



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, 2007, 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, 2007, 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 February 27, 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 schedule of federal awards receipts and expenditures 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

February 27, 2012

## Warrensville Heights City School District

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2007*

*Unaudited*

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The discussion and analysis of 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, 2007. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the 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 2007 are as follows:

- In total, net assets increased \$3,162,895 in fiscal year 2007 which represents a 42.13 percent increase over fiscal year 2006.
- General revenues accounted for \$37,166,943 or 89.63 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions accounted for \$4,302,430 or 10.37 percent of total revenues of \$41,469,373.
- Total assets of governmental activities increased by \$2,355,767 as cash and cash equivalents increased by \$871,411, other current assets increased by \$2,166,200 and capital assets decreased by \$681,844.
- The School District had \$38,306,478 in expenses; only \$4,302,430 of these expenses was offset by program specific charges for services, operating and capital grants and contributions. General revenues (primarily taxes supplemented by grants and entitlements) of \$37,166,943 were available to provide for these programs.
- The general fund had \$33,073,727 in revenues and \$31,121,382 in expenditures. The general fund's ending balance increased \$1,628,457 over fiscal year 2006.

### **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 by far 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, 2007  
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 2007?" 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 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 8. 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.



## Warrensville Heights City School District

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
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 2007 compared to the prior year:

**Table 1**  
**Net Assets**

	Governmental Activities		Change
	2007	2006	
<b>Assets</b>			
Current and Other Assets	\$34,031,789	\$30,994,178	\$3,037,611
Capital Assets, Net	27,673,391	28,355,235	(681,844)
<i>Total Assets</i>	<u>61,705,180</u>	<u>59,349,413</u>	<u>2,355,767</u>
<b>Liabilities</b>			
Current Liabilities	23,322,534	24,215,276	(892,742)
Long-Term Liabilities:			
Due Within One Year	1,612,185	856,451	755,734
Due in More than One Year	26,100,409	26,770,529	(670,120)
<i>Total Liabilities</i>	<u>51,035,128</u>	<u>51,842,256</u>	<u>(807,128)</u>
<b>Net Assets</b>			
Invested in Capital Assets	3,886,365	3,920,425	(34,060)
Restricted For:			
Capital Projects	869,859	908,204	(38,345)
Debt Service	2,295,599	1,503,784	791,815
Set Asides	141,140	98,990	42,150
Other Purposes	593,499	283,806	309,693
Unrestricted	2,883,590	791,948	2,091,642
<i>Total Net Assets</i>	<u>\$10,670,052</u>	<u>\$7,507,157</u>	<u>\$3,162,895</u>

As shown above, total governmental assets increased \$2,355,767. The major factor contributing to the increase is due to the passage of a 9.5 mill continuous operating levy in November 2004, which began generating additional property tax revenue in fiscal year 2005. Fiscal year 2007 was the second full year of collections.

Total liabilities decreased in total by \$807,128. The refunding resulted in a difference between the reacquisition price and net carrying amount of the bonds.

Table 2 shows the change in net assets for fiscal year 2007 for Governmental Activities compared to the prior year.

## Warrensville Heights City School District

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2007*

*Unaudited*

**Table 2**  
**Governmental Activities**

	2007	2006	Change
<i>Program Revenues</i>			
Charges for Services	\$462,648	\$531,019	(\$68,371)
Operating Grants and Contributions	3,833,285	3,441,818	391,467
Capital Grants	6,497	5,350	1,147
<b>Total Program Revenues</b>	<b>4,302,430</b>	<b>3,978,187</b>	<b>324,243</b>
<i>General Revenues</i>			
Property Taxes	23,977,584	22,735,930	1,241,654
Grants and Entitlements	12,735,281	12,585,399	149,882
Investment Earnings	362,480	162,633	199,847
Miscellaneous	91,598	78,953	12,645
<b>Total General Revenues</b>	<b>37,166,943</b>	<b>35,562,915</b>	<b>1,604,028</b>
<b>Total Revenues</b>	<b>41,469,373</b>	<b>39,541,102</b>	<b>1,928,271</b>
<i>Program Expenses</i>			
Instruction	20,352,674	20,375,302	(22,628)
Support Services			
Pupil	1,321,329	1,243,264	78,065
Instructional Staff	1,550,134	1,573,860	(23,726)
Board of Education	84,781	68,042	16,739
Administration	3,380,704	4,011,068	(630,364)
Fiscal	892,527	918,668	(26,141)
Business	943,207	955,629	(12,422)
Operation and Maintenance of Plant	4,505,845	4,324,542	181,303
Pupil Transportation	1,899,206	2,192,838	(293,632)
Central	361,529	292,508	69,021
Operation of Non-Instructional Services			
Food Services	1,138,555	1,117,467	21,088
Other Non-Instructional Services	401,572	251,410	150,162
Extracurricular Activities	410,679	369,632	41,047
Interest and Fiscal Charges	1,063,736	1,414,722	(350,986)
<b>Total Program Expenses</b>	<b>38,306,478</b>	<b>39,108,952</b>	<b>(802,474)</b>
Increase in Net Assets	3,162,895	432,150	2,730,745
<i>Net Assets Beginning of Year</i>	<u>7,507,157</u>	<u>7,075,007</u>	432,150
<i>Net Assets End of Year</i>	<u><u>\$10,670,052</u></u>	<u><u>\$7,507,157</u></u>	<u><u>\$3,162,895</u></u>

### **Governmental Activities**

Several revenue sources primarily fund the School District's governmental activities. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval to finance the school District operations. Property taxes made up 57.82 percent of revenues for governmental activities for the Warrensville Heights City School District for fiscal year 2007.

## Warrensville Heights City School District

### *Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2007*

*Unaudited*

Residential real estate taxes are currently at 89.6 mills (the voted rate). In 1995, voters approved a 9.5 mill continuing operating levy and another one in 2004, and in 2000 the School District voters renewed an emergency levy for operating purposes at 5.9 mills and again in 2004 to generate \$1,850,000. All tax levies combined have devalued to collect at the effective rate of 44.71 mills for agricultural/residential real estate and 64.945 mills for industrial real estate. This is attributed to the rollback factors under House Bill 920, which literally eliminates inflation from real property valuations. The School District monitors both of these revenue sources closely for fluctuations that would impact upon its activities.

Instruction expenses comprise 53.13 percent of governmental program expenses. Building operations, administration, pupil support, staff support, food service, extracurricular activities and interest and fiscal charges make up the remaining 46.87 percent of 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 and therefore a majority of the expenses of the School District are in the area of instruction, which decreased \$22,628 over fiscal year 2006 mainly due to decreases in salaries and related benefits due to retirements of teachers who were at the top of salary schedule as well as decreases in instructional materials purchased. Administration costs decreased \$630,364 due to reductions in staff.

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**  
**Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2007	2006	2007	2006
Instruction	\$20,352,674	\$20,375,302	(\$17,660,888)	(\$17,921,634)
Support Services:				
Pupil	1,321,329	1,243,264	(1,261,268)	(1,243,264)
Instructional Staff	1,550,134	1,573,860	(1,140,016)	(1,189,976)
Board of Education	84,781	68,042	(84,781)	(68,042)
Administration	3,380,704	4,011,068	(3,309,732)	(3,997,280)
Fiscal	892,527	918,668	(892,527)	(918,668)
Business	943,207	955,629	(943,207)	(955,629)
Operation and Maintenance of Plant	4,505,845	4,324,542	(4,476,266)	(4,312,821)
Pupil Transportation	1,899,206	2,192,838	(1,892,709)	(2,165,676)
Central	361,529	292,508	(267,976)	(200,334)
Operation of Non-Instructional Services				
Food Service	1,138,555	1,117,467	(336,663)	(248,877)
Other Non-Instructional Services	401,572	251,410	(376,557)	(240,352)
Extracurricular Activities	410,679	369,632	(297,722)	(253,490)
Interest and Fiscal Charges	1,063,736	1,414,722	(1,063,763)	(1,414,722)
Total Expenses	\$38,306,478	\$39,108,952	(\$34,004,048)	(\$35,130,765)

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.

## **Warrensville Heights City School District**

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

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

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

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.

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.

Operation of non-instructional services 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. Program revenues support 13.23 percent instructional activities. The remaining 86.77 percent of instructional activities is supported through taxes and other general revenues. Program revenues support 8.93 percent of all other activities and the remaining 91.07 percent is supported through taxes and other general revenues. The community, as a whole, is the primary support for the Warrensville Heights City School District.

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

Information regarding the School District's major funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. For fiscal year 2007, the School District had two major funds, the general fund and the bond retirement debt service fund. The general fund had total revenues of \$33,073,727 and expenditures of \$31,121,382. The net change in fund balance for the year in the general fund was an increase of \$1,628,457, primarily due increases in tax, intergovernmental and interest revenues. The bond retirement fund had total revenues of \$2,345,808 and expenditures of \$1,910,535. The net change in fund balance for the year in the bond retirement fund was an increase of \$719,098. Due to bond refinancing, the bond retirement fund received more revenue during fiscal year 2007 resulting in revenues exceeding expenditures by \$435,273.

### **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.

## Warrensville Heights City School District

### Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

Unaudited

During the course of fiscal year 2007, the School District amended its general fund budget three times by the end of the fiscal year. For the general fund, the final budget basis revenue estimate was \$31,701,770 representing a \$1,434,913 increase from the original budget estimates of \$30,266,857, due to increases in taxes and intergovernmental monies. The actual revenue was \$32,260,474 which was a \$558,704 increase over the final budget basis revenue.

The final and original budgeted expenditures totaled \$31,534,996. Actual expenditures of \$33,376,594 were \$1,841,598 over the final budgeted expenditures. The School District's unencumbered cash balance totaled \$1,024,430 which is higher than that in the final budget.

### Capital Assets

At the end of fiscal year 2007, the School District had \$27,673,391 invested in land, buildings, furniture, fixtures and equipment, and vehicles. Table 4 details fiscal year 2007 balances compared to the prior fiscal year.

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

	Governmental Activities	
	2007	2006
Land	\$414,153	\$414,153
Buildings	25,583,710	26,195,591
Furniture, Fixtures and Equipment	1,444,576	1,438,235
Vehicles	230,952	307,256
Totals	<u>\$27,673,391</u>	<u>\$28,355,235</u>

Overall capital assets decreased \$681,844 from fiscal year 2006 to fiscal year 2007. Additions to capital assets (primarily furniture, fixtures and equipment) were offset by depreciation expense for the year. For more information on capital assets, see Note 9 of the basic financial statements.

### Debt

At June 30, 2007, the School District had \$24,069,371 in general obligation bonds, notes and capital leases with \$1,160,212 due within one year. Table 5 summarizes the School District's outstanding debt.

**Table 5**  
Outstanding Debt at Fiscal Year End

	2007	2006
School Improvement Bonds Series 2000	\$7,400,023	\$24,000,000
School Improvement Refunding Bonds Series 2007	16,001,175	0
Unamortized Premium	1,438,384	0
Unamortized Accounting Gain	(1,157,237)	0
Notes Payable	275,000	275,000
Capital Leases	112,026	159,810
Totals	<u>\$24,069,371</u>	<u>\$24,434,810</u>

## **Warrensville Heights City School District**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2007*

*Unaudited*

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At June 30, 2007, the School District's overall legal debt margin was \$12,868,429, and the unvoted debt margin was \$391,612. A more detailed presentation is included in Note 14 of the notes to the basic financial statements.

### **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. Due to the budget constraints, the School District requested additional support from the community. 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 at the end of calendar year 2004 continue to support the majority of the 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. During fiscal year 2007, \$897,034 was deducted from our State subsidy and redirected to local community schools. 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.

Several significant legislative and judicial actions have occurred that will have a major impact on the School District. The Ohio Supreme Court has issued its fourth decision regarding school funding reform in Ohio. All indicators point to the fact that the ultimate resolution of school funding reform is still some time away. 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 Don Gambal, Treasurer, at the Warrensville Heights City School District, 4500 Warrensville Center Road, Warrensville, Ohio 44128, or [Don.Gambal@whcsd.org](mailto:Don.Gambal@whcsd.org).

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**Warrensville Heights City School District**

*Statement of Net Assets*

*June 30, 2007*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$4,665,160
Accounts Receivable	127
Intergovernmental Receivable	782,044
Prepaid Items	340
Materials and Supplies Inventory	6,903
Inventory Held for Resale	22,783
Taxes Receivable	28,273,285
Deferred Charges	281,147
Nondepreciable Capital Assets	414,153
Depreciable Capital Assets, Net	<u>27,259,238</u>
<i>Total Assets</i>	<u>61,705,180</u>
<b>Liabilities</b>	
Accounts Payable	150,238
Accrued Wages and Benefits	2,538,874
Intergovernmental Payable	1,928,657
Accrued Interest Payable	168,416
Matured Compensated Absences Payable	402,587
Deferred Revenue	18,133,762
Long-Term Liabilities:	
Due Within One Year	1,612,185
Due In More Than One Year	<u>26,100,409</u>
<i>Total Liabilities</i>	<u>51,035,128</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	3,886,365
Restricted for:	
Capital Projects	869,859
Debt Service	2,295,599
Public School Support	19,572
School Improvement	13,619
Class Size Reduction	25,705
Miscellaneous Federal Grants	29,221
Set-Asides	141,140
Other Purposes	505,382
Unrestricted	<u>2,883,590</u>
<i>Total Net Assets</i>	<u><u>\$10,670,052</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, 2007*

	Program Revenues			Net (Expense)	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets	
			Capital Grants and Contributions	Governmental Activities	
<b>Governmental Activities</b>					
Instruction:					
Regular	\$16,428,387	\$137,819	\$1,307,384	\$0	(\$14,983,184)
Special	3,554,955	23,865	1,222,718	0	(2,308,372)
Vocational	369,332	0	0	0	(369,332)
Support Services:					
Pupil	1,321,329	0	60,061	0	(1,261,268)
Instructional Staff	1,550,134	0	410,118	0	(1,140,016)
Board of Education	84,781	0	0	0	(84,781)
Administration	3,380,704	6,177	64,795	0	(3,309,732)
Fiscal	892,527	0	0	0	(892,527)
Business	943,207	0	0	0	(943,207)
Operation and Maintenance of Plant	4,505,845	0	29,579	0	(4,476,266)
Pupil Transportation	1,899,206	0	0	6,497	(1,892,709)
Central	361,529	0	93,553	0	(267,976)
Operation of Non-Instructional Services:					
Food Service Operations	1,138,555	171,560	630,332	0	(336,663)
Other Non-Instructional Services	401,572	11,148	13,867	0	(376,557)
Extracurricular Activities	410,679	112,079	878	0	(297,722)
Interest and Fiscal Charges	1,063,736	0	0	0	(1,063,736)
<b>Totals</b>	<b>\$38,306,478</b>	<b>\$462,648</b>	<b>\$3,833,285</b>	<b>\$6,497</b>	<b>(34,004,048)</b>
 <b>General Revenues</b>					
Property Taxes Levied for:					
General Purposes					20,819,200
Debt Service					2,369,388
Capital Projects					624,666
Recreation					164,330
Grants and Entitlements not Restricted to Specific Programs					12,735,281
Investment Earnings					362,480
Miscellaneous					91,598
<i>Total General Revenues</i>					<u>37,166,943</u>
Change in Net Assets					3,162,895
<i>Net Assets Beginning of Year</i>					<u>7,507,157</u>
<i>Net Assets End of Year</i>					<u><u>\$10,670,052</u></u>

See accompanying notes to the basic financial statements

**Warrensville Heights City School District**

*Balance Sheet*

*Governmental Funds*

*June 30, 2007*

	General	Bond Retirement Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$1,916,484	\$1,299,571	\$1,296,118	\$4,512,173
Accounts Receivable	0	0	127	127
Intergovernmental Receivable	116,406	0	665,638	782,044
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	152,987	0	0	152,987
Prepaid items	340	0	0	340
Materials and Supplies Inventory	0	0	6,903	6,903
Inventory Held for Resale	0	0	22,783	22,783
Interfund Receivable	1,417,481	0	0	1,417,481
Taxes Receivable	24,386,484	2,928,394	958,407	28,273,285
<i>Total Assets</i>	<u>\$27,990,182</u>	<u>\$4,227,965</u>	<u>\$2,949,976</u>	<u>\$35,168,123</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts Payable	\$123,992	\$0	\$26,246	\$150,238
Accrued Wages and Benefits	2,280,078	0	258,796	2,538,874
Intergovernmental Payable	1,686,912	0	241,745	1,928,657
Matured Compensated Absences Payable	357,388	0	45,199	402,587
Interfund Payable	0	0	1,417,481	1,417,481
Deferred Revenue	21,039,178	2,416,166	1,475,669	24,931,013
<i>Total Liabilities</i>	<u>25,487,548</u>	<u>2,416,166</u>	<u>3,465,136</u>	<u>31,368,850</u>
<b>Fund Balances</b>				
Reserved for Encumbrances	1,739,055	0	393,936	2,132,991
Reserved for Property Taxes	2,944,129	469,996	133,018	3,547,143
Reserved for Textbooks	141,140	0	0	141,140
Reserved for Bus Purchases	11,847	0	0	11,847
Reserved for Long-Term Advances	616,861	0	0	616,861
Unreserved, Undesignated (Deficit)				
Reported in:				
General Fund	(2,950,398)	0	0	(2,950,398)
Special Revenue Funds	0	0	(1,542,657)	(1,542,657)
Debt Service Funds	0	1,341,803	0	1,341,803
Capital Projects Funds	0	0	500,543	500,543
<i>Total Fund Balances (Deficit)</i>	<u>2,502,634</u>	<u>1,811,799</u>	<u>(515,160)</u>	<u>3,799,273</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$27,990,182</u>	<u>\$4,227,965</u>	<u>\$2,949,976</u>	<u>\$35,168,123</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, 2007*

<b>Total Governmental Fund Balances</b>	<b>\$3,799,273</b>
 <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	27,673,391
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Delinquent Property Taxes	6,015,207
Grants	782,044
Total	6,797,251
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	281,147
In the statement of activities, interest is accrued on outstanding loans, whereas in governmental fund, an interest expenditure is reported when due.	(168,416)
Long-term liabilities including compensated absences, capital leases, general obligation bonds, and premium on bonds are not due and payable in the current period and therefore are not reported in the funds.	
General Obligation Bonds	(21,987,786)
Capital Appreciation Bonds	(256,175)
Premium on Bonds	(1,438,384)
Notes	(275,000)
Capital Leases	(112,026)
Special Termination Benefits	(887,718)
Compensated Absences	(2,755,505)
Total	(27,712,594)
 <i>Net Assets of Governmental Activities</i>	 <b><u><u>\$10,670,052</u></u></b>

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, 2007*

	General	Bond Retirement Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$19,837,921	\$2,244,445	\$742,905	\$22,825,271
Intergovernmental	12,608,668	101,363	3,356,683	16,066,714
Interest	362,480	0	0	362,480
Tuition and Fees	160,425	0	1,259	161,684
Extracurricular Activities	46,087	0	77,140	123,227
Contributions and Donations	0	0	12,144	12,144
Charges for Services	0	0	171,560	171,560
Rentals	2,851	0	3,326	6,177
Miscellaneous	55,295	0	36,303	91,598
<i>Total Revenues</i>	<u>33,073,727</u>	<u>2,345,808</u>	<u>4,401,320</u>	<u>39,820,855</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	14,457,254	0	1,149,426	15,606,680
Special	2,371,412	0	1,101,934	3,473,346
Vocational	385,971	0	0	385,971
Support Services:				
Pupil	1,251,136	0	58,152	1,309,288
Instructional Staff	1,176,474	0	331,995	1,508,469
Board of Education	81,089	0	0	81,089
Administration	3,253,616	0	54,263	3,307,879
Fiscal	877,299	34,389	2,573	914,261
Business	947,230	0	0	947,230
Operation and Maintenance of Plant	3,835,346	0	98,288	3,933,634
Pupil Transportation	1,844,699	0	12,562	1,857,261
Central	259,654	0	100,458	360,112
Operation of Non-Instructional Services				
Food Service Operations	0	0	1,033,087	1,033,087
Other Non-Instructional Services	4,627	0	303,838	308,465
Extracurricular Activities	309,800	0	67,249	377,049
Capital Outlay	0	0	706,024	706,024
Debt Service:				
Principal Retirement	47,784	600,000	0	647,784
Interest and Fiscal Charges	17,991	992,321	0	1,010,312
Bond Issuance Costs	0	283,825	0	283,825
<i>Total Expenditures</i>	<u>31,121,382</u>	<u>1,910,535</u>	<u>5,019,849</u>	<u>38,051,766</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,952,345</u>	<u>435,273</u>	<u>(618,529)</u>	<u>1,769,089</u>
<b>Other Financing Sources (Uses)</b>				
Notes Issued	275,000	0	0	275,000
Bonds Issued	0	15,999,977	0	15,999,977
Premium on Bonds	0	1,452,083	0	1,452,083
Current Refunding	(275,000)	0	0	(275,000)
Payment to Refunding Bond Escrow	0	(17,168,235)	0	(17,168,235)
Transfers In	0	0	323,888	323,888
Transfers Out	(323,888)	0	0	(323,888)
<i>Total Other Financing Sources (Uses)</i>	<u>(323,888)</u>	<u>283,825</u>	<u>323,888</u>	<u>283,825</u>
<i>Net Change in Fund Balances</i>	1,628,457	719,098	(294,641)	2,052,914
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>874,177</u>	<u>1,092,701</u>	<u>(220,519)</u>	<u>1,746,359</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$2,502,634</u>	<u>\$1,811,799</u>	<u>(\$515,160)</u>	<u>\$3,799,273</u>

**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, 2007*

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**Net Change in Fund Balances - Total Governmental Funds** \$2,052,914

*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 Asset Additions	553,169	
Current Year Depreciation	(1,235,013)	
		(681,844)

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

Delinquent Property Taxes	1,152,313	
Grants	496,205	
		1,648,518

Repayment of bond, note 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, Note and Capital Lease Principal	922,784	
Payment to the Refunded Bond Escrow Agent	17,168,235	
		18,091,019

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	(52,226)	
Amortization of Deferred Charges	(2,678)	
Amortization of Deferred Accounting Gain	(11,021)	
Amortization of Bond Premium	13,699	
Annual Accretion	(1,198)	
		(53,424)

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	(887,718)	
Compensated Absences	436,665	
		(451,053)

Bond Issuance Costs will be amortized over the life of the bonds on the statement of net assets 283,825

Other financing sources in the governmental funds, such as bond anticipation notes, that increase long-term liabilities in the statement of net assets are not reported as revenues in the statement of activities.

Notes Issued	(275,000)	
General Obligation Bonds Issued	(15,999,977)	
Bond Premium	(1,452,083)	
		(17,727,060)

*Change in Net Assets of Governmental Activities* \$3,162,895

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, 2007*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Taxes	\$17,828,617	\$18,669,484	\$18,998,588	\$329,104
Intergovernmental	11,832,202	12,390,254	12,608,668	218,414
Interest	340,153	356,196	362,475	6,279
Tuition and Fees	150,546	157,646	160,425	2,779
Extracurricular Activities	36,296	45,417	46,087	670
Rentals	2,675	2,802	2,851	49
Miscellaneous	76,368	79,971	81,380	1,409
<i>Total Revenues</i>	30,266,857	31,701,770	32,260,474	558,704
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	14,615,965	14,563,898	14,699,509	(135,611)
Special	2,442,467	2,483,407	2,717,365	(233,958)
Vocational	381,427	381,427	410,308	(28,881)
Support Services:				
Pupil	1,300,795	1,300,795	1,455,446	(154,651)
Instructional Staff	1,194,799	1,194,799	1,213,503	(18,704)
Board of Education	80,934	80,934	82,252	(1,318)
Administration	3,243,297	3,243,297	3,288,199	(44,902)
Fiscal	863,638	863,638	950,323	(86,685)
Business	928,564	928,564	1,150,377	(221,813)
Operation and Maintenance of Plant	3,803,284	3,803,284	4,204,591	(401,307)
Pupil Transportation	2,042,187	2,042,187	2,247,357	(205,170)
Central	315,315	315,315	320,905	(5,590)
Operation of Non-Instructional Services	200	200	200	0
Extracurricular Activities	322,124	322,124	350,132	(28,008)
Debt Service:				
Principal Retirement	0	0	275,000	(275,000)
Interest and Fiscal Charges	0	11,127	11,127	0
<i>Total Expenditures</i>	31,534,996	31,534,996	33,376,594	(1,841,598)
<i>Excess of Revenues Over (Under) Expenditures</i>	(1,268,139)	166,774	(1,116,120)	(1,282,894)
<b>Other Financing Sources (Uses)</b>				
Notes Issued	0	0	275,000	275,000
Transfers In	894,148	936,320	0	(936,320)
Transfers Out	(323,888)	(323,888)	(323,888)	0
<i>Total Other Financing Sources (Uses)</i>	570,260	612,432	(48,888)	(661,320)
<i>Net Change in Fund Balance</i>	(697,879)	779,206	(1,165,008)	(1,944,214)
<i>Fund Balance Beginning of Year</i>	670,555	670,555	670,555	0
Prior Year Encumbrances Appropriated	1,518,883	1,518,883	1,518,883	0
<i>Fund Balance End of Year</i>	\$1,491,559	\$2,968,644	\$1,024,430	(\$1,944,214)

See accompanying notes to the basic financial statements

**Warrensville Heights City School District**

*Statement of Fiduciary Assets and Liabilities*

*Agency Fund*

*June 30, 2007*

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**Assets**

Equity in Pooled Cash and Cash Equivalents \$63,104

**Liabilities**

Due to Students \$63,104

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, 2007*

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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 six instructional facilities, staffed by 179 classified employees, 243 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 2007 fiscal year was 2,581. The School District operated three elementary schools (K-4), one lower school (5-6), one 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 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 (LGCA) and the Ohio Schools Council Association. 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, 2007*

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

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

**Government-wide Financial Statements** The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. 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. Nonmajor funds are aggregated and presented in a single column. The fiduciary fund is reported by type.

### **B. 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.

**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.

## Warrensville Heights City School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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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.

### ***C. Measurement Focus***

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

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

### ***D. Basis of Accounting***

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements 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.

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

## Warrensville Heights City School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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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, 2007, but which were levied to finance fiscal year 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

### ***E. 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 budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that were in effect at the time the 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, 2007*

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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.

### ***F. 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 2007, investments were limited to a money market mutual fund, a repurchase agreement and STAR Ohio. Investment in the mutual fund is reported at fair value which is based on current share price. The repurchase agreement is reported at cost.

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, 2007.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$362,480 which includes \$203,829 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.

### ***G. Restricted Assets***

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

### ***H. Prepaids***

Payments made to vendors for services that will benefit periods beyond June 30, 2007, are reported as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

**Warrensville Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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***I. 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.

***J. 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 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

***K. 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.

***L. 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.

## Warrensville Heights City School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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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.

### ***M. 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.

### ***N. 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. The government-wide statement of net assets reports \$3,900,097 of restricted net assets, none of which is restricted by enabling legislation. Net assets restricted for other purposes include resources restricted for food service, 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.

### ***O. Internal Activity***

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.

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.

**Warrensville Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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***P. 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, textbooks, bus purchases and long-term advances.

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

***Q. Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. There were no extraordinary or special items.

***R. 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 – Accountability and Compliance**

***A. Accountability***

At June 30, 2007, the following funds had deficit fund balances:

	<u>Amount</u>
<b><i>Non-Major Funds:</i></b>	
Food Service	\$843,019
Recreation	291,273
Termination Benefits	898,961
Entry Year Programs	35,576
Ohio Reads	12,460
Student Reading Intervention	937
Alternative Schools	392
Title VI-B	244,958
Title I	228,393
Drug Free Schools	6,682
Class Size Reduction	45,300



**Warrensville Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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

**B. Legal Compliance**

Contrary to Section 5705.41, Ohio Revised Code, the following funds had expenditures plus encumbrances in excess of appropriations for fiscal year 2007:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
<b>Major Fund:</b>			
General	\$31,534,996	\$33,376,594	\$1,841,598
<b>Non-Major Funds:</b>			
Recreation	(13,226)	328,202	341,428
Public School Support	44,127	47,506	3,379
Other Grants	21,755	28,985	7,230
Termination Benefits	172,887	298,070	125,183
Athletics and Music	25,940	26,917	977
Entry Year Teachers	7,259	35,224	27,965
Schoolnet Plus	0	16,815	16,815
Ohio Reads	42,542	127,680	85,138
Title VI-B	478,711	717,568	238,857
Title I	551,779	643,573	91,794
Title VI	7,082	13,570	6,488
Drug Free Schools	5,935	28,488	22,553
Preschool	5,440	18,994	13,554
Class Size Reduction	121,363	181,534	60,171

The following funds had total final appropriations in excess of estimated resources plus carryover balances contrary to Section 5705.39, Revised Code.

	<u>Appropriations</u>	<u>Estimated Resources Plus Carryover</u>	<u>Excess</u>
<b>Non-Major Funds:</b>			
Food Service	\$1,055,374	\$870,540	\$184,834
Poverty Aid	1,678,374	1,369,959	308,415
Entry Year Programs	7,259	1,659	5,600
Professional Development	14,181	13,556	625
Student Intervention	5,256	(1,008)	6,264
School Improvement	24,623	14,623	10,000
Title I	551,779	445,584	106,195

Although the budgetary violations were not corrected by fiscal year-end, management has indicated that appropriations will be closely monitored to ensure no future violations.

**Warrensville Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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The School District had negative cash fund balances in the following funds indicating that revenue from other sources were used to pay obligations of these funds, contrary to Ohio Revised Code Section 5705.10:

***Special Revenue Funds:***

Food Services	\$212,383
Recreation	216,050
Entry Year Teachers Grant	33,565
Ohio Reads Grant	10,311
Student Reading Intervention	937
Title VI-B	129,056
Title I	153,638
Drug Free	5,819
Class Size Reduction Grant	38,861

In order to eliminate future negative cash, the School District will make cash advances during the year.

**Note 4 – Budgetary Basis of Accounting**

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-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. Unreported cash represents amounts received but not included on the budgetary statement, but reported on the operating statement prepared using GAAP.

**Warrensville Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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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.

Net Change in Fund Balance

GAAP Basis	\$1,628,457
Net Adjustment for Revenue Accruals	(800,392)
Beginning Unrecorded Cash	(5,456)
Ending Unrecorded Cash	(7,405)
Net Adjustment for Expenditure Accruals	(127,146)
Adjustment for Encumbrances	<u>(1,853,066)</u>
Budget Basis	<u><u>(\$1,165,008)</u></u>

**Note 5 – Deposits and Investments**

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
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;

## Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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** 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, \$200,906 of the School District's bank balance of \$300,906 was uninsured and uncollateralized. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

### **Investments**

Investments are reported at fair value. All investments are in an internal investment pool. As of June 30, 2007, the School District had investments in a KeyBank Victory Federal Money Market mutual fund, a repurchase agreement and STAR Ohio.

	Fair Value	Maturity
Victory Federal Money Market Mutual Fund	\$6,277	1 month
Repurchase Agreements		
U.S. Treasury Notes	4,950,000	7/1/2007
STAR Ohio	8,712	39 days average
Total	<u>\$4,964,989</u>	

## Warrensville Heights City School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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**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 investments so that securities mature to meet cash requirements for ongoing operations. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

**Credit Risk** STAR Ohio carries a rating of AAA by Standard and Poor's. The KeyBank Victory Federal Money Market mutual fund investment sweep account invests in federal agency securities that carry an AAA rating by Standard and Poor's. 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.

**Custodial Credit Risk** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The U.S. Treasury Notes are exposed to custodial credit risk in that they are uninsured, unregistered, and held in the counterparty's trust department or agent, but not in the School District's name. The School District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

**Concentration of Credit Risk** Concentration of credit risk is defined as having five percent or more invested in the securities of a single issuer. The School District's investment policy places no limit on the amount it may invest in any one issuer.

### **Note 6 -- Property Taxes**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

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

## Warrensville Heights City School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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Tangible personal property tax revenue received during calendar year 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2007 is 12.5 percent. This will be reduced 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30. This year, the June 2007 tangible personal property tax settlement was not received until July 2007.

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

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

The amount available as an advance at June 30, 2007, was \$2,944,129 in the general fund, \$469,996 in the bond retirement debt service fund, \$105,350 in the permanent improvement capital projects fund and \$27,668 in the recreation special revenue fund. The amount available as an advance at June 30, 2006, was \$1,450,386 in the general fund, \$210,059 in the bond retirement debt service fund, \$61,348 in the permanent improvement capital projects fund and \$16,144 in the recreation special revenue fund.

The late tax settlement made by the County for fiscal year 2007 was \$519,583 in the general fund, \$42,232 in the bond retirement debt service fund, \$12,158 in the permanent improvement capital projects fund and \$3,200 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.

**Warrensville Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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

	2006 Second - Half Collections		2007 First - Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$305,702,440	83.92 %	\$352,524,520	90.02 %
Public Utility	15,910,120	4.37	16,472,800	4.21
Tangible Personal Property	42,676,150	11.71	22,614,409	5.77
<b>Total Assessed Value</b>	<b>\$364,288,710</b>	<b>100.00 %</b>	<b>\$391,611,729</b>	<b>100.00 %</b>
 Tax rate per \$1,000 of assessed valuation		\$89.60		\$90.20

The additional .60 mill increase in the tax rate is for the 1999 (\$26,100,000) bond levy. 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. For fiscal year 2007, the payments for principal and interest increased \$50,262 over the payments for fiscal year 2006.

**Note 7 – Receivables**

Receivables at June 30, 2007, consisted of taxes, accounts (rent and tuition), 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, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Ohio Reads	\$45,022
Miscellaneous State Grants	46,726
Title VI-B	231,202
Title I	227,904
Title V	3,510
Drug Free Schools	29,675
Preschool Grant	3,822
Class Size Reduction	73,118
Miscellaneous Federal Grants	4,659
Community Alternative Funding System Payment	116,406
	<u>\$782,044</u>

**Warrensville Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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**Note 8 – Capital Leases**

On September 9, 2002 the School District entered into a lease-purchase agreement with Expanets/CIT Communications Finance Corporation for the lease of Cisco Call Manager IP Telephony System in the amount of \$323,854, with annual rate of interest of 4.97 percent. The lease is paid from the permanent improvement capital projects fund.

Capital assets acquired by lease have been capitalized as follows:

	<u>Governmental Funds</u>
<i>Asset:</i>	
Furniture, Fixtures and Equipment	\$323,854
Less: Accumulated Depreciation	<u>(161,925)</u>
Total Book Value as of June 30, 2007	<u><u>\$161,929</u></u>

The following is a schedule of the future long-term minimum lease payments required under the capital lease and present value of the minimum lease payments is as follows:

<u>Fiscal Year Ending June 30,</u>	
2008	\$54,646
2009	54,645
2010	<u>9,106</u>
Total Minimum Lease Payments	118,397
Less: Amount Representing Interest	<u>(6,371)</u>
Present Value of Minimum Lease Payments	<u><u>\$112,026</u></u>

Capital lease payments have been reclassified and are reflected as debt service in the fund financial statements for the permanent improvement capital projects fund. These expenditures are reflected as program expenditures on a budgetary basis.



**Warrensville Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

**Note 9 – Capital Assets**

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

	Balance <u>June 30, 2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2007</u>
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	<u>\$414,153</u>	<u>\$0</u>	<u>\$0</u>	<u>\$414,153</u>
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	37,824,752	236,047	0	38,060,799
Furniture, Fixtures and Equipment	3,134,422	317,122	0	3,451,544
Vehicles	<u>812,217</u>	<u>0</u>	<u>0</u>	<u>812,217</u>
<i>Total Capital Assets, being depreciated</i>	<u>41,771,391</u>	<u>553,169</u>	<u>0</u>	<u>42,324,560</u>
<i>Less: Accumulated Depreciation</i>				
Buildings and Improvements	(11,629,161)	(847,928)	0	(12,477,089)
Furniture, Fixtures and Equipment	(1,696,187)	(310,781)	0	(2,006,968)
Vehicles	<u>(504,961)</u>	<u>(76,304)</u>	<u>0</u>	<u>(581,265)</u>
<i>Total Accumulated Depreciation</i>	<u>(13,830,309)</u>	<u>(1,235,013) *</u>	<u>0</u>	<u>(15,065,322)</u>
<i>Total Capital Assets, being depreciated, Net</i>	<u>27,941,082</u>	<u>(681,844)</u>	<u>0</u>	<u>27,259,238</u>
<b>Governmental Activities Capital Assets, Net</b>	<u><u>\$28,355,235</u></u>	<u><u>(\$681,844)</u></u>	<u><u>\$0</u></u>	<u><u>\$27,673,391</u></u>

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

Instruction:	
Regular	\$468,930
Special	47,724
Vocational	6,834
Support Services:	
Pupil	3,669
Instructional Staff	11,378
Board of Education	3,692
Administration	101,873
Fiscal	3,785
Business	3,380
Operation and Maintenance of Plant	391,166
Pupil Transportation	13,801
Central	2,787
Food Service Operations	38,424
Non-Operating Services	93,199
Extracurricular Activities	<u>44,371</u>
<i>Total Depreciation Expense</i>	<u><u>\$1,235,013</u></u>

## Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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### Note 10 – Risk Management

#### A. 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 Indiana Insurance Company 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
Indiana Insurance Company	Property (\$10,000 Deductible)	\$87,501,467
	Inland Marine (\$250 Deductible)	1,761,232
	Crime (\$250 - \$500 Deductible)	160,000
	General Liability:	
	In Aggregate	2,000,000
	Per Occurrence (\$5,000 Deductible)	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
	Blanket Employee Dishonesty (\$1,000 Deductible)	250,000
Cincinnati Insurance		
Travelers Insurance Company	Boiler/Machinery (\$1,000 Deductible)	30,000,000

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.

#### B. 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

#### A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org).

## Warrensville Heights City School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$482,302, \$482,168 and \$411,527 respectively; 55.94 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

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

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

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

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

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

## Warrensville Heights City School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2007, 2006, and 2005 were \$2,096,195, \$2,021,922 and \$1,803,981, respectively; 81.70 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were \$97 made by the School District and \$15,181 made by the plan members.

### ***C. Social Security System***

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2007, one member of the Board of Education had elected Social Security. The Board's liability is 6.2 percent of wages paid.

### **Note 12 – Postemployment Benefits**

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

All STRS Ohio retirees who participated in the DB and Combined Plan and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$149,728 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$435,519.

## Warrensville Heights City School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for the fiscal year ended June 30, 2006, were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has approximately 59,492 participants eligible to receive health care benefits.

### **Note 13 – Other Employee Benefits**

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

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. 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 of 250 days for certified staff and a maximum of 205 days for classified employees.

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

#### ***C. Special Termination Benefits Payable***

The School District offered employees participation in an Employee Severance Plan (ESP). Participation is open to full-time teachers and administrators who are employed by the Board and who will have twelve (12) or more years of actual service with Warrensville Heights City Schools as of June 30, 2007, (“Eligible Employees”). The plan is not available to any other employees, including substitutes, temporary or contracted employees, those who have been laid off, terminated, or those who have previously retired and returned to work in the Warrensville Heights City School District. Under the Plan, the Board promises to pay ESP benefits to an eligible employee who agrees to retire or separate from service by June 20, 2007, for teachers, or July 31, 2007, for administrators, and fulfills his/her contractual obligations through the date of his/her retirement or separation from service exit date. Failure to fulfill contractual obligations through the employee’s exit date will result in forfeiture of the ESP benefits. Eligible teachers and administrators electing to participate in the Plan who will have 29 years of service, or 34 years of service as of June 30, 2007, may resign or retire from employment with the District effective June 30, 2008, rather than June 30, 2007. To be approved for this alternate exit date, the eligible employee must provide at the time of electing the ESP to the Warrensville Heights City School District Treasurer’s Office, the most recent copy of his/her STRS/SERS statement. Notification of intent to retire effective June 30, 2007 or June 30, 2008 must be submitted by March 16, 2007.

## Warrensville Heights City School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

All eligible teachers and administrators electing to retire or separate from service under ESP will be entitled to receive payments that are equal to \$50,000. In addition, if the employee electing the ESP will be retiring and thereby eligible to receive severance pay, the Board will make an additional employer contribution in an amount equivalent to what the employee would have otherwise received as severance pay. The total payments described as the ESP benefits are divided into monthly payments.

Employees electing ESP who are eligible to retire under STRS or SERS, will receive the total ESP benefit over 5 years, divided into 60 equal monthly payments made to the participants' selected post employment 403(b) accounts.

Employees electing ESP who are not eligible to retire under STRS or SERS, will have the total ESP benefit paid to them over 8 years, divided into 96 equal monthly payments.

### Note 14 – Long-Term Obligations

The changes in the School District's long-term obligations during fiscal year 2007 were as follows:

	Balance 6/30/2006	Additions	Deletions	Balance 6/30/2007	Amount Due in One Year
<b>Governmental Activities</b>					
School Improvements Bonds 2000, 4.44%	\$24,000,000	\$0	\$16,599,977	\$7,400,023	\$675,000
School Improvement Refunding Bonds 2007:					
Serial Bonds 4% - 4.25%	0	15,745,000	0	15,745,000	435,000
Capital Appreciation					
Bonds, 4.00% - 4.25%	0	254,977	0	254,977	0
Accretion on Capital Appreciation Bonds	0	1,198	0	1,198	0
Unamortized Premium	0	1,452,083	13,699	1,438,384	0
Unamortized Accounting Gain	0	(1,168,258)	(11,021)	(1,157,237)	0
<i>Total General Obligation Bonds</i>	<u>24,000,000</u>	<u>16,285,000</u>	<u>16,602,655</u>	<u>23,682,345</u>	<u>1,110,000</u>
Long-Term Notes	275,000	275,000	275,000	275,000	0
Capital Leases	159,810	0	47,784	112,026	50,212
Special Termination Benefits	0	887,718	0	887,718	177,544
Compensated Absences	3,192,170	398,727	835,392	2,755,505	274,429
<i>Total Governmental Activities</i>	<u>\$27,626,980</u>	<u>\$17,846,445</u>	<u>\$17,760,831</u>	<u>\$27,712,594</u>	<u>\$1,612,185</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 were issued for a twenty-five year period with a final maturity during fiscal year 2025 bearing interest at 4.44 percent per year. The bonds are paid from the debt service fund.

On April 27, 2007 the School District issued \$16,001,175 in school improvement refunding bonds with interest rates varying from 4 to 4.25 percent.

Proceeds of the school improvement refunding bonds were used to refund \$15,999,977 of outstanding 2000 school improvement bonds. An analysis of the information follows:

**Warrensville Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

	2000 School Improvement Bonds
Outstanding at June 30, 2006	\$24,000,000
Amount Refunded	<u>(15,999,977)</u>
Non- Refunded Portion	8,000,023
Principal Payment on Non-Refunded	<u>(600,000)</u>
Outstanding at June 30, 2007	<u><u>\$7,400,023</u></u>

The bonds were issued at premium of \$1,452,083. Proceeds of \$17,168,235 were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the refunded portion of the 2000 school improvement bonds. As of June 30, 2007, \$15,999,977 is considered defeased.

The refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt of \$1,168,259. This difference, being reported as a reduction in bonds payable, is being charged to operations through the maturity of the old bonds using the straight line method. The School District completed the refunding to reduce its total debt service payments over the next 18 years by \$4,070,978 and to obtain an economic gain (the difference between the present values of the old and new debt service payments) of \$1,402,240.

The 2007 refunding capital appreciation bonds will mature in fiscal years 2015 and 2016. The maturity amount of the bonds is \$2,965,000. For fiscal year 2007, \$1,198 was accreted for a total bond value of \$256,175.

On June 8, 2007, the School District retired the \$275,000 note with 4.15 percent interest and issued a new note for \$275,000 with 4.0 percent interest and a maturity date of June 6, 2008.

Capital lease payments are paid from the permanent improvement capital projects fund.

Compensated absences will be paid from the general fund and the food service, recreation, Poverty Aid, title VI-B, title I and title IIA special revenue funds.

The overall debt margin of the School District as of June 30, 2007, was \$12,868,429 with an unvoted debt margin of \$391,612 at June 30, 2007. Principal and interest requirements for school improvement bonds outstanding at June 30, 2007, are as follows:

Year Ending 6/30	Serial Term Bonds		Capital Appreciation Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$1,110,000	\$1,102,910	\$0	\$0	\$1,110,000	\$1,102,910
2009	940,000	1,056,998	0	0	940,000	1,056,998
2010	1,025,000	1,011,698	0	0	1,025,000	1,011,698
2011	1,135,000	961,835	0	0	1,135,000	961,835
2012	1,215,000	906,160	0	0	1,215,000	906,160
2013-2017	3,930,023	3,314,150	254,977	2,710,023	4,185,000	6,024,173
2018-2022	8,065,000	2,097,951	0	0	8,065,000	2,097,951
2023-2025	5,725,000	371,132	0	0	5,725,000	371,132
	<u>\$23,145,023</u>	<u>\$10,822,834</u>	<u>\$254,977</u>	<u>\$2,710,023</u>	<u>\$23,400,000</u>	<u>\$13,532,857</u>

**Warrensville Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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**Note 15 – Jointly Governed Organizations**

***A. 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 18 member school districts. Each of the school districts support 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 participant is limited to its representation on the governing board. LGCA's continued existence is not dependent on the School District's continued participation. The School District contributed \$72,161 to LGCA during the fiscal year 2007. A copy of LGCA's financial statements may be obtained by contracting the Lake Geauga Educational Computer Association at 8140 Auburn Road, Painesville, Ohio 44077.

***B. Ohio Schools Council Association***

The Ohio Schools Council Association (Council) is a jointly governed organization among 108 school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2007, the School District paid \$711 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 Rd., Suite 10, Independence, Ohio 44131.

The School District participates in the Council's electric purchase program which was implemented during fiscal year 1998 and the natural gas program which was implemented during fiscal year 2000.

The electric purchase program allows school districts to purchase electricity at reduced rates, if the school districts will commit to participating for an eight year period. The participants make monthly payments based on estimated usage. Each June these estimated payments are compared to their actual usage for the year and any necessary adjustments are made.

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

The natural gas program allows school districts to purchase natural gas at reduced rates, if the school district will commit to participating for a twelve year period. The participants make monthly payments based on estimated usage. Each month these estimated payments are compared to their actual usage and any necessary adjustments are made.

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



**Warrensville Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

**Note 16 – Interfund Transactions**

***A. Transfers***

During fiscal year 2007, the School District made the following transfers:

<u>Transfer To</u>	<u>Transfer From General</u>
Athletics and Music	\$5,000
Ohio Reads	21,767
Termination Benefits	265,183
Title I	26,899
Title V	1,167
Drug Free Grant	<u>3,872</u>
 Total	 <u><u>\$323,888</u></u>

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

***B. Balances***

In prior fiscal years, the School District advanced \$616,861, from the general fund to other funds to provide additional resources for current operations. None of these advances were repaid in fiscal year 2007. Negative cash balances totaling \$800,620 in the food service, recreation, entry year program, Ohio reads, student reading intervention, title IV-B, title I, drug free schools and class size reduction grant fund special revenue funds were eliminated with interfund receivables from the general fund. Interfund balances at June 30, 2007, consist of the following individual fund receivables and payables:

<u>Interfund Payable</u>	<u>Interfund Receivable General</u>
<b>Nonmajor Funds:</b>	
Recreation	\$286,050
Venture Capital	5,000
Athletic Fund	63
Alternative School	392
Food Service	752,825
Public School Support	964
Entry Year	33,565
Ohio Reads	10,311
Student Reading Intervention	937
Title IV-B	129,056
Title I	153,638
Drug Free Grant	5,819
Class Size Reduction	<u>38,861</u>
 Total	 <u><u>\$1,417,481</u></u>

**Warrensville Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

The interfund payables in the entry year program, Ohio Reads, student reading intervention, title IV-B title I, drug free grant and class size reduction special revenue funds will be repaid in fiscal year 2008. \$213,383 of the food service and \$216,050 of the recreation special revenue funds interfund payables will be repaid in fiscal year 2008. The Board has not determined when the \$540,442 of the food service, \$70,000 of the recreation, \$964 of the public school support, \$5,000 of the venture capital, \$63 of the athletic, and \$392 of the alternative school special revenue funds will be repaid.

**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. In prior fiscal years, the School District was also required to set aside money for budget stabilization.

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	Capital Improvements
Set-aside Reserve Balance as of June 30, 2006	\$54,389	\$0
Add: Current Year Set-aside Requirement	444,673	444,673
Permanent Improvement Levy Offset During the Fiscal Year	0	(559,516)
Qualifying Disbursements	(357,922)	(740,878)
Total	\$141,140	(\$855,721)
Set-aside Balance Carried Forward to Future Fiscal Years	\$141,140	(\$855,721)
Set-aside Reserve Balance as of June 30, 2007	\$141,140	\$0

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.

**Note 18 – Contingencies**

**A. Grants**

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

**B. Litigation**

The School District is not a party to any legal proceedings.

**Warrensville Heights City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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**Note 19 – Subsequent Events**

On April, 27, 2007, the School District issued \$15,999,977 in School Improvement Refunding bonds with interest rates varying from 4 to 4.25 percent.

On June 8, 2007, the School District retired the June 8, 2006 note by issuing a \$275,000 note at 4 percent. The new note will mature on June 6, 2008.

On June I, 2008, the School District retired the June 8, 2007 note by issuing a \$275,000 note at 4 percent. The new note will mature on June 6, 2009.

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.

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**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY  
FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR FISCAL YEAR ENDED JUNE 30, 2007**

Federal Grantor Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
School Breakfast Program	05-PU-2006	10.553	\$21,523	\$0	\$21,523	\$0
School Breakfast Program	05-PU-2007	10.553	87,079	0	87,079	0
Total School Breakfast Program			108,602	0	108,602	0
Afterschool Snack						
National School Lunch Program	LL-P1-2007	10.555	4,155	0	4,155	0
National School Lunch Program	LL-P4-2006	10.555	90,147	0	90,147	0
National School Lunch Program	LL-P4-2007	10.555	365,297	59,145	365,297	59,415
Total National School Lunch Program			459,599	59,145	459,599	59,415
Total Nutrition Cluster			568,201	59,145	568,201	59,415
Total U.S. Department of Agriculture			568,201	59,145	568,201	59,415
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Title VI-B Special Education Grants to States	6B-SF-2005	84.027	0	0	164	0
Title VI-B Special Education Grants to States	6B-SF-2006	84.027	97,266	0	156,624	0
Title VI-B Special Education Grants to States	6B-SF-2007	84.027	448,461	0	537,240	0
Total Title VI-B			545,728	0	694,028	0
Special Education-Preschool Grants						
Special Education-Preschool Grants	PG-S1-2006	84.173	7,695	0	8,683	0
Special Education-Preschool Grants	PG-S1-2007	84.173	6,641	0	7,754	0
Total Special Education-Preschool Grants			14,336	0	16,437	0
Total Special Education Cluster			560,064	0	710,465	0
Title I Grants to Local Educational Services						
Title I Grants to Local Educational Services	C1-S1-2003	84.010	0	0	58	0
Title I Grants to Local Educational Services	C1-S1-2004	84.010	0	0	231	0
Title I Grants to Local Educational Services	C1-S1-2005	84.010	0	0	1,454	0
Title I Grants to Local Educational Services	C1-SK-2006	84.010	1,723	0	2,964	0
Title I Grants to Local Educational Services	C1-SK-2007	84.010	19,612	0	54,384	0
Title I Grants to Local Educational Services	C1-S1-2006	84.010	127,419	0	75,730	0
Title I Grants to Local Educational Services	C1-S1-2007	84.010	350,381	0	423,760	0
Total Title I			499,135	0	558,581	0
Title VI / Innovative Education Program Strategy						
Title VI / Innovative Education Program Strategy	C2-S1-2006	84.298	6,098	0	9,005	0
Title VI / Innovative Education Program Strategy	C2-S1-2007	84.298	4,518	0	4,294	0
Total Title VI / Innovative Education Program Strategy			10,616	0	13,299	0
Safe and Drug Free Schools and Communities State Grants						
Safe and Drug Free Schools and Communities State Grants	DR-S1-2006	84.186	2,918	0	10,648	0
Safe and Drug Free Schools and Communities State Grants	DR-S1-2007	84.186	5,108	0	14,655	0
Total Drug Free Schools			8,026	0	25,303	0
Improving Teacher Quality State Grants (Title II, Part A)						
Improving Teacher Quality State Grants (Title II, Part A)	TR-S1-2006	84.367	22,104	0	20,339	0
Improving Teacher Quality State Grants (Title II, Part A)	TR-S1-2007	84.367	119,750	0	156,074	0
Total Improving Teacher Quality			141,854	0	176,413	0
Technology Literacy Challenge Funds						
Technology Literacy Challenge Funds	TJ-S1-2006	84.318	118	0	0	0
Technology Literacy Challenge Funds	TJ-S1-2007	84.318	526	0	4,220	0
Total Technology Literacy Challenge Funds			643	0	4,220	0
Total U.S. Department of Education			1,220,338	0	1,488,281	0
<b>Total Federal Financial Assistance</b>			<b>\$1,788,540</b>	<b>\$59,145</b>	<b>\$2,056,482</b>	<b>\$59,415</b>

*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, 2007**

**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.

**NOTE C – FOOD DONATION PROGRAM**

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair value of the commodities received.

N/A - Not applicable.

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, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 27, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings and questioned cost we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2007-003 described in the accompanying schedule of findings and questioned cost to be a material weakness.

### 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 cost as items 2006-001 through 2006-007.

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated February 27, 2012.

The Government'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 Government's response(s) 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

February 27, 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, 2007. The summary of auditor's results section of the accompanying schedule of findings and questioned cost 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.

We conducted our audit of compliance in accordance with 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*. Those 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 findings 2007-008 and 2007-010 in the accompanying schedule of findings and questioned costs, the District did not comply with requirement regarding *eligibility* applicable to its Nutrition Cluster and Special Education Cluster major federal programs. Also as described in finding 2007-009 in the accompanying schedule of findings and questioned costs, the District did not comply with requirement regarding *eligibility and period of availability* applicable to its Title I 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, 2007.

### 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.

*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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned cost as items 2007-008, 2007-009, and 2007-010.

The District's responses to the findings we identified 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 the audit committee, 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

February 27, 2012

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COST  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2007**

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

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

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

**FINDING NUMBER 2007-001**

**Material Noncompliance Citation**

**Finding for Recovery – Credit Cards**

Ohio Revised Code Section 149.43(B) states “all public records shall be promptly prepared and made available for inspection to any person at all reasonable times during regular business hours ... In order to facilitate broader access to public records, public offices shall maintain public records in a manner that they can be made available for inspection.”

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COST  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2007  
(Continued)**

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

In addition, Ohio Revised Code Section 149.351(A) establishes guidelines against the destruction or damage of records and states, "All records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred or otherwise damaged or disposed of, in whole or in part, except as provided by law."

During the course of our audit, we noted 36 credit card transactions totaling \$4,785 that were not substantiated by an invoice or receipt. Without appropriate supporting documentation, it is not possible to determine if the expenditures include items that would not be considered a proper public purpose. The failure to maintain adequate support for these expenditures could result in a loss of accountability over the District's finances, making it difficult to identify errors which could go undetected and possibly result in expenditures that are not for a proper public purpose.

During the fiscal year unsupported credit card purchases in the amount of \$60 at retail stores and \$53 at a restaurant, which totaled \$113 were made by Sabrina Green, former Board member. These credit card purchases were authorized by Brent Delman, former Treasurer.

Also during the fiscal year, unsupported credit card purchases in the amount of \$341 at retail stores, \$1,026 at restaurants, and \$1,780 at hotels, which totaled \$3,147 were made by Elaine Davis, former Superintendent. These credit card purchases were authorized by Brent Delman, former Treasurer.

In addition during this fiscal year, unsupported credit card purchases in the amount of \$149 at retail stores, \$173 at restaurants, and \$1,203 at hotels, which totaled \$1,525 were made and authorized by Brent Delman, former Treasurer.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Brent Delman, former Treasurer, in the amount of \$1,525, Sabrina Green, former Board member, in the amount of \$113, and Elaine Davis, former Superintendent in the amount of \$3,147. These findings for recovery are issued in favor of the Warrensville Heights City School District.

Additionally, under Ohio law, any public official who 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.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Brent Delman, former Treasurer, and Fidelity and Deposit Company of Maryland, his bonding company, jointly and severally in the amount of \$3,260. These findings for recovery are issued in favor of the Warrensville Heights City School District.

We recommend the District implement better controls and maintain adequate supporting documentation for all credit card expenditures.

**Official's Response:**

The District only has two credit cards, the Treasurer and Superintendent, who only use the cards for registration companies that do not take purchase orders and emergencies. All documentation is required prior to payment.

WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COST  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2007  
(Continued)

FINDING NUMBER 2007-002

**Material Noncompliance Citation**

**Finding for Recovery – Transportation Contract**

R.L. Thomas Transportation Incorporated (RLTTI), was a contracted provider of pupil transportation services to the District for the contract period August 21, 2006 to June 7, 2007. During this period it was determined that RLTTI overcharged the District due to duplicate billings for pupils, double billing on one-way trips and billings for pupils who had not been transported (ie. pupils withdrawn from the transportation rolls). It appears the overcharges were not solely due to irregularities/errors in invoicing presented by RLTTI but also the District's lack of invoice review and maintenance of procedures to determine the accuracy of billings by RLTTI. The total amount billed the district during the contract period was \$911,212. This included the total overcharges determined to be \$297,150. The district received \$60,312 in invoice reductions between 3/19/07 and 6/8/07 netting an overpayment of \$236,838.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against RLTTI, pupil transportation vendor of the District, in the total amount of \$236,838 and in favor of Warrensville Heights City School District.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or the accounts of a public office from which such illegal expenditure is made is liable for the amount of such expenditure. *Seward v. National Surety Co.* (1929), 120 Ohio St. 47, 198 Op. Att'y Gen No. 80-074, Ohio Revised Code Section 9.38, *State ex. Rel. Village of Lindale v. Mastern* (1985), 18-Ohio St. 3d 228. Public officials controlling public funds or property are liable for the loss incurred should 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. 80-074.24.

Accordingly, Brent Delman, former Treasurer, and Fidelity and Deposit Company of Maryland, his surety, are jointly and severally liable in the amount of \$236,838 to the extent that recovery is not obtained from RLTTI.

We recommend the District implement better controls for reviewing contractual payments made to vendors.

**Official's Response:**

The District now uses a different transportation company and billings for pupils are checked by the special education department to insure payment is only for students in attendance at the District.

FINDING NUMBER 2007-003

**Material Noncompliance Finding and Material Weakness**

**Public Records**

Ohio Revised Code Section 149.43(B) states "all public records shall be promptly prepared and made available for inspection to any person at all reasonable times during regular business hours ... In order to facilitate broader access to public records, public offices shall maintain public records in a manner that they can be made available for inspection."

In addition, Ohio Revised Code Section 149.351(A) establishes guidelines against the destruction or damage of records and states, "All records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred or otherwise damaged or disposed of, in whole or in part, except as provided by law."

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COST  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2007  
(Continued)**

**FINDING NUMBER 2007-003 (Continued)**

During our testing we noted the following:

- The District was unable to provide timesheets or other documentation for 12 of 60 employees selected during the testing of Payroll controls.
- The District was unable to provide supporting documentation for the number of pupils who were economically disadvantaged during our testing of the Title I federal program.
- The District was unable to provide support for the verification process of free/reduced lunch applications.
- The District was unable to provide complete standing data for 34 of 60 personnel files tested.
- The District was unable to locate support for the assumptions on the five year forecast.

These weaknesses could result in the improper expenditure of public funds and incomplete financial statements.

We recommend the District maintain supporting records for all payroll transactions and establish procedures that would make these records available for inspection.

Official's Response:

The District attempts to keep track of its documentation in order to provide an audit trail. There was a breakdown in the system. Close monitoring of supportive documentation is in place to prevent a repeat of not having the information as backup for transactions.

**FINDING NUMBER 2007-004**

**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.

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

WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COST  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2007  
(Continued)

FINDING NUMBER 2007-004 (Continued)

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.

Twenty-seven percent (16 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.

FINDING NUMBER 2007-005

**Material Noncompliance Finding**

**Final Appropriations Exceeding Estimated Resources**

Ohio Revised Code Section 5705.39 states in part that the total appropriations from each fund should not exceed the total estimated revenue.

The following funds had final appropriations in excess of estimated resources plus carryover balances contrary to Section 5705.39, Revised Code.

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COST  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2007  
(Continued)**

**FINDING NUMBER 2007-005 (Continued)**

	<u>Appropriations</u>	<u>Estimated Resources Plus Carryover</u>	<u>Excess</u>
<b><i>Non-Major Funds</i></b>			
Food Service	\$1,055,374	\$870,540	\$184,834
Poverty Aid	1,678,374	1,369,959	308,415
Entry Year Programs	7,259	1,659	5,600
Professional Development	14,181	13,556	625
Student Intervention	5,256	(1,008)	6,264
School Improvement	24,623	14,623	10,000
Title I	551,779	445,584	106,195

We recommend the District monitor its budget to ensure compliance with the above noted ORC Code Section.

Official's Response:

The District is attempting, through reorganization and restructuring, to bring the negative balance in the Food Service fund to a positive balance with interfund transfers from the General fund.

**FINDING NUMBER 2007-006**

**Material Noncompliance Finding**

**Expenditures plus Encumbrances Exceeded Appropriations**

Ohio Revised Code Section 5705.41(B) prohibits a subdivision or taxing unit from making an expenditure or encumbrance unless it has been properly appropriated. Budgetary expenditures as enacted by the District may not exceed appropriations at the legal level of control for all funds. The District's legal level of control is at the fund level for all funds.

The District had the following violations at June 30, 2007:



**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COST  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2007  
(Continued)**

**FINDING NUMBER 2007-006 (Continued)**

<b>Major Fund</b>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Variance</u>
General Fund	\$31,534,996	\$33,376,594	(\$1,841,598)
<b>Non-Major Funds</b>			
Recreation	(\$13,226)	\$328,202	(\$341,428)
Public School support	44,127	47,506	(3,379)
Other Grants	21,755	28,985	(7,230)
Termination Benefits	172,887	298,070	(125,183)
Athletics and Music	25,940	26,917	(977)
Entry Year Teachers	7,259	35,224	(27,965)
School Net Plus	-	16,815	(16,815)
Ohio Reads	42,542	127,680	(85,138)
Title VI-B	478,711	717,568	(238,857)
Title I	551,779	643,573	(91,794)
Title VI	7,082	13,570	(6,488)
Drug Free	5,935	28,488	(22,553)
Preschool	5,440	18,994	(13,554)
Class Size Reduction	121,363	181,534	(60,171)

Official's Response:

The District with the utilization of advances or transfers does not exceed appropriations.

**FINDING NUMBER 2007-007**

**Material Noncompliance Finding**

**Negative Cash and Fund Balances**

Ohio Revised Code Section 5705.10(h), states that money paid into any fund shall be used only for the purposes for which such fund is established. A negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

During our testing we noted that various funds had negative cash balances at year end:

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COST  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2007  
(Continued)**

**FINDING NUMBER 2007-007 (Continued)**

Fund	Negative Cash Balance
Food Service	(\$212,383)
Recreation	(216,050)
Entry Year Programs	(33,565)
Ohio Reads	(10,311)
Summer Intervention	(937)
Title VI-B	(129,056)
Title I	(153,638)
Drug Free Schools	(5,819)
Class Size Reduction	(38,861)

We recommend the District utilize cash advances to these funds, request reimbursements, or other appropriate measures to ensure negative cash balances do not exist during or at the end of the fiscal year.

Official's Response:

The District is attempting, through reorganization and restructuring, to bring the negative balance in the Recreation fund to a positive balance with interfund transfers from the General fund approved by the Board of Education.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
--

<b>Finding Number</b>	2007-008
<b>CFDA Title and Number</b>	Nutrition Cluster (10.553, 10.555)
<b>Federal Award Number / Year</b>	School Breakfast ( 05PU-2007) Afterschool Snack (LLP1-2007) School Lunch (LLP4-2007)
<b>Federal Agency</b>	U.S. Department of Agriculture
<b>Pass-Through Agency</b>	Ohio Department of Education

**Food Service - Material Noncompliance (*Eligibility*) and Material Weakness**

7 CFR 245.6a provides that ... by November 15<sup>th</sup>, or December 15<sup>th</sup> with a granted extension, of each School Year, LEAs should have selected and verified a sample of their approved free and reduced price applications in accordance with the conditions and procedures described in this section. Specifically, households selected to provide verification shall be provided written notice that their applications have been selected for verification.

Each LEA must report information related to its annual verification activity to the State agency by March 1<sup>st</sup>. LEAs shall retain copies of the information reported under this section and all supporting documents for a minimum of 3 years. All relevant correspondence between the household selected for verification and the school or school food authority must be retained.

7 CFR Part 210.8 and 220.8, Subpart (B) (formerly A-87) states that prior to submission of a monthly Claim for Reimbursement, the District should review to ensure that monthly claims include only the number of free, reduced price and paid lunches served on any day of operation to children currently eligible for such breakfast/lunches.

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COST  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2007  
(Continued)**

**FINDING NUMBER 2007-008 (Continued)**

These records include but are not limited to:

Documentation of participation data by school in support of the Claim for Reimbursement and data used in the claims review process, as required under §210.8(a), (b), and (c) of this part.

To qualify a child for meals/milk served free or at reduced price under the Nutrition Cluster federal program, the child's family must annually submit an application to the District. The application must be approved and maintained on file at the District. The application establishes that the child's family income and family size place him/her within income eligibility standards issued by the State agency.

During the year, the District performed a verification of approved free and reduced lunch applications. At the end of the verification process the District submits to the Ohio Department of Education (ODE) a Verification Summary Report indicating the results of their verification process. The District could not provide support for the verification performed.

The District uses cash registers to maintain a count of the number and type (free, reduced, paid) of meals served on a daily basis. The Daily Sales Activity forms are automatically generated from the cash registers, printed on a daily basis, and given to the Food Service Supervisor. The information contained in the Daily Sales Activity forms is used to complete the monthly CN6 and CN7 forms. The Supervisor then uses these reports to complete the Site Claim forms at the end of the month. During our review of Daily Sales Activity forms, monthly CN forms, and monthly Site Claim forms, we noted discrepancies between all forms of the number and type of meals served. We also noted six out of 40 days tested at Middle School and High School reported free lunches served in excess of the approved free lunch applications, however the ODE Site Claim form limits the District's reimbursement amount to the number of approved free lunch applications on file .

Adequate internal controls are needed to assure only authorized eligible students receive reduced and free breakfast or lunches and the proper amounts are reported to the State for reimbursement. In addition, an adequate number of applications need to be tested to ensure proper reporting to the State. If the proper information is not reported to the State improper reimbursements may occur.

We recommend the District ensure all free and reduced applications are properly approved and all documentation related to the District's verification of the applications be retained for the proper period of time. We also recommend the District maintain accurate records listing the number of students eligible and which students are eligible to receive free or reduced lunches throughout the year to ensure the number of each type of meal served does not exceed the number authorized and the proper students receive the benefit. This information should be accurately reported on the CN6/CN7 forms and Site Claim Forms. Also, if there is a difference between the Daily Sales Activity forms for the month, the CN6/CN7 forms, and/or the amount reported to the State on the Site Claim Form, the District should maintain records stating the reason for the differences. The District needs to properly monitor inventory and report accurately the usage and balances to the State.

Official's Response:

Better record keeping is taking place in food service and the department has made accurate record management a priority.

WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COST  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2007  
(Continued)

<b>Finding Number</b>	2007-009
<b>CFDA Title and Number</b>	Title I (84.010)
<b>Federal Award Number / Year</b>	School Improvement (C1SK-2006) Schoolwide (C1S1-2006)
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Title I - Material Noncompliance (*Eligibility and Period of Availability*), Material Weakness and Questioned Cost**

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 Title I federal grant ends on June 30 of the grant year, unless carryover balances are approved.

34 CFR 80.42 provides that records must be retained for three years from ... the day the grantee or subgrantee submits to the awarding agency its single or last expenditure report for that period.

During our testing of the grant year 2007 Title I period of availability, we noted \$61,837 in obligations that were incurred, encumbered, and spent after June 30, 2007. These expenditures were reported on the District's final expenditure report. The District did not have a carryover approved for this grant. This results in a questioned cost for \$61,837.

We also noted the District did not maintain supporting documentation for the number of pupils who were economically disadvantaged. This amount is utilized on the District's funding application to determine the eligibility of each school building to participate in the Title I program. Adequate internal controls to help assure supporting documentation for the number of pupils who were economically disadvantaged were not in place.

We recommend the District review all grant expenditures to ensure they are allowable expenditures and that expenditures are incurred during the period of availability. The District should also maintain all required documentation for the grant in accordance with the above.

Official's Response:

Better record keeping is taking place in special education.

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COST  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2007  
(Continued)**

<b>Finding Number</b>	2007-010
<b>CFDA Title and Number</b>	Special Education Cluster (84.027 and 84.173)
<b>Federal Award Number / Year</b>	Title VI-B (6BSF-2006 and 6BSF-2007) Special Education-Preschool Grants (PGS1-2006 and PGS1-2007)
<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 2007 Special Education Cluster grant year we noted the following:

- Sixteen out of 40 (40%) of the individual ETR's (Evaluation Team Reports) were not completed within the prescribed three year timeframe.
- Two out of 40 (5%) 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.

Official's Response to all Federal Findings and Questioned Costs:

While minimal changes will be noticed for fiscal year 2007, fiscal year 2008 should see positive changes among the federal award programs. First a change in personnel has taken place in special education, food service, human resources, and the business office. Second reorganization is underway in the operation of food service and special education. The department heads are meeting more often and communications are taking place between and among department heads and staff. In conjunction, month end reports are being produced in food service and turned in to the Business Manager. The director of special education is also reporting to the Superintendent regularly.

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2007**

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>
2006-001	ORC 149.43(B)(1) and 149.351(A) – Missing supporting documentation.	No	Repeated as Finding Number 2007-003
2006-002	ORC 5705.41(D)(1) – Proper Encumbering – 25 out of 60 expenditures were not properly encumbered.	No	Repeated as Finding Number 2007-004.
2006-003	ORC 5705.39 – Original Appropriations Limited by Estimated Resources – 5 funds were in violation.	Yes	
2006-003	ORC 5705.39 – Final Appropriations Limited by Estimated Resources – One fund was in violation at 6/30/06.	No	Repeated as Finding Number 2007-005
2006-004	ORC 5705.41(B)(D) – Expenditures plus Encumbrances Exceeded Appropriations – 13 funds in violation at 6/30/06	No	Repeated as Finding Number 2007-006.
2006-005	ORC 5705.10(H) – Negative Fund Balances	No	Repeated as Finding Number 2007-007.
2006-006	Nutrition Cluster – Lack of documentation in support of the Claim for Reimbursement process, lack of proper application verification testing.	No	Repeated as Finding Number 2007-008.
2006-007	Title I - Missing documentation and obligations after the period of availability.	No	Repeated as Finding Number 2007-009.
2006-008	Special Education Cluster – Missing documentation – Questioned Cost.	Yes	
2006-009	Individualized Education Programs (IEP) – Numerous incomplete and missing IEPs.	No	Repeated as Finding Number 2007-010.



# Dave Yost • Auditor of State

WARRENSVILLE 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  
MARCH 13, 2012