



**Auditor of State
Betty Montgomery**

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

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, 2003, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 that 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, 2003, and the respective changes in financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the School implemented a new financial reporting model, as required by provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", Statement No. 38, "Certain Financial Statement Note Disclosure", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The federal awards receipts and expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards receipts and expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

December 9, 2004

Warrensville Heights City School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Unaudited)*

The discussion and analysis of Warrensville Heights City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2003. 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 notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- In total, net assets decreased \$3,675,325, which represents a 41.56 percent decrease from 2002.
- General revenues accounted for \$28,101,919 in revenue or 84.9 percent of all revenues. Program specific revenues in the form of charges for services, operating grants, interest, and contributions, and capital grants and contributions accounted for \$4,984,212 or 15.1 percent of total revenues of \$33,086,131.
- Total assets of governmental activities decreased by \$3,797,639 as cash and cash equivalents and investments decreased by \$11,259,413, receivables decreased by \$1,098,619, and capital assets increased by \$8,583,945.
- The School District had \$36,761,456 in expenses; only \$4,984,212 of these expenses were offset by program specific charges for services, grants, interest, or contributions. General revenues (primarily taxes and grants and entitlements) of \$28,101,919 and cash on hand were available to provide for these programs.
- The general fund had \$27,544,844 in revenues and \$31,634,838 in expenditures. The general fund's ending balance decreased \$3,788,425 from 2002. This decrease has been anticipated as a continuing trend in the School District.

Using the Basic Financial Statements

This annual 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 as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor 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.

Warrensville Heights City School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Unaudited)*

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the School District reports governmental activities. Governmental activities are the activities where most of the School District's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The School District does not have any business-type activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 14. Fund financial statements 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 on the School District's most significant funds. The School District's major governmental funds are the general fund, bond retirement fund and permanent improvement fund.

Governmental Funds

All of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at 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 you 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, 2003
(Unaudited)

The School District as a Whole

The Statement of Net Assets provides the perspective of the School District as a whole. The table below provides a summary of the School District's net assets for 2003 compared to 2002:

Table 1
Net Assets

	<u>2003</u>	<u>2002</u>
Assets		
Current and Other Assets	\$25,055,650	\$37,437,234
Capital Assets, Net	<u>28,987,285</u>	<u>20,403,340</u>
<i>Total Assets</i>	<u>54,042,935</u>	<u>57,840,574</u>
Liabilities		
Current Liabilities	20,458,459	20,755,254
Long Term Liabilities:		
Due within One Year	1,291,642	1,178,499
Due in More than Year	<u>27,124,324</u>	<u>27,062,986</u>
<i>Total Liabilities</i>	<u>48,874,425</u>	<u>48,996,739</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	2,853,166	4,094,439
Restricted for:		
Capital Projects	2,112,319	1,540
Debt Service	950,044	1,154,220
Other Purposes	447,899	610,979
Unrestricted (Deficit)	<u>(1,194,918)</u>	<u>2,982,657</u>
<i>Total</i>	<u>\$5,168,510</u>	<u>\$8,843,835</u>

Total governmental assets decreased by \$3,797,639 as cash and cash equivalents decreased by \$11,259,413, receivables decreased by \$1,098,619, and capital assets increased by \$8,583,945. Cash and cash equivalents decreased due to an increased investment in capital assets and a declining cash balance attributed to expenses that exceeded revenue. Factors contributing to the declining cash balance trend include the March 2003 State reduction in foundation aid, and increased community (charter) school tuition expenses. Receivables decreased due to declining personal property taxes collections. Capital assets increased as a result of the renovations and improvements of the assets. Unrestricted net assets, (the part of net assets that can be used to finance day-to-day activities without constraints established by grants or legal requirements of the School District), decreased by \$4,177,575.

Warrensville Heights City School District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Unaudited)

Table 2 shows the changes in net assets for fiscal year 2003. Since this is the first year the School District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years, when prior-year information is available, a comparative analysis of district-wide data will be presented.

Table 2
Changes in Net Assets

	<u>2003</u>
Revenues	
Program Revenues	
Charges for Services and Sales	\$690,505
Operating Grants, Interest and Contributions	4,221,004
Capital Grants and Contribution	72,703
Total Program Revenues	<u>4,984,212</u>
General Revenues:	
Property Taxes	16,941,925
Grants and Entitlements	10,760,439
Investments	140,011
Miscellaneous	259,544
Total General Revenues	<u>28,101,919</u>
Total Revenues	<u>33,086,131</u>
Program Expenses	
Instruction:	
Regular	14,703,763
Special	4,057,830
Vocational	647,530
Support Services:	
Pupil	1,634,958
Instructional Staff	1,622,427
Administration	3,366,951
Fiscal	764,651
Buisness	715,553
Operation and Maintenance of Plant	4,090,759
Pupil Transportation	1,663,626
Central	204,665
Operation of Non-Instructional Services	371,560
Food Service Operations	1,130,962
Extracurricular Activities	275,263
Interest and Fiscal Charges	1,510,958
Total Program Expenses	<u>36,761,456</u>
Decrease in Net Assets	(3,675,325)
Net Assets Beginning of Year	<u>8,843,835</u>
Net Assets End of Year	<u>\$5,168,510</u>

Warrensville Heights City School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2003

(Unaudited)

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 51.21 percent of revenues for governmental activities for the Warrensville Heights City School District for fiscal year 2003.

The School District voters currently pay residential real estate taxes at 80.3 mills. In 1995, voters approved a 9.5 mill continuing operating levy, and in 2000 the School District voters renewed an emergency levy for operating purposes at 5.9 mills. All tax levies combined has devalued to collect at the effective rate of 48.20 mills. This is attributed to the rollback factors under House Bill 920, which literally eliminates inflation from real property valuations.

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. Comparisons to 2002 have not been made because the data is not available.

Table 3
Statement of Activities

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Governmental Activities		
Instruction:		
Regular	\$14,703,763	\$14,084,086
Special	4,057,830	2,086,116
Vocational	647,530	634,949
Support Services:		
Pupil	1,634,958	1,566,907
Instructional Staff	1,622,427	1,383,793
Administration	3,366,951	3,321,696
Fiscal	764,651	764,651
Business	715,553	689,189
Operation and Maintenance of Plant	4,090,759	3,578,434
Pupil Transportation	1,663,626	1,266,788
Central	204,665	193,036
Operation of Non-Instructional Services	371,560	348,737
Food Service Operations	1,130,962	199,049
Extracurricular Activities	275,263	148,855
Interest and Fiscal Charges	1,510,958	1,510,958
<i>Total</i>	<u><u>\$36,761,456</u></u>	<u><u>\$31,777,244</u></u>

Warrensville Heights City School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Unaudited)*

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

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

Operation and maintenance of plant activities involve keeping the school 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 includes expense 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 tax revenues is apparent. Instruction activities are supported through taxes and other general revenues by 69.07 percent; for all other activities, general revenue support is 61.75 percent. The community, as a whole, is the primary support for the Warrensville Heights City School District.

The School District's Funds

Information about the School District's major funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. The general fund had total revenues of \$27,544,844 and expenditures of \$31,634,838. The net change in fund balance for the year in the general fund was a decrease of \$3,788,425. This is the third year in a row that the general fund balance has decreased. Although total revenues increased, total expenditures also increased. During fiscal year 2003, expenditures increased due to higher salaries and increased health care costs. Some additional costs were incurred due to more billable Medicare Community Alternative Funding Systems (CAFS) time since the School District is offering more special education services than the prior fiscal year. The School District realized an increase of 17.5 percent in employee salaries, retirements and health care benefits related expenditures.

Warrensville Heights City School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2003

(Unaudited)

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund. The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

During the course of the 2003 fiscal year, the School District amended its general fund budget numerous times. For the general fund, the final budget basis revenue was \$29,967,363 representing a \$481,029 decrease from the original budget estimates of \$30,448,392. Estimated revenue for fiscal year 2003 was negatively impacted by state budget cuts and House Bill 95. The School District received \$396,345 less in personal property tax during fiscal year 2003 than it did the previous year. Additionally, the State reduced the School District's state foundation payment in the amount of \$152,246 in March 2003 for the fiscal year ending June 30, 2003.

The final budgeted expenditures totaled \$32,329,136 compared to original estimates of \$33,045,814. Actual budget basis expenditures of \$31,337,098 were \$992,038 lower than the final budgeted expenditures. The School District's unencumbered cash balance totaled \$262,112, which was higher than that originally budgeted.

Capital Assets

At the end of the fiscal year 2003, the School District had \$28,987,285 invested in land, land improvements, buildings and improvements, furniture, fixtures and equipment, and vehicles. Table 4 shows fiscal year 2003 balances compared to fiscal year 2002.

Table 4
Capital Assets
(Net of Depreciation)

	<u>2003</u>	<u>2002</u>
Land	\$414,153	\$414,153
Construction in Progress	0	13,242,491
Buildings	27,217,196	5,767,775
Furniture, Fixtures, and Equipment	781,746	360,401
Vehicles	574,190	618,520
Total Capital Assets	<u>\$28,987,285</u>	<u>\$20,403,340</u>

Overall capital assets increased \$8,583,945 from fiscal year 2002 to fiscal year 2003. Increases in capital assets (primarily building improvements, furniture, fixture and equipment) were slightly offset by depreciation expense for the year. The School District completed a physical inventory for 2003. For more information on capital assets, see Note 9 of the Basic Financial Statements.

Warrensville Heights City School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2003

(Unaudited)

Debt Administration

At June 30, 2003, the School District had outstanding general obligation debt in the amount of \$25,738,450. This debt includes the school improvement bonded debt in the amount of \$25,450,000 that was approved by voters in November 2000, and energy conservation bonds in the amount of \$288,450. At June 30, 2003, the School District's overall legal debt margin was \$6,530,716, and the unvoted debt margin was \$349,702. For more information on debt administration, refer to Note 14 of the Basic Financial Statements.

Current Financial Issues and Concerns

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. The Ohio Department of Education has recommended to the Office of Finance and Management that the School District be placed in fiscal caution. The School District has developed a plan to reduce costs through a reduction in force which will allow the School District to avoid \$4.5 million in staffing costs over the next two years.

The School District does not have the necessary revenue base to support current program levels over the next several fiscal years. Our future revenue base is dependent upon the renewal of an emergency levy expiring in 2005. It is also projected that new revenue will be necessary in 2005 to support the current level of programming. We are concerned that the local tax base may be weakened as a result of current economic conditions and therefore negatively impact local tax revenues. The School District's last operating levy was in 1995. A conservative approach to spending allowed the School District to operate many years without requesting additional money from the taxpayers. Due to the current budget constraints, the School District must request additional support from the community.

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 2003, \$193,160 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.

In comparison to other school districts in the State, the Warrensville Heights City School District would not be considered a School District suffering from low wealth. Therefore, the Warrensville Heights City School District has not anticipated any meaningful growth in State revenue.

Warrensville Heights City School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2003

(Unaudited)

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 money it receives. If you have questions or need more information about this report contact Michael D. Anderson, Treasurer at Warrensville Heights City School District, 4500 Warrensville Center Road, Warrensville Heights, OH 44128 or email at wa_manderson@lgca.org.

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Warrensville Heights City School District

Statement of Net Assets

June 30, 2003

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$4,376,856
Accounts Receivable	28,287
Intergovernmental Receivable	429,682
Prepaid Items	791
Materials and Supplies Inventory	6,156
Property Taxes Receivable	20,213,878
Nondepreciable Capital Assets	414,153
Depreciable Capital Assets, Net	<u>28,573,132</u>
<i>Total Assets</i>	<u>54,042,935</u>
Liabilities	
Accounts Payable	391,799
Accrued Wages	2,940,174
Matured Compensated Absences Payable	212,644
Intergovernmental Payable	1,194,018
Deferred Revenue	15,597,794
Accrued Interest Payable	122,030
Long-Term Liabilities:	
Due Within One Year	1,291,642
Due In More Than One Year	<u>27,124,324</u>
<i>Total Liabilities</i>	<u>48,874,425</u>
Net Assets	
Invested in Capital Assets	2,853,166
Restricted for:	
Capital Projects	2,112,319
Debt Service	950,044
Other Purposes	447,899
Unrestricted (Deficit)	<u>(1,194,918)</u>
<i>Total Net Assets</i>	<u><u>\$5,168,510</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, 2003

	Program Revenues			Net (Expense)
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Revenue and Change in Net Assets
Governmental Activities				
Instruction:				
Regular	\$14,703,763	\$139,813	\$479,864	\$0
Special	4,057,830	9,595	1,962,119	0
Vocational	647,530	0	12,581	0
Support Services:				
Pupil	1,634,958	2,945	65,106	0
Instructional Staff	1,622,427	409	238,225	0
Administration	3,366,951	0	45,255	0
Fiscal	764,651	0	0	0
Business	715,553	26,364	0	0
Operation and Maintenance of Plant	4,090,759	500	462,442	49,383
Pupil Transportation	1,663,626	0	373,518	23,320
Central	204,665	0	11,629	0
Operation of Non-Instructional Services	371,560	22,514	309	0
Food Service Operations	1,130,962	361,957	569,956	0
Extracurricular Activities	275,263	126,408	0	0
Interest and Fiscal Charges	1,510,958	0	0	0
<i>Total Governmental Activities</i>	<u>\$36,761,456</u>	<u>\$690,505</u>	<u>\$4,221,004</u>	<u>\$72,703</u>

General Revenues

Property Taxes Levied for:

General Purposes	14,798,589
Other Purposes	138,156
Debt Service	1,480,192
Capital Outlay	524,988
Grants and Entitlements not Restricted to Specific Programs	10,760,439
Investment Earnings	140,011
Miscellaneous	259,544

Total General Revenues 28,101,919

Change in Net Assets (3,675,325)

Net Assets Beginning of Year (see Note 3) 8,843,835

Net Assets End of Year \$5,168,510

See accompanying notes to the basic financial statements

Warrensville Heights City School District

Balance Sheet

Governmental Funds

June 30, 2003

	General	Bond Retirement	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$847,569	\$544,507	\$1,985,185	\$828,532	\$4,205,793
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	171,063	0	0	0	171,063
Accounts Receivable	26,364	0	0	1,923	28,287
Intergovernmental Receivable	21,883	0	0	407,799	429,682
Prepaid Items	791	0	0	0	791
Materials and Supplies Inventory	0	0	0	6,156	6,156
Property Taxes Receivable	17,311,532	2,086,926	645,542	169,878	20,213,878
Interfund Receivable	357,451	0	0	0	357,451
<i>Total Assets</i>	<u>\$18,736,653</u>	<u>\$2,631,433</u>	<u>\$2,630,727</u>	<u>\$1,414,288</u>	<u>\$25,413,101</u>
 Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$301,406	\$0	\$55,340	\$35,053	\$391,799
Accrued Wages and Benefits	2,693,341	0	0	246,833	2,940,174
Interfund Payable	0	0	0	357,451	357,451
Matured Compensated Absences Payable	0	0	0	212,644	212,644
Intergovernmental Payable	777,871	0	8,292	59,689	845,852
Deferred Revenue	15,265,518	1,835,465	565,951	481,384	18,148,318
<i>Total Liabilities</i>	<u>19,038,136</u>	<u>1,835,465</u>	<u>629,583</u>	<u>1,393,054</u>	<u>22,896,238</u>
 Fund Balances					
Reserved for Encumbrances	251,947	0	952,308	188,570	1,392,825
Reserved for Property Taxes	1,199,517	180,822	57,222	15,059	1,452,620
Reserved for Budget Stabilization	151,627	0	0	0	151,627
Reserved for Textbooks	19,436	0	0	0	19,436
Unreserved:					
Undesignated (Deficit), Reported in:					
General Fund	(1,924,010)	0	0	0	(1,924,010)
Special Revenue Funds	0	0	0	(206,195)	(206,195)
Debt Service Fund	0	615,146	0	0	615,146
Capital Projects Funds	0	0	991,614	23,800	1,015,414
<i>Total Fund Balances (Deficit)</i>	<u>(301,483)</u>	<u>795,968</u>	<u>2,001,144</u>	<u>21,234</u>	<u>2,516,863</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$18,736,653</u>	<u>\$2,631,433</u>	<u>\$2,630,727</u>	<u>\$1,414,288</u>	<u>\$25,413,101</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, 2003*

Total Governmental Funds Balances	\$2,516,863
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*Amounts reported for governmental activities in the
 statement of net assets are different because*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	28,987,285
--	------------

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. These deferrals are attributed to property taxes and intergovernmental receivable.

Property Taxes	2,218,072
Intergovernmental	332,452

Total	2,550,524
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Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.	(348,166)
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In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(122,030)
--	-----------

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

General Obligation Bonds	(25,738,450)
Compensated Absences	(2,282,847)
Capital Leases	(394,669)

Total	(28,415,966)
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<i>Net Assets of Governmental Activities</i>	\$5,168,510
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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, 2003

	General	Bond Retirement	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Revenues					
Property and Other Local Taxes	\$15,066,075	\$1,494,004	\$468,598	\$123,317	\$17,151,994
Intergovernmental	11,939,935	174,446	42,088	2,679,279	14,835,748
Interest	69,772	0	70,239	0	140,011
Tuition and Fees	170,250	0	0	389,582	559,832
Extracurricular Activities	37,794	0	0	92,379	130,173
Contributions and Donations	1,000	0	0	0	1,000
Rentals	500	0	0	0	500
Miscellaneous	259,518	0	0	26	259,544
<i>Total Revenues</i>	<u>27,544,844</u>	<u>1,668,450</u>	<u>580,925</u>	<u>3,284,583</u>	<u>33,078,802</u>
Expenditures					
Current:					
Instruction:					
Regular	13,833,928	0	0	541,946	14,375,874
Special	3,203,066	0	0	842,467	4,045,533
Vocational	636,514	0	0	0	636,514
Support Services:					
Pupil	1,557,744	0	0	55,114	1,612,858
Instructional Staff	1,472,304	0	0	172,735	1,645,039
Board of Education	30,818	0	0	0	30,818
Administration	3,336,278	0	0	51,906	3,388,184
Fiscal	763,835	13,167	0	1,594	778,596
Business	722,144	0	0	0	722,144
Operation and Maintenance of Plant	3,743,565	0	0	351,199	4,094,764
Pupil Transportation	1,635,292	0	0	40,000	1,675,292
Central	203,530	0	0	1,230	204,760
Operation of Non-Instructional Services	187,823	0	0	183,086	370,909
Operation of Food Services	0	0	0	1,165,776	1,165,776
Extracurricular Activities	180,264	0	0	94,834	275,098
Capital Outlay	1,459	0	8,517,092	27,123	8,545,674
Debt Service:					
Principal Retirement	111,036	538,747	0	0	649,783
Interest and Fiscal Charges	15,238	1,498,345	0	0	1,513,583
<i>Total Expenditures</i>	<u>31,634,838</u>	<u>2,050,259</u>	<u>8,517,092</u>	<u>3,529,010</u>	<u>45,731,199</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(4,089,994)</u>	<u>(381,809)</u>	<u>(7,936,167)</u>	<u>(244,427)</u>	<u>(12,652,397)</u>
Other Financing Sources (Uses)					
Inception of Capital Lease	505,705	0	0	0	505,705
Transfers In	32,340	188,820	0	47,655	268,815
Transfers Out	(236,476)	0	0	(32,339)	(268,815)
<i>Total Other Financing Sources (Uses)</i>	<u>301,569</u>	<u>188,820</u>	<u>0</u>	<u>15,316</u>	<u>505,705</u>
<i>Net Change in Fund Balances</i>	<u>(3,788,425)</u>	<u>(192,989)</u>	<u>(7,936,167)</u>	<u>(229,111)</u>	<u>(12,146,692)</u>
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>3,486,942</u>	<u>988,957</u>	<u>9,937,311</u>	<u>250,345</u>	<u>14,663,555</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$301,483)</u>	<u>\$795,968</u>	<u>\$2,001,144</u>	<u>\$21,234</u>	<u>\$2,516,863</u>

See accompanying notes to the basic financial statements

Warrensville Heights City School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2003*

Net Change in Fund Balances - Total Governmental Funds (\$12,146,692)

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

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

Capital Outlay	9,396,125	
Depreciation	(812,180)	
Total		8,583,945

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

Property Taxes	(210,069)	
Grants	217,398	
Total		7,329

Other financing sources in the governmental funds increase long-term liabilities in the statement of net assets.

Inception of capital lease		(505,705)
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 538,747

Some expenses reported in the statement of activities, such as compensated absences, capital leases and contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	(318,559)	
Capital Leases	111,036	
Pension Obligation	51,949	
Total		(155,574)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 2,625

Change in Net Assets of Governmental Activities (\$3,675,325)

See accompanying notes to the basic financial statements

Warrensville 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, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property and Other Local Taxes	\$17,065,973	\$16,796,355	\$16,636,041	(\$160,314)
Intergovernmental	12,935,165	12,730,808	11,930,758	(800,050)
Interest	70,740	69,622	68,736	(886)
Tuition and Fees	153,269	150,848	149,016	(1,832)
Extracurricular Activities	38,317	37,712	37,794	82
Contributions and Donations	1,016	1,000	1,000	0
Rentals	508	500	500	0
Miscellaneous	183,404	180,518	177,944	(2,574)
<i>Total Revenues</i>	30,448,392	29,967,363	29,001,789	(965,574)
Expenditures				
Current:				
Instruction:				
Regular	14,515,543	14,200,759	13,880,974	319,785
Special	3,179,839	3,110,875	2,995,512	115,363
Vocational	701,708	686,489	661,032	25,457
Support Services:				
Pupils	1,587,853	1,553,416	1,495,810	57,606
Instructional Staff	1,464,108	1,432,354	1,379,237	53,117
Board of Education	42,634	41,709	40,163	1,546
Administration	3,661,694	3,582,281	3,449,437	132,844
Fiscal	823,711	805,845	775,963	29,882
Business	788,111	771,018	742,426	28,592
Operation and Maintenance of Plant	3,836,278	3,753,076	3,613,900	139,176
Pupil Transportation	1,817,380	1,777,963	1,712,031	65,932
Central	208,366	203,844	196,287	7,557
Operation of Non-Instructional Services	203,948	199,523	192,126	7,397
Extracurricular Activities	213,092	208,469	200,741	7,728
Capital Outlay	1,549	1,515	1,459	56
<i>Total Expenditures</i>	33,045,814	32,329,136	31,337,098	992,038
<i>Excess of Revenues Under Expenditures</i>	(2,597,422)	(2,361,773)	(2,335,309)	26,464
Other Financing Sources (Uses)				
Advances In	7,816	7,816	7,816	0
Advances Out	(47,059)	(47,059)	(47,059)	0
Transfers In	32,340	32,340	32,340	0
Transfers Out	(236,475)	(236,475)	(236,476)	(1)
<i>Total Other Financing Sources (Uses)</i>	(243,378)	(243,378)	(243,379)	(1)
<i>Net Change in Fund Balance</i>	(2,840,800)	(2,605,151)	(2,578,688)	26,463
<i>Fund Balance Beginning of Year</i>	2,194,750	2,194,750	2,194,750	0
Prior Year Encumbrances Appropriated	646,050	646,050	646,050	0
<i>Fund Balance End of Year</i>	\$0	\$235,649	\$262,112	\$26,463

See accompanying notes to the basic financial statements.

Warrensville Heights City School District

Statement of Fiduciary Assets and Liabilities

Agency Fund

June 30, 2003

Assets

Equity Pooled in Cash and Cash Equivalents \$50,550

Liabilities

Due to Students \$50,550

See accompanying notes to the basic financial statements

Warrensville Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

Note 1 - Description of the School District and Reporting Entity

Warrensville Heights City School District (the 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 by State statute and federal guidelines. The Board controls the School District's six instructional facilities, staffed by 158 classified employees, 242 certificated full-time teaching personnel and 22 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 2003 fiscal year was 2,863. The School District operated three elementary schools (K-4), one lower middle 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 insure that the financial statements are not misleading. The primary government consists of all funds, departments, boards and agencies 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 of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes. The School District has no 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 16 of the notes to 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 provided they do not conflict 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, 2003

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The 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 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, within certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which governmental function 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. Fiduciary funds are 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 funds:

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

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 energy conservation and school improvements.

Permanent Improvement Fund The permanent improvement fund accounts for a property tax levy used for various capital improvements within the School District.

WarrensVille Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

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 bodies 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 a reconciliation 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. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. 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 when the resources are required to be used or the fiscal year when use is first permitted, matching

Warrensville Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

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, and fees.

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, 2003, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

The 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 the agency fund, 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. Budgetary statements are presented beyond that legal level of control for information purposes only.

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 in effect when the final appropriations were passed by the Board of Education.

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

Warrensville Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

F. Cash and Cash Equivalents

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

During fiscal year 2003, the School District's investments were limited to repurchase agreements, the State Treasury Asset Reserve (STAROhio) and Victory Federal Money Market Mutual Fund.

The mutual fund is reported at fair value which is based on quoted market prices. The repurchase agreements are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2003.

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 2003 amounted to \$69,772, which includes \$32,585 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 other governments, or imposed by enabling legislation. Restricted assets in the general fund include unexpended revenues restricted for the purchase of textbooks and amounts required by State statute to be set aside to create a reserve for budget stabilization. See Note 19 for additional information regarding set-asides.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded 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.

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 materials and supplies held for consumption.

Warrensville Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

J. Capital Assets

All capital assets of the School District are classified as general capital assets. These assets generally result from expenditures in the governmental funds. They are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$1,500. 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:

Description	Governmental Activities Estimated Lives
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 are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activity 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 employees with more than one year of service.

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.

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” on the governmental fund and government-wide financial statements.

Warrensville Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

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, claims and judgments, 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 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 on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes includes food service operations and district-managed student activities.

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

O. Interfund Activity

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.

P. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures.

Warrensville Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

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.

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 - Changes in Accounting Principles and Restatement of Fund Balances/Net Assets

Changes in Accounting Principles For fiscal year 2003, the School District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Differences", and GASB Interpretation No. 6 "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

GASB Statement No. 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. Fiduciary funds are reported by type.

On the government-wide financial statements, the beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the reclassification of funds based on the guidance provided in Statement No. 34, which includes reclassifying enterprise funds as special revenue funds for reporting purposes, and the conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the governments not being able to present budgetary comparisons for the general and each major special revenue fund. The implementation of Statement No. 41 did not effect the presentation of the budgetary statements of the School District.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

Warrensville Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

Restatement of Fund Balance Due to a reappraisal of the District's capital assets and a change in the capitalization threshold the value of the capital assets has been restated. Also, the implementation of these changes had the following effects on fund balance of the major and nonmajor funds of the School District. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	<u>General</u>	<u>Bond Retirement</u>	<u>Permanent Improvement</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balance, June 30, 2002	\$3,478,550	\$988,957	\$9,937,311	\$229,110	\$14,633,928
Fund Reclassification	0	0	0	82,911	82,911
Interpretation 6 Adjustments:					
Compensated Absences Payable	8,392	0	0	(60,516)	(52,124)
Capital Assets Reversal	0	0	0	(1,160)	(1,160)
Restated Fund Balance, June 30 2002	<u>\$3,486,942</u>	<u>\$988,957</u>	<u>\$9,937,311</u>	<u>\$250,345</u>	14,663,555
 <i>GASB 34 Adjustments:</i>					
Capital Assets					20,403,340
Long-Term (Deferred) Assets					2,543,195
Long-Term Liabilities					(28,241,485)
Intergovernmental Payable					(400,115)
Accrued Interest Payable					<u>(124,655)</u>
Governmental Activities Net Assets, June 30, 2002					<u>\$8,843,835</u>

	<u>Business-type Activities</u>
Net Assets, June 30, 2002	(\$82,911)
Fund Reclassification	82,911
Restated Net Assets, June 30, 2002	<u>\$0</u>

Note 4 - Accountability

At June 30, 2003, the following funds had deficit fund balances:

Major Fund	
General Fund	\$301,483
Nonmajor Funds	
Food Service	148,886
Recreation	8,666
Termination Benefits	27,454
Title I	64,638

Warrensville Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

The general fund and special revenue funds deficit balances resulted from the conversion to generally accepted accounting principles and adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, rather than when accruals occur.

Note 5 - Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Unrecorded cash, which consists of unrecorded interest, is not reported by the School District on the budget basis operating statements, but is reported on the GAAP basis operating statements.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement for the general fund.

Net Change in Fund Balance	
GAAP Basis	(\$3,788,425)
Net Adjustment for Revenue Accruals	1,456,559
Unrecorded Cash	386
Advances In	7,816
Net Adjustment for Expenditure Accruals	465,946
Advances Out	(47,059)
Adjustment for Encumbrances	(673,911)
Budget Basis	<u><u>(\$2,578,688)</u></u>

Warrensville Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

Note 6 - Deposits and Investments

State statutes classify monies held by the School District into three categories.

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

Inactive deposits are public deposits that the Board of Education 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.

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

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);

Warrensville Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits At fiscal year end, the carrying amount of the School District's deposits was \$2,075,114 and the bank balance was \$2,689,219. Of the bank balance:

1. \$200,000 was covered by depository insurance; and
2. \$2,489,219 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution the pledging institution's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Investments Investments are required to be categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. STAROhio and the Victory Federal Money Market Mutual Fund are unclassified investments since it is not evidenced by securities that exist in physical or book entry form.

	Category 3	Carrying and Fair Value
Repurchase Agreements	\$598,634	\$598,634
STAROhio	0	416,528
Victory Federal Money Market Mutual Fund	0	1,337,130
	<u>\$598,634</u>	<u>\$2,352,292</u>

Warrensville Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$4,427,406	\$0
Investments of the Cash Management Pool:		
Repurchase Agreements	(598,634)	598,634
STAROhio	(416,528)	416,528
Victory Federal Money Market Mutual Fund	(1,337,130)	1,337,130
GASB Statement No. 3	<u>\$2,075,114</u>	<u>\$2,352,292</u>

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property are established by State law at thirty-five percent of appraised market value. Real property 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 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 become a lien December 31, 2002, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, 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.

Warrensville Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

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, 2003, are available to finance fiscal year 2003 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, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed settlement of personal property tax and the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations 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, 2003 was \$1,199,517 in the general fund, \$180,822 in the bond retirement debt service fund, \$57,222 in the permanent improvement capital projects fund and \$15,059 in the recreation special revenue fund. The amount available as an advance at June 30, 2002, was \$2,749,958 in the general fund, \$379,814 in the bond retirement debt service fund, \$40,593 in the permanent improvement capital projects fund and \$10,682 in the recreation special revenue fund. The difference was in timing and collection by the County Auditor.

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

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	Amount	Percent	Amount	Percent
Residential/Agricultural				
Other Real Estate	\$279,423,320	79.90 %	\$279,423,320	79.90 %
Public Utility Personal	15,269,550	4.37	15,269,550	4.37
Tangible Personal Property	55,009,331	15.73	55,009,331	15.73
Total	<u>\$349,702,201</u>	<u>100.00 %</u>	<u>\$349,702,201</u>	<u>100.00 %</u>
Tax rate per \$1,000 of assessed valuation	\$80.50		\$79.90	

Note 8 - Receivables

Receivables at June 30, 2003, consisted of taxes, accounts (student fees and rent), 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 year guarantee of federal funds. All receivables are expected to be collected within one year.

Warrensville Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

A summary of principal items of intergovernmental receivables follows:

Governmental Activities	Amount
Tuition	\$10,307
Auditor of State	11,576
Federal Lunch Subsidy	75,347
Title VI-B Grants and Subsidies	49,640
Title I Grants and Subsidies	156,466
Title V Grants and Subsidies	17,465
Drug Free Schools Grants and Subsidies	9,244
Class Size Reduction Grants and Subsidies	87,021
Miscellaneous Federal Grants and Subsidies	12,616
Total	\$429,682

Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Restated Balance 6/30/03	Additions	Deletions	Balance 6/30/04
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$414,153	\$0	\$0	\$414,153
Construction in Progress	13,242,491	0	(13,242,491)	0
Total Capital Assets, not being depreciated	13,656,644	0	(13,242,491)	414,153
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	14,327,135	22,110,678	0	36,437,813
Furniture, Fixtures and Equipment	1,349,035	503,638	0	1,852,673
Vehicles	946,712	24,300	(120,938)	850,074
Total Capital Assets, being depreciated	16,622,882	22,638,616	(120,938)	39,140,560
Less Accumulated Depreciation:				
Buildings and Improvements	(8,559,360)	(661,257)	0	(9,220,617)
Furniture, Fixtures and Equipment	(988,634)	(82,293)	0	(1,070,927)
Vehicles	(328,192)	(68,630)	120,938	(275,884)
Total Accumulated Depreciation	(9,876,186)	(812,180) *	120,938	(10,567,428)
Total Capital Assets, being depreciated, net	6,746,696	21,826,436	0	28,573,132
Governmental Activities Capital Assets, Net	\$20,403,340	\$21,826,436	(\$13,242,491)	\$28,987,285

Warrensville Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

* Depreciation expense was charged to governmental functions as follows:

Instruction	
Regular	\$650,409
Special	1,435
Vocational	1,291
Support Services:	
Pupil	2,177
Instructional Staff	8,694
Board of Education	2,002
Administration	29,110
Fiscal	2,435
Business	3,122
Operation and Maintenance of Plant	9,247
Pupil Transportation	68,720
Food Service Operations	32,040
Extracurricular Activities	1,498
Total Depreciation Expense	<u><u>\$812,180</u></u>

Note 10 - Risk Management

A. Property and Liability

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. During fiscal year 2003, the School District contracted with several carriers for property and general liability insurance, and boiler and machinery.

Warrensville Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

<u>Company</u>	<u>Type of Coverage</u>	<u>Coverage</u>
Indiana Insurance Company	Property (\$5,000 deductible)	\$65,495,950
	Inland Marine (\$250 deductible)	1,416,928
	Crime (\$250 deductible)	30,000
	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
in aggregate	10,000,000	
Travelers Insurance Company	Boiler (\$1,000 deductible)	30,000,000
Ohio Casualty Insurance Company	Blanket Employee Dishonesty (\$1,000 deductible)	250,000

Settled claims have not exceeded this coverage in any of the last three fiscal years. There have been no significant reductions in coverage from last year.

B. Worker's Compensation

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

Note 11 - Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined 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 E. Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 9 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 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations; for fiscal year 2002, 5.46 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$393,080, \$273,233, and \$188,770, respectively; 42.31 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001.

Warrensville Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

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 publicly available, stand alone financial report that may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

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

A DB or Combined Plan member with five or more years 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, 2003 plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$2,043,073, \$1,432,545, and \$1,306,096, respectively; which represents 100 percent for these fiscal years. Contributions to the DC and Combined Plans for fiscal year 2003 were \$6,443 made by the School District and \$14,299 made by the plan members.

C. Social Security System

Effective July 1, 1991, 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 SERS/STRS of Ohio. As of June 30, 2003, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Warrensville Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

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-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS Ohio benefit recipients and sponsored 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. Most benefit recipients pay a portion of 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, 2003, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District this amount equaled \$157,159 for fiscal year 2003.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2003, the balance in the Fund was \$2.8 billion. For the year ended June 30, 2003, net health care costs paid by STRS Ohio were \$352,301,000 and STRS Ohio had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. 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 2003, the minimum pay has been established as \$14,500. For the School District, the amount to fund health care benefits, including surcharge, during the 2003 fiscal year equaled \$366,981.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003, were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003 SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving 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.

Warrensville Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

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

In addition to severance benefits and STRS pension benefits, the certified employees will be offered a special termination benefit. To receive this benefit, the employee must retire within the first three years of being eligible to retire. Those who retire within the first year will receive twenty-five percent of their final annual salary. If the employee retires within two years, the employee will receive fifteen percent and if the employee retires within three years, the employee will receive ten percent. The benefit is paid in the next calendar year following the year of retirement.

Note 14 - Long Term Obligations

The original issue date, interest rate, original issue amount and date of maturity of each of the School District's long-term obligations follows:

Debt Issue	Original Issue Date	Original Issue Amount	Interest Rate	Date of Maturity
General Obligation Bonds:				
Energy Conservation	May 18, 1995	\$1,300,000	6.05%	April 18, 2005
School Improvement	May 2, 2000	26,100,000	4.44%	December 1, 2024

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

	Principal Outstanding 6/30/02	Additions	Retired	Principal Outstanding 6/30/03	Amount Due in One Year
Governmental Activities:					
General Obligations Bonds:					
Energy Conservation	\$452,197	\$0	(\$163,747)	\$288,450	\$147,214
School Improvement	25,825,000	0	(375,000)	25,450,000	425,000
<i>Total General Obligation Bonds</i>	<u>26,277,197</u>	<u>0</u>	<u>(538,747)</u>	<u>25,738,450</u>	<u>572,214</u>
Capital Leases	0	505,705	(111,036)	394,669	84,734
Compensated Absences	1,961,155	436,502	(114,810)	2,282,847	634,694
Total Governmental Activities	<u>\$28,238,352</u>	<u>\$942,207</u>	<u>(\$764,593)</u>	<u>\$28,415,966</u>	<u>\$1,291,642</u>

Warrensville Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

On May 18, 1995, the School District issued \$1,300,000 in general obligation bonds for the purpose of providing energy conservation measures for the School District, under the authority of Ohio Revised Code, Section 133.06(G). The bonds were issued for a ten year period with a final maturity during fiscal year 2005. The bonds will be retired out of the debt service fund.

On May 2, 2000, the School District issued \$26,100,000 in general obligation bonds for the purpose of school improvements. The bonds were issued for a twenty-five year period with a final maturity during fiscal year 2025. The bonds will be retired out of the debt service fund.

Compensated absences will be paid from the governmental fund from which the employee's salaries are paid. Compensated absences are paid from the general fund and the food service, recreation, DPIA, Title VI-B and Title I special revenue funds.

The overall debt margin of the School District as of June 30, 2003, was \$6,530,716 with an unvoted debt margin of \$349,702. Principal and interest requirements to retire energy conservation and school improvement bonds outstanding at June 30, 2003, are as follows:

	General Obligation Bonds	
	Principal	Interest
2004	\$572,214	\$1,466,618
2005	616,236	1,436,361
2006	550,000	1,407,612
2007	600,000	1,379,575
2008	675,000	1,348,169
2009-2013	4,500,000	6,084,806
2014-2018	6,125,000	4,384,625
2019-2023	8,150,000	2,352,969
2024-2025	3,950,000	230,000
Total	<u>\$25,738,450</u>	<u>\$20,090,735</u>

Note 15 - Capital Leases - Lessee Disclosure

During fiscal year 2003, the School District has entered into capital lease agreements for a phone and computer system. The School District's lease obligations meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases." Capital lease payments are reflected as debt service expenditures in the general fund on the basic financial statements.

Capital assets acquired by lease have been capitalized as follows:

Governmental Activities:

Capital Assets, being depreciated:

Furniture, Fixtures and Equipment \$505,705

Less Accumulated Depreciation:

Furniture, Fixtures and Equipment (50,470)

Governmental Activities Capital Assets, Net \$455,235

Warrensville Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2003.

Fiscal Year Ending June, 30,	Governmental Activities
2004	\$102,248
2005	102,248
2006	70,670
2007	54,647
2008	54,647
2009-2010	63,755
Total	448,215
Less: Amount Representing Interest	(53,546)
Present Value of Net Minimum Lease Payments	\$394,669

Note 16 - Jointly Governed Organizations

A. Lake Geauga Educational Computer Association

The Lake Geauga Educational 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 School District contributed \$103,612 to LGCA during the fiscal year 2003.

The Governing Board consists of the superintendents and treasurers of the member school districts and the educational service center. The degree of control exercised by any participant is limited to its representation on the Governing Board. The Board exercises total control over the operation of the organization including budgeting, appropriating, contracting and designating management. A copy of LGCA's financial statements may be obtained by contacting the Lake Geauga Educational Computer Association at 8140 Auburn Road, Painesville, Ohio 44077.

B. Ohio Schools Council

The Ohio Schools Council Association (Council) is a jointly governed organization among ninety-one school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2003, the School District paid \$750 to the Council. Financial information can be obtained by contacting Dr. David A. Cottrell, the Executive Secretary/Treasurer of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

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

Warrensville Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

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 districts will commit to participating for a twelve year period. The participants make monthly payments based on estimated usage. Each month these estimated payments are compared to their actual usage and any necessary adjustments are made.

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

Note 17 - Contingencies

A. Grants

The School District received financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2003.

B. Litigation

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

Warrensville Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

Note 18 - Interfund Balances

The School District transferred the following amounts to various funds during fiscal year 2003.

Transfers In	Transfers Out			Total
	Major	Nonmajor		
	General Fund	Uniform School Supplies	Cleveland State University Grant	
Major Fund				
General Fund	\$0	\$30,860	\$1,479	\$32,339
Bond Retirement	188,820	0	0	188,820
Nonmajor Governmental Fund				
Recreation	47,656	0	0	47,656
<i>Total Governmental Activities</i>	<u>\$236,476</u>	<u>\$30,860</u>	<u>\$1,479</u>	<u>\$268,815</u>

The general fund transfers to the recreation special revenue fund and the bond retirement fund were made to move unrestricted balances to support programs and projects accounted for in other funds and to cover debt service payments. The transfer from the recreation special revenue fund to the general fund was made to cover expenses that were originally paid out of the general fund.

Interfund balances at June 30, 2003, consist of the following individual fund receivables and payables:

Interfund Payable	Interfund Receivable
	General Fund
Governmental Activities	
Non-Major Funds	
Food Service	\$235,000
Recreation	70,000
Venture Capital	5,000
Athletics and Music	63
Alternative Schools	392
Title I	25,596
Drug Free Schools	9,244
Title VI-R	3,700
Miscellaneous Federal Grants	8,456
<i>Total Governmental Activities</i>	<u>\$357,451</u>

The interfund payables are advances for grant monies that were not received by fiscal year end and to cover negative cash balances. The School District expects to receive the grant monies within the next fiscal year.

Warrensville Heights City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 19 - Set Asides

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by fiscal year end or offset by similarly restricted resources received during the 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. At June 30, 2003, only the unspent portion of certain worker's compensation refunds continues to be required to be set aside.

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

	Textbooks Instructional Materials Reserve	Capital Improvement Reserve	Budget Stabilization Reserve
Set-aside Reserve Balances as of June 30, 2002	\$279,829	\$0	\$151,627
Current Year Set-aside Requirement	433,488	433,488	0
Current Year Offsets	0	(494,573)	0
Qualifying Disbursements	(693,881)	(74,598)	0
Totals	<u>\$19,436</u>	<u>(\$135,683)</u>	<u>\$151,627</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$19,436</u>	<u>\$0</u>	<u>\$151,627</u>
Set-aside Reserve Balances as of June 30, 2003	<u>\$19,436</u>	<u>\$0</u>	<u>\$151,627</u>

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

Note 20 - State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

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**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Federal Grantor Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Receipts	Federal Non-Cash Receipts	Federal Expenditures	Federal Non-Cash Expenditures
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through State Department of Education:</i>						
Special Education Cluster:						
Title VI-B	84.027	6B-SF 02P	\$ 63,209	\$ 0	\$ 69,336	\$ 0
Title VI-B	84.027	6B-SF 03P	245,713	0	200,029	0
Total Title VI-B			308,922	0	269,365	0
Preschool Grant	84.173	PG-S1 01P	(135)	0	147	0
Preschool Grant	84.173	PG-S1 02P	0	0	2,897	0
Preschool Grant	84.173	PG-S1 03P	7,542	0	4,680	0
Preschool Grant	84.173	PG-SC 02P	0	0	3,201	0
Total Preschool Grant			7,407	0	10,925	0
Total Special Education Cluster			316,329	0	280,290	0
Title I	84.010	C1-S1 02	103,875	0	163,362	0
Title I	84.010	C1-S1 03	412,170	0	390,821	0
Total Title I			516,045	0	554,183	0
Title VI (Innovative Ed)	84.298	C2-S1 01	13,435	0	10,435	0
Title VI (Innovative Ed)	84.298	C2-S1 03	4,226	0	5,674	0
Total Title VI (Innovative Ed)			17,661	0	16,109	0
Safe and Drug Free Schools	84.186	DR-S1 01	0	0	13,075	0
Safe and Drug Free Schools	84.186	DR-S1 02	7,500	0	1,627	0
Safe and Drug Free Schools	84.186	DR-S1 03	7,615	0	7,005	0
Total Safe and Drug Free Schools			15,115	0	21,707	0
Class Size Reduction Grant	84.340	CR-S1 01	0	0	(12,189)	0
Class Size Reduction Grant	84.340	CR-S1 02	21,868	0	17,736	0
Total Class Size Reduction Grant			21,868	0	5,547	0
Goals 2000 Adult Continuing Education Instruction	84.336	QE-S1 02	0	0	4,359	0
Local Professional Development Grant	84.336	QE-S1 02	7,500	0	9,711	0
Total Special Education - Local Professional Development Grant			7,500	0	14,070	0
Technology Grant	84.318	TJ-S1 03	2,802	0	0	0
Teacher Quality Enhancement Grant	84.367	TR-S1 03	80,145	0	61,449	0
Assistive Technology Infusion (ATIP)	84.352A	ATS2 02	3,742	0	0	0
Assistive Technology Infusion (ATIP)	84.352A	ATS3 02	960	0	0	0
Total Assistive Technology Infusion (ATIP)			4,702	0	0	0
TOTAL U.S. DEPARTMENT OF EDUCATION			982,167	0	953,355	0
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through State Department of Education:</i>						
Nutrition Cluster:						
Food Distribution	10.550	N/A	0	41,057	0	30,081
School Breakfast Program	10.553	05-PU 02	22,317	0	22,317	0
School Breakfast Program	10.553	05-PU 03	74,474	0	74,474	0
Total School Breakfast Program			96,791	0	96,791	0
National School Lunch Program	10.555	LL-P4-02	123,324	0	123,324	0
National School Lunch Program	10.555	LL-P4-03	369,863	0	369,863	0
Total National School Lunch Program			493,187	0	493,187	0
Special Milk Program for Children	10.556	02-PU 02	1,515	0	1,515	0
TOTAL U.S. DEPARTMENT OF AGRICULTURE - Nutrition Cluster			591,493	41,057	591,493	30,081
TOTAL FEDERAL ASSISTANCE			\$ 1,573,660	\$ 41,057	\$ 1,544,848	\$ 30,081

The accompanying notes are an integral part of this schedule

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B--FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2003, the District had no significant food commodities in inventory



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

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, Ohio, (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated December 9, 2004, wherein we noted the District adopted Governmental Accounting Standards Board (GASB) Statements No. 34, 37, 38, and GASB Interpretation No. 6. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2003-001. We also noted certain immaterial instances of noncompliance that we have reported to the District's management in a separate letter dated December 9, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the District's management in a separate letter dated December 9, 2004.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

Warrensville Heights City School District
Cuyahoga County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

December 9, 2004



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

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 are applicable to its major federal program for the year ended June 30, 2003. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. 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 contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that 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.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. We noted an instance of noncompliance that does not require inclusion in this report that we have reported to management of the District in a separate letter dated December 9, 2004.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on 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.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. A reportable condition is described in the accompanying schedule of findings as item 2003-002.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

December 9, 2004

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Nutrition Cluster: CFDA# 10.550 – Food Distribution 10.553 – School Breakfast Program 10.555 – National School Lunch Program 10.556 – Special Milk Program for Children
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)**

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

Finding Number	2003-001
----------------	----------

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

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

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

Amounts of less than \$3,000 (\$1,000 prior to April 7, 2003) may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Board of Education.

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. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) 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 Board of Education 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.

A test of 56 expenditures disclosed 8 instances (14%) in which the purchase order attached to the certificate was dated after the invoice date and the instances noted did not fall within any exceptions to this Section. As a result, the District did not record a reservation of the applicable appropriation (encumber) at the time a commitment for the expenditure of funds was made and encumbrances were understated at year end. Failure to encumber commitments could result in deficit fund balances and overspending funds.

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)**

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

Finding Number	2003-001
----------------	----------

(Continued)

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 Board of Education's funds exceeding budgetary spending limitations, we recommend the Treasurer certify that funds are or will be available prior to obligation by the Board of Education. When prior certification is not possible, "then and now" certification should be used.

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

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2003-002
CFDA Title and Number	Nutrition Cluster (CFDA # 10.550, 10.553, 10.555, 10.556)
Federal Award Number / Year	2003
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

The District operates several cafeterias within its schools and provides the federally subsidized free and reduced lunch/milk to its students. A review of the operations disclosed the following:

- Free and reduced lunch/milk applications are utilized to determine the eligibility of students. District procedures require that the Business Manager review the application and sign it to indicate his review and approval. A test of 60 applications disclosed 11 instances in which the application was not signed by the Business Manager.
- The District has not established formal procedures on the application and verification process for free and reduced price meals. Procedures have also not been established on the preparation and reporting of inventory and government donated commodities.
- The District could not locate documentation that reconciles the daily inventory sheets to the site claim forms.
- There were several mathematical errors in the site claim forms.
- Incorrect individual school amounts were posted to the site claim forms.
- Cash register receipts for food sales could not be located for several months.
- The District does not have procedures for periodic inventory counts which are signed by the employees conducting the counts.
- In February 2003, the District purchased a new computer system, however, the employees are not familiar with its capabilities.

WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)

3. FINDINGS FOR FEDERAL AWARDS (Continued)
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Finding Number	2003-002
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These weaknesses may result in food service goods not being properly accounted for, safeguarded and reported. This may also result in students participating in the federal programs which are not eligible.

We recommend that formal policies and procedures be formulated governing the accounting, reporting and safeguarding of food service items and records. The procedures should include requiring that the Business Manager sign the free and reduced lunch/milk applications after his review and approval/disapproval of the application. Training should also be provided to employees on the utilization and capabilities of the new computer system.

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected ?</u>	<u>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</u>
2002-001	Treasurer did not certify the availability of funds prior to entering into an obligation, contrary to Ohio Rev. Code § 5705.41(D).	No	Repeated, see item 2003-001 of the June 30, 2003 audit report.
2002-002	Several funds had expenditures plus encumbrances in excess of appropriations, contrary to Ohio Rev. Code § 5705.41(B)(D).	Yes	
2002-003	Two funds had appropriations in excess of estimated revenues, contrary to Ohio Rev. Code § 5705.39.	Yes	
2002-004	The District could not locate documentation indicating they had performed the required audit of a sample of applications that it has approved for free or reduced price meals. 7 CRF Section 245.6 requires that by December 15 of each school year an annual audit of applications be performed.	Partially	While the required audit of applications was performed it was not completed until February of 2003. Reissued in management letter.
2002-005	During a test of 60 applications for free and reduced lunch/milk, ten were not signed by the Business Manager and eight did not have the letter to the parent/guardian indicating eligibility and/or approval.	No	Partially repeated, see item 2003-002 of the June 30, 2003 audit report where it is noted that a test of 60 applications disclosed 11 instances where the application was not signed by the Business Manager.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**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 1, 2005**