year except for delinquent property taxes. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year. A summary of the intergovernmental receivables follows:

## Warrensville Heights City School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

Governmental Activities	Governmental Funds
Title I	\$302,643
Title VI-B	187,403
SERS Refund	58,938
Public School Preschool	12,917
Ohio Department of Job and Families	11,542
Title II-A	6,019
CAFS Reimbursement	5,361
Title II-D Technology	4,716
Federal Nutrition Subsidies	4,062
State Fiscal Stabilization	785
Title I School Improvement, Subsidy G	602
Preschool and Handicapped Grant	80
<i>Total Intergovernmental Receivables</i>	<i>\$595,068</i>

### Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$414,153	\$0	\$0	\$414,153
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	38,675,248	22,774	0	38,698,022
Furniture, Fixtures and Equipment	4,002,991	363,747	0	4,366,738
Vehicles	978,974	71,917	(123,570)	927,321
<i>Total Capital Assets, being depreciated</i>	43,657,213	458,438	(123,570)	43,992,081
<i>Less: Accumulated Depreciation</i>				
Buildings and Improvements	(14,240,949)	(888,300)	0	(15,129,249)
Furniture, Fixtures and Equipment	(2,733,091)	(424,267)	0	(3,157,358)
Vehicles	(705,595)	(107,779)	117,394	(695,980)
<i>Total Accumulated Depreciation</i>	(17,679,635)	(1,420,346)*	117,394	(18,982,587)
<i>Total Capital Assets, being depreciated, Net</i>	25,977,578	(961,908)	(6,176)	25,009,494
<b>Governmental Activities Capital Assets, Net</b>	\$26,391,731	(\$961,908)	(\$6,176)	\$25,423,647



## Warrensville Heights City School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

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

Instruction:	
Regular	\$514,855
Special	58,553
Vocational	7,584
Support Services:	
Pupil	5,001
Instructional Staff	11,968
Board of Education	4,103
Administration	112,151
Fiscal	3,979
Business	6,210
Operation and Maintenance of Plant	401,353
Pupil Transportation	20,993
Central	5,028
Operation of Non-Instructional Services:	
Food Service Operations	38,424
Other Non-Instructional Services	98,392
Extracurricular Activities	131,752
<i>Total Depreciation Expense</i>	<i>\$1,420,346</i>

### Note 10 - Risk Management

#### *Insurance*

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District contracted with Todd Associates Insurance for property insurance (which also includes inland marine, crime), general liability, umbrella and automobile coverage. The School District also contracted with Travelers Insurance for boiler/machinery and with Ohio Casualty Insurance Company for blanket employee dishonesty coverage.

Company	Type of Coverage	Coverage
Todd Associates Insurance	Property (\$10,000 Deductible)	\$86,756,537
	Inland Marine (\$250 Deductible)	2,383,966
	Crime (\$500 Deductible)	150,000
	General Liability:	
	In Aggregate	2,000,000
	Per Occurrence	1,000,000
	Automobile Liability - Single Limit	1,000,000
	Umbrella Coverage:	
	Each Occurrence Limit	10,000,000
	Aggregate Limit	10,000,000
	Self-Insured Retention	10,000
Ohio Casualty Insurance	Blanket Employee Dishonesty	250,000
Travelers Insurance Company	Boiler/Machinery (\$1,000 Deductible)	30,000,000

## Warrensville Heights City School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

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

### ***Workers' Compensation***

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

## **Note 11 - Defined Benefit Pension Plan**

### ***School Employee Retirement System***

Plan Description – The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer 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 43215-3746.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2010, 12.78 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009, and 2008 were \$512,267, \$431,476, and \$460,610, respectively; 14.80 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

### ***State Teachers Retirement System***

Plan Description – The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

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

## Warrensville Heights City School District

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

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invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime annuity at age 50. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2009, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 were \$1,821,785, \$2,002,974, and \$1,904,580, respectively; 82.25 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$50,761 made by the School District and \$36,258 made by the plan members.

### **Note 12 – Post Employment Benefits**

#### *School Employee Retirement System*

Plan Description – The School District participates in two cost-sharing multiple-employer defined benefit OPEB plans administered by the School Employees Retirement Systems for non-certified retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2010, 1.22 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount, for 2010, this amount was \$35,800. During fiscal year 2010, the School District paid \$80,167 in surcharge.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

## Warrensville Heights City School District

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

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The School District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$18,438, \$267,710, and \$311,042, respectively; 14.80 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2010, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$30,463, \$35,600, and \$33,188, respectively; 14.80 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

#### ***State Teachers Retirement System***

Plan Description – The School District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$140,137, \$154,075, and \$146,506, respectively; 82.25 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

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

#### ***Compensated Absences***

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn five to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators do not earn vacation time.

Teachers, administrators and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated with no maximum. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 250 days for certified staff and a maximum accumulation of 205 days for classified employees.

#### ***Insurance***

The School District provides life insurance and accidental death and dismemberment insurance to most employees through various life insurance companies. The School District has elected to provide employee medical/surgical benefits through Medical Mutual of Ohio and Kaiser Permanente. The employees share the cost of the monthly premium with the Board. The premium varies with the employee depending on the terms

## Warrensville Heights City School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

of the union contract. Dental and prescription insurance is provided by the School District to all employees through Medical Mutual of Ohio.

### Note 14 - Long-Term Obligations

The changes in the School District's long-term obligations during fiscal year 2010 were as follows:

	Balance 6/30/2009	Additions	Deletions	Balance 6/30/2010	Amount Due in One Year
<b>Governmental Activities</b>					
School Improvements Bonds 2000, 4.44%	\$5,975,023	\$0	\$825,000	\$5,150,023	\$925,000
School Improvement Refunding Bonds 2007:					
Serial Bonds 4% - 4.25%	15,120,000	0	200,000	14,920,000	210,000
Capital Appreciation Bonds, 28.97%	254,977	0	0	254,977	0
Accretion on Capital Appreciation Bonds	147,881	125,138	0	273,019	0
Unamortized Premium	1,273,998	0	82,193	1,191,805	0
Unamortized Accounting Loss	(1,024,981)	0	(66,128)	(958,853)	0
<i>Total General Obligation Bonds</i>	<u>21,746,898</u>	<u>125,138</u>	<u>1,041,065</u>	<u>20,830,971</u>	<u>1,135,000</u>
Capital Lease	9,049	0	9,049	0	0
Special Termination Benefits	620,906	0	620,906	0	0
Compensated Absences	2,339,343	811,076	290,587	2,859,832	101,668
<i>Total Governmental Activities</i>	<u>\$24,716,196</u>	<u>\$936,214</u>	<u>\$1,961,607</u>	<u>\$23,690,803</u>	<u>\$1,236,668</u>

On June 2, 2000, the School District issued \$26,100,000 in general obligation bonds for the purpose of school improvement under the authority of Ohio Revised Code, section 133.34(D). The bonds will mature during fiscal year 2015 and bear an interest rate of 4.44 per year. The bonds will be retired from the debt service fund.

On April 27, 2007, the School District issued \$15,999,977 in school improvement refunding bonds which included serial and capital appreciation bonds in the amount of \$15,745,000 and \$254,977, respectively. The bonds were issued for the purpose of refunding a portion of the 2000 school improvement bonds to take advantage of lower interest rates. The bonds were issued for an eighteen year period with final maturity at December 1, 2024. The bonds will be retired from the debt service fund.

The serial and capital appreciation bonds remained outstanding at June 30, 2010. The capital appreciation bonds will mature in fiscal years 2016 and 2017. The maturity amount of the bonds is \$2,965,000. For fiscal year 2010, \$125,138 was accreted for a total bond value of \$527,996.

Capital lease payments were paid from the general fund. Compensated absences will be paid from the general fund and the food service, recreation, public preschool, Poverty Aid, title VI-B, fiscal stabilization, title I and title II-A special revenue funds. Special termination benefits program ended during fiscal year 2010 and the last payment was paid from the general fund.

The overall debt margin of the School District as of June 30, 2010, was \$15,587,705 with an unvoted debt margin of \$371,293 at June 30, 2010. Principal and interest requirements for school improvement bonds outstanding at June 30, 2010, are as follows:

## Warrensville Heights City School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

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Fiscal Year	General Obligation Bonds			
	Serial		Capital Appreciation	
	Principal	Interest	Principal	Interest
2011	\$1,135,000	\$938,448	\$0	\$0
2012	1,215,000	871,160	0	0
2013	1,225,000	792,360	0	0
2014	1,310,000	710,535	0	0
2015	1,395,023	623,037	0	0
2016-2020	4,630,000	2,615,350	254,977	2,710,023
2021-2025	9,160,000	1,009,553	0	0
Total	<u>\$20,070,023</u>	<u>\$7,560,443</u>	<u>\$254,977</u>	<u>\$2,710,023</u>

In fiscal year 2007, the School District defeased \$15,999,977 of a 2000 school improvement bond issue, in order to take advantage of lower interest rates. The proceeds of the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the School District's financial statements. On June 30, 2010, \$16,749,977 of the defeased bonds is still outstanding.

### **Note 15 - Jointly Governed Organizations**

#### ***Lake Geauga Computer Association***

The Lake Geauga Computer Association (LGCA) is a jointly governed organization that was formed for the purpose of providing computer services for accounting, grading, scheduling, EMIS and other applications among its nineteen member school districts. Each of the school districts supports LGCA based on a per pupil charge. The executive committee (governing board) consists of the superintendents and treasurers of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. LGCA's continued existence is not dependent on the School District's continued participation. LGCA is not accumulating significant financial resources or experiencing fiscal stress which would cause additional financial benefit or burden on the School District. In fiscal year 2010, the School District paid \$9,774 to LGCA. Financial information can be obtained from Loretta Peterson, the Treasurer of the Lake Geauga Computer Association, 8140 Auburn Road, Painesville, Ohio 44077.

#### ***Ohio Schools' Council***

The Ohio Schools Council (Council) is a jointly governed organization among 126 school districts. The jointly governed organization was created by school districts for the purpose of saving money through volume purchases. Each district supports the Council by paying an annual participation fee. Each school district member's superintendent serves as a representative of the Assembly. The Assembly elects five of the Council's Board members and the remaining four are representatives of the Greater Cleveland School Superintendents' Association. The Council operates under a nine-member Board of Directors (the Board). The Board is the policy making authority of the Council. The Board meets monthly September to June. The Board appoints an Executive Director who is responsible for receiving and disbursing funds, investing available funds, preparing financial reports for the Board and Assembly and carrying out such other responsibilities as designated by the Board. In fiscal year 2010, the School District paid \$400 to the Council. Financial information can be obtained by contacting Dr. David A. Cottrell, the Executive Director of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

## Warrensville Heights City School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

The School District participates in the natural gas purchase program. This program allows the School District to purchase natural gas at reduced rates. Energy USA served as the natural gas supplier and program manager from October 1, 2008 to September 30, 2010. Compass Energy has been selected as the new supplier and program manager for the period from October 1, 2010 through March 31, 2013. There are currently 143 participants in the program including the Warrensville Heights School District. The participants make monthly payments based on estimated usage. Each September, these estimated payments are compared to their actual usage for the year (July to June). Districts that paid more in estimated billings than their actual billings are issued credits on future billings beginning in September until the credits are exhausted and districts that did not pay enough on estimated billings are invoiced for the difference on the September monthly estimated billing.

### Note 16 - Contingencies

#### *Grants*

The School District received financial assistance from federal and State agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2010.

#### *Litigation*

The School District is a party to legal proceedings seeking damages. The School District is of the opinion that the ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

### Note 17 - Set-Aside Calculations

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

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

	Textbooks/ Instructional Materials	Capital Improvements
Set-aside Reserve Balance as of June 30, 2009	\$313,915	\$0
Add: Current Year Set-aside Requirement	384,762	384,762
Permanent Improvement Levy Offset During the Fiscal Year	0	(514,850)
Qualifying Disbursements	(546,211)	(338,290)
Total	\$152,466	(\$468,378)
Set-aside Balance Carried Forward to Future Fiscal Years	\$152,466	\$0
Set-aside Reserve Balance as of June 30, 2010	\$152,466	\$0

**Warrensville Heights City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

The School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside. This amount may not be used to reduce the set-aside requirement for future fiscal years. The total reserve balance for the set-asides at the end of the fiscal year was \$152,466.

**Note 18 - Interfund Transactions**

***Balances***

Interfund balances at June 30, 2010, consist of an interfund receivable/payable between the general fund and the nonmajor governmental funds in the amount of \$847,328. The interfund receivables and payables were due to the timing of the receipt of grant monies at year-end. These loans are expected to be repaid in one year.

***Transfers***

During fiscal year 2010, the School District made the following transfers:

Transfer To	Transfer From	
	General Fund	Non-Major Funds
General Fund	\$0	\$49,824
<b>Nonmajor Funds:</b>		
Food Service	177,000	0
Uniform School Supply	2,422	0
Athletics and Music	127,500	0
Public School Support	820	0
Ohio Reads Grant	4,755	0
Student Reading	937	0
Safe and Drug Free Schools	21,520	0
Preschool and Handicapped Grant	199	0
Title II-A	18,295	0
Miscellaneous Federal Grants	23	0
Total	<u>\$353,471</u>	<u>\$49,824</u>

The transfers from the general fund are to move unrestricted balances to support programs and projects accounted for in other funds. The transfers of \$49,824 from the special revenue funds to general fund were made to close out programs that are no longer being used.

**Note 19 – Subsequent Event**

The Federal Bureau of Investigation had issued a subpoena for any contracts, board travel, and hiring policies and procedures for January 1, 2007 through February 26, 2009. The School District is not aware of any action taken on items received. The School District has been cooperating with the request.



**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Receipts	Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>			
<i>Passed Through Ohio Department of Education:</i>			
Child Nutrition Cluster:			
School Breakfast Program	10.553	\$ 177,265	\$ 177,265
National School Lunch Program	10.555	652,310	652,310
Total Child Nutrition Cluster		<u>829,575</u>	<u>829,575</u>
ARRA School Lunch Equipment	10.579	51,930	51,930
Fruit and Vegetable	10.582	71,856	71,856
Total U.S. Department of Agriculture		<u>953,361</u>	<u>953,361</u>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>			
<i>Passed Through Ohio Department of Education:</i>			
Special Education Cluster:			
Special Education: Grants to States	84.027	502,154	447,924
Special Education: Preschool Grants	84.173	11,990	5,734
ARRA Special Education: Grants to States	84.391	123,592	102,327
Total Special Education Cluster		<u>637,736</u>	<u>555,985</u>
Title I Grants to Local Educational Agencies	84.010	958,928	1,070,383
ARRA Title I A Grants to Local Educational Agencies	84.389	171,487	178,963
Safe and Drug-Free Schools and Communities State Grants	84.186	27,030	15,377
Innovative Education Program Strategies	84.298	4,973	2,832
School Improvement Grants	84.377	94,139	27,532
Education Technology State Grants	84.318	8,599	6,794
Improving Teacher Quality State Grants	84.367	163,593	143,683
ARRA State Fiscal Stabilization Fund	84.394	678,098	659,366
Total U.S. Department of Education		<u>2,744,583</u>	<u>2,660,915</u>
<b>Total Federal Assistance</b>		<u>\$ 3,697,944</u>	<u>\$ 3,614,276</u>

*The accompanying notes to this schedule are an integral part of this schedule.*

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2010**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) summarizes activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

**NOTE B – CHILD NUTRITION CLUSTER**

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

CFDA - Catalog of Federal Domestic Assistance.



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Warrensville Heights City School District  
Cuyahoga County  
4500 Warrensville Center Road  
Warrensville Heights, Ohio 44128

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Warrensville Heights City School District, Cuyahoga County, (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 22, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

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

### Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2010-001 and 2010-002.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated June 22, 2012.

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

We intend this report solely for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities, and others within the District. We intend it for no one other than these specified parties.



**Dave Yost**  
Auditor of State

June 22, 2012



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Warrensville Heights City School District  
Cuyahoga County  
4500 Warrensville Center Road  
Warrensville Heights, Ohio 44128

To the Board of Education:

### Compliance

We have audited the compliance of the Warrensville Heights City School District, Cuyahoga County, Ohio (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of its major federal programs for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

As described in finding 2010-003, in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding *allowability* applicable to its Title I major federal program. Also, as described in finding 2010-004, in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding *eligibility* applicable to its Special Education Cluster major federal program. Compliance with these requirements is necessary, in our opinion, for the District to comply with requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Warrensville Heights City School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

The results of our auditing procedures also disclosed another instance of noncompliance with these requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings and questioned costs lists this instance as Finding 2010-005.

### Internal Control over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and a deficiency that we consider to be a significant deficiency.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-003 and 2010-004 to be a material weakness.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2010-005 to be a significant deficiency.

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

We intend this report solely for the information and use of management, the Board of Education, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Dave Yost**  
Auditor of State

June 22, 2012

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2010**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	Yes
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Qualified - Special Education Cluster and Title I Unqualified – Child Nutrition Cluster
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510(a)?</b>	Yes
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Nutrition Cluster (10.553, 10.555) Title I (84.010, 84.389) Special Education Cluster (84.027, 84.173, 84.391) State Fiscal Stabilization Fund (84.394)
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

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

**FINDING NUMBER 2010-001**

**Material Noncompliance Finding**

**Finding for Recovery – Missing Revenue Collected**

Ohio Revised Code Section 9.39, states "all public officials are liable for all money received or collected by them or by their subordinates under color of office." The term "public official" is defined in Ohio Revised Code Section 117.01 (E) as "any officer, employee, or duly authorized representative or agent of a public office." Additionally, Ohio Revised Code 117.01 (C) defines "public money" as "as money received, collected by, or

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2010  
(Continued)**

**FINDING NUMBER 2010-001 (Continued)**

due to a public official under color of office, as well as any money collected by an individual on behalf of a public officer or as a purported representative or agent of the public office.” Finally, the term “color of office,” defined in Ohio Revised Code 117.01 (A), “means actually, purportedly, or allegedly done under any law, ordinance resolution, order or other pretension to official right, power, or authority.”

In *Seward v. National Surety Co.*, 120 Ohio St 47 49-51 (1929), the Court held when public funds come into the hands of the public official or employee under color of office, the public official or employee will be held personally liable for the missing funds. Further, under RC 2913.02, no person, with purpose to deprive the owner of property or services, shall knowingly obtain or exert control over the property of another. RC 2921.41 goes on to prohibit any public official from using his or her office in aid of committing any theft offense, as defined in section 2913.01.

During the course of our audit, we determined cash collections for student related fees at the High School had significantly decreased from 2009 collections. Cash collections at the High School were under the supervision of Tabatha Martemus, High School Secretary and Larry Ellis, Principal. We traced all fiscal year 2010 High School deposits from the District’s receipt logs and operating bank statements and determined the District had a total of \$47,402 in cash deposits for fiscal year 2010.

We documented the deposits on a monthly basis over four years and performed analytical procedures. We noted irregular decreases in deposits which indicated a potential audit risk. We have documented, in our audit strategy, an increased risk of errors and omissions at the high school’s cash collection point.

We determined the total general ledger postings by the District for the High School revenue in fiscal year 2010 to be \$47,520.

Analytical procedures were performed on the general ledger postings of the District and we noted fairly significant decreases in reported revenue for fiscal year 2010.

We determined that fiscal year 2010 revenues for senior dues, yearbook and prom and graduation activities had not been completely posted to the District’s 2010 general ledger. We were further able to verify that the total \$26,334 in revenues should have been posted and reconciled with the District’s cash activities from December, 2009 through June, 2010. It was not until June that the incomplete deposits had been collected from the high school by the Treasurer.

By matching high school cash deposits to the various extracurricular activity receipts we were able to determine that only \$13,922 ( in June 2010) of the \$26,334 in revenues recorded had been deposited in National City Bank and posted to the District’s general ledger, leaving a potential finding for recovery of \$12,412.

Student fees for transcript copies required the student present a money order in the amount of \$3.00 per issuance of transcripts. Money orders at the high school were not deposited when received and instead kept in a nonfunctional safe at the high school. The District Treasurer has determined and documented that money orders valued at \$365 were not being honored/accepted at financial institutions because they had expired.

Lastly we noted similar activities at the end of fiscal year 2009 at Westwood Elementary where Tabitha Martemus worked in 2009. Westwood student fees and scholastic book fair revenues, receipts 124024,124026 and 124027, totaling \$880 had not been deposited nor receipted with the District.



**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2010  
(Continued)**

**FINDING NUMBER 2010-001 (Continued)**

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public property converted or misappropriated is hereby issued against Tabatha Martemus, former High School Secretary and the Cincinnati Insurance Company, her bonding company in the amount of \$13,657 and in favor of the Warrensville Heights City School District.

Additionally, under Ohio law, any public official who supervises either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of such expenditure. *Steward v. National Surety Co.* (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex. rel. *Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. To the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att'y Gen. No. 80-074.

Therefore, because High School Principal, Larry Ellis, the public official with responsibility over the High School cash collections, Larry Ellis and his bonding company, the Cincinnati Insurance Company, are jointly and severally liable in the amount of \$13,657 in favor of the Warrensville Heights City School District.

The Warrensville Heights City School District has implemented controls over collections at the High School, subsequent to fiscal year 2010.

**Official's Response:**

The two employees named above are no longer with the District, and the District is working with the Warrensville Heights Police Department as they investigate possible criminal charges. The District has implemented controls to prevent this situation from occurring in the future.

**FINDING NUMBER 2010-002**

**Material Noncompliance Finding**

**Encumbrance of Funds**

Ohio Revised Code Section 5705.41(D)(1) states that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders of expenditures lacking prior certification shall be null and void.

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

WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2010  
(Continued)

FINDING NUMBER 2010-002 (Continued)

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

The District has thirty days from the receipt of the “then and now” certificate to approve payment by ordinance or resolution. Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the “then and now” certificate, provided the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

2. **Blanket Certificate** – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Sixteen percent (10 out of 60) of the transactions tested were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the District followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

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

We recommend the District certify purchases to which Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) required to authorize disbursements. The fiscal officer should sign the certification at the time the District incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. This signature should be manual, electronic, or mechanical, but should not involve the use of rubber stamps. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**Official’s Response:**

We have had to issue “Then and Now” certificates and brought them to the Board for approval and recognition. Further, Directive 103 has been issued to all departments. This directive covers the practice of ordering without a requisition/purchase order. The Board has been very supportive of these efforts.

WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2010  
(Continued)

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

<b>Finding Number</b>	2010-003
<b>CFDA Title and Number</b>	Title I (84.010 and 84.389)
<b>Federal Award Number / Year</b>	School Improvement (C1SK-2010) Schoolwide (C1S1-2010)
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Title I – Questioned Cost, Material Noncompliance (*Allowability*) and Material Weakness**

34 CFR 80.22 provides that federal “Grant funds may be used only for the allowable costs of the grantees. “ Allowable costs for the Title I federal grant must coincide with the grants purpose which is to improve the teaching and learning of children who are at risk of not meeting challenging academic standards and who reside in areas with high concentrations of children from low-income families.

During our testing of grant year 2010 Title I expenditures we noted expenditures were charged to the Title I grant for the Salary of the EMIS Coordinator and Special Education Teacher in the amount of \$20,830 and \$6,272, respectively. These expenditures are not an allowable cost because it does not coincide with the purpose of the grant.

Title 1 employees attended several seminars throughout the year, where the related travel expense such as lodging, meals, mileage, airfare, and parking fees were charged to the Title 1 grant. However, there was no documentation attached to the travel expense indicating District Personnel actually attended a seminar or workshop, such as an itinerary or registration form. District personnel were unable to provide any documentation supporting that these trips were allowable per the grant agreement. These trips amounted to \$1,599

In addition, Title 1 personnel purchased airline tickets using their personal credit cards totaling \$1,011 to attend Title 1 related seminars or workshops. However, they were not able to attend the seminar due District commitments, or personnel obligations. However, the employees were reimbursed for these expenditures and the amount was charged to Title 1.

Based on the above, we are issuing a questioned cost in the amount of \$29,712 for the 2010 Title I grant.

We recommend the District review all charges to the federal programs to ensure proper classification and agreement with the grant agreements.

**Official’s Response:**

The District will review expenditures in the future to assure it is allowable under federal requirements.

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2010  
(Continued)**

<b>Finding Number</b>	2010-004
<b>CFDA Title and Number</b>	Special Education Cluster (84.027, 84.173 and 84.391)
<b>Federal Award Number / Year</b>	Title VI-B (6BSF-2009 and 6BSF-2010) Special Education-Preschool Grants (PGS1-2009 and PGS1-2010)
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Special Education Cluster - Material Noncompliance (*Eligibility*) and Material Weakness**

34 CFR 300.342(a) states that at the beginning of each school year, each public agency shall have an Individualized Education Program (IEP) in effect for each child with a disability within its jurisdiction. Parents are to be consulted regarding a child's IEP in a timely manner and IEP's are required to be reevaluated every three years.

During our testing of IEP's and related student files for the 2010 Special Education Cluster grant year we noted the following:

- 78 out of 333 (23%) of the individual ETR's (Evaluation Team Reports) were not completed within the prescribed three year timeframe.
- 66 out of 333 (20%) of the IEP's did not have a parent's signature indicating they had received a copy of the parent's notice of their rights and the procedural safeguards.

Lack of complete IEP's could result in reduced future special education funding.

We recommend the District properly complete and retain IEP's for all students receiving special education services. The IEP's should be completed in a timely manner and contain all the proper signatures and the individual ETR should be reevaluated every three years.

**Official's Response:**

Completion and maintenance of accurate student records are priorities under the new director of special education.

<b>Finding Number</b>	2010-005
<b>CFDA Title and Number</b>	Special Education Cluster (84.027, 84.173 and 84.391)
<b>Federal Award Number / Year</b>	Title VI-B (6BSF-2009 and 6BSF-2010) Special Education-Preschool Grants (PGS1-2009 and PGS1-2010)
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2010  
(Continued)

FINDING NUMBER 2010-005 (Continued)

**Special Education Cluster – Significant Deficiency**

34 CFR 80.23 provides that where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period. The Ohio Department of Education has specified that the funding period for the Special Education Cluster federal grant ends on June 30 of the grant year, unless carryover balances are approved.

During our testing of the grant year 2010 Special Education Cluster period of availability, we noted \$5,998 in obligations that were incurred, encumbered, and spent after June 30, 2010. These expenditures were reported on the District's final expenditure report. The District did not have a carryover approved for this grant. Reporting expenditures outside the period of availability could result in a reduction of future funding for this grant.

**Official's Response:**

Completion and maintenance of accurate student records are priorities under the new director of special education.

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i><b>Explain</b></i>
2009-001	ORC 149.43(B)(1) and 149.351(A) – Missing supporting documentation. Finding for Recovery – Credit Cards	Yes	
2009-002	ORC 149.43(B)(1) and 149.351(A) – Missing supporting documentation.	Yes	
2009-003	ORC 5705.41(D)(1) – Proper Encumbering – 14 out of 60 expenditures were not properly encumbered.	No	Repeated as Finding Number 2010-002
2009-004	ORC 5705.39 – Final Appropriations Limited by Estimated Resources – Six funds were in violation at June 30, 2009.	No	Partially corrected, Repeated for one fund in management letter
2009-005	ORC 5705.10(H) – Negative Fund Balances	Yes	
2009-006	Title I - Missing documentation and obligations after the period of availability.	No	Repeated as Finding Number 2010-003
2009-007	Individualized Education Programs (IEP) – Numerous incomplete and missing IEPs .	No	Repeated as Finding Number 2010-004



# Dave Yost • Auditor of State

WARRENVILLE HEIGHTS CITY 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  
AUGUST 23, 2012