



**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2004



**Auditor of State
Betty Montgomery**

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Warrensville Heights City School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Warrensville Heights City School District, Cuyahoga County, Ohio, as of June 30, 2004, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the District restated net assets in the governmental activities due to capital assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The schedule of federal awards receipts and expenditures 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 schedule of federal awards receipts and expenditures 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

April 27, 2006

Warrensville Heights City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(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, 2004. 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 2004 are as follows:

- In total, net assets decreased \$1,994,292, which represents a 36.24 percent decrease from 2003.
- General revenues accounted for \$29,846,894, or 88.41 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 \$3,201,409 or 9.48 percent of total revenues of \$33,760,665.
- Total assets of governmental activities decreased by \$4,164,394 as cash and cash equivalents and investments decreased by \$2,992,780, receivables decreased by \$1,279,514, and capital assets increased by \$82,870.
- The School District had \$35,754,957 in expenses; only \$3,201,409 of these expenses were offset by program specific charges for services, grants, interest, or contributions. General revenues (primarily taxes and grants and entitlements) of \$29,846,894 and cash on hand were available to provide for these programs.
- The general fund had \$27,506,960 in revenues and \$29,190,196 in expenditures. The general fund's ending balance decreased \$1,205,097 from 2003. 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, 2004
(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 2004?" 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 13. 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 and bond retirement 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, 2004
(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 2004 compared to 2003:

	Table 1	
	Net Assets	
	2004	2003 (Restated)
Assets		
Current and Other Assets	\$ 20,808,386	\$ 25,055,650
Capital Assets, Net	29,404,351	29,321,481
<i>Total Assets</i>	<i>50,212,737</i>	<i>54,377,131</i>
Liabilities		
Current Liabilities	19,109,711	20,458,459
Long Term Liabilities:		
Due within One Year	973,365	1,291,642
Due in More than One Year	26,621,247	27,124,324
<i>Total Liabilities</i>	<i>46,704,323</i>	<i>48,874,425</i>
Net Assets		
Invested in Capital Assets, Net of Related Debt	3,928,180	3,188,362
Restricted For:		
Capital Projects	815,294	2,112,319
Debt Service	1,175,137	950,044
Other Purposes	138,115	447,899
Unrestricted (Deficit)	(2,548,312)	(1,195,918)
<i>Total</i>	<i>\$ 3,508,414</i>	<i>\$ 5,502,706</i>

Total governmental assets decreased by \$4,164,394 as cash and cash equivalents decreased by \$2,992,780, receivables decreased by \$1,279,514 capital assets increased by \$82,870. Factors contributing to the declining cash balance trend include the March 2004 State reduction in foundation aid, and increased community (charter) school tuition expenses. Receivables decreased due to declining personal property taxes collections. 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 \$1,353,394.

Warrensville Heights City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

Table 2 shows the changes in net assets for fiscal year 2004.

	2004	2003 (Restated)
Revenue		
Program Revenues:		
Charges for Services and Sales	\$ 498,267	\$ 690,505
Operating Grants, Interest and Contributions	2,607,332	4,221,004
Capital Grants and Contributions	95,810	72,703
Total Program Revenues	3,201,409	4,984,212
General Revenues:		
Property Taxes	20,637,187	16,941,925
Grants and Entitlements	9,178,812	10,760,439
Investments	23,868	140,011
Miscellaneous	7,027	259,544
Total General Revenues	29,846,894	28,101,919
Gain on the Sale of Fixed Assets	712,362	-
Total Revenues	33,760,665	33,086,131
Program Expenses		
Instruction:		
Regular	13,961,654	14,703,763
Special	3,472,972	3,894,164
Vocational	374,097	647,530
Adult	1,763	-
Other	199,338	-
Support Services:		
Pupil	1,462,200	1,634,958
Instructional Staff	1,924,873	1,622,427
Board of Education	68,526	-
Administration	3,339,199	3,366,951
Fiscal	1,233,830	764,651
Business	699,969	715,553
Operation and Maintenance of Plant	4,031,042	3,799,290
Pupil Transportation	1,549,908	1,784,565
Central	550,273	204,665
Operation of Non-Instructional Services	913,473	371,560
Food Service Operations	-	1,130,962
Extracurricular Activities	490,377	275,263
Interest and Fiscal Charges	1,481,463	1,510,958
Total Program Expenses	35,754,957	36,427,260
Decrease in Net Assets	(1,994,292)	(3,341,129)
Net Assets Beginning of Year	5,502,706	8,843,835
Net Assets End of Year	\$ 3,508,414	\$ 5,502,706

Warrensville Heights City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(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 61.13 percent of revenues for governmental activities for the Warrensville Heights City School District for fiscal year 2004.

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.

Table 3
Statement of Activities

	2004		2003 (Restated)	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Governmental Activities				
Instruction:				
Regular	\$ 13,961,654	\$ (12,365,989)	\$ 14,703,763	\$ (14,084,086)
Special	3,472,972	(2,799,083)	3,894,164	(1,922,450)
Vocational	374,097	(374,097)	647,530	(634,949)
Adult/Continuing	1,763	(1,763)	-	-
Other	199,338	(199,338)	-	-
Support Services:				
Pupil	1,462,200	(1,433,548)	1,634,958	(1,566,907)
Instructional Staff	1,924,873	(1,924,873)	1,622,427	(1,383,793)
Board of Education	68,526	(68,526)	-	-
Administration	3,339,199	(3,339,199)	3,366,951	(3,321,696)
Fiscal	1,233,830	(1,233,830)	764,651	(764,651)
Business	699,969	(699,969)	715,553	(689,189)
Operation and Maintenance of Plant	4,031,042	(3,967,115)	3,799,290	(3,286,965)
Pupil Transportation	1,549,908	(1,206,578)	1,784,565	(1,387,727)
Central	550,273	(550,273)	204,665	(193,036)
Operation of Non-Instructional Services	913,473	(511,893)	371,560	(348,737)
Food Service Operations	-	-	1,130,962	(199,049)
Extracurricular Activities	490,377	(396,011)	275,263	(148,855)
Interest and Fiscal Charges	1,481,463	(1,481,463)	1,510,958	(1,510,958)
Total	\$ 35,754,957	\$ (32,553,548)	\$ 36,427,260	\$ (31,443,048)

Warrensville Heights City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(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. Program Revenues support 11.43 percent of instruction activities. The remaining 88.57 percent of instructional activities is supported through taxes and other general revenues. Program Revenues support 7.37 percent of all other activities and the remaining 92.63 percent is supported through taxes and other general revenues. The community, as a whole, is the primary support for the Warrensville Heights City School District.

The School District's Funds

Information about the School District's major funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. The general fund had total revenues of \$27,506,960 and expenditures of \$29,190,196. The net change in fund balance for the year in the general fund was a decrease of \$1,205,097. This is the fifth year in a row that the general fund balance has decreased.

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 2004 fiscal year, the School District amended its general fund budget numerous times. For the general fund, the final budget basis revenue was \$27,715,613 representing a \$835,283 decrease from the original budget estimates of \$28,550,896.

The final budgeted expenditures totaled \$30,172,545 compared to original estimates of \$30,125,635. Actual budget basis expenditures of \$30,170,562 were \$1,983 lower than the final budgeted expenditures. The School District's unencumbered cash balance totaled \$(137,457), which was higher than that originally budgeted.

Warrensville Heights City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

Capital Assets

At the end of the fiscal year 2004, the School District had \$29,404,351 invested in land, land improvements, buildings and improvements, furniture, fixtures and equipment, and vehicles. Table 4 shows fiscal year 2004 balances compared to fiscal year 2003.

Table 4
Capital Assets
(Net of Depreciation)

	2004	2003 (Restated)
Land	\$ 414,153	\$ 414,153
Buildings	27,334,692	27,217,196
Furniture, Fixtures and Equipment	1,255,964	1,236,881
Vehicles	399,542	453,251
Total Capital Assets	<u>\$ 29,404,351</u>	<u>\$ 29,321,481</u>

Overall capital assets increased \$82,870 from fiscal year 2003 to fiscal year 2004. 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 2004. For more information on capital assets, see Note 9 of the Basic Financial Statements.

Debt Administration

At June 30, 2004, the School District had outstanding general obligation debt in the amount of \$25,166,236. This debt includes the school improvement bonded debt in the amount of \$25,025,000 that was approved by voters in November 2000, and energy conservation bonds in the amount of \$141,236. At June 30, 2004, the School District's overall legal debt margin was \$7,887,333, and the unvoted debt margin was \$356,073. 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.

Warrensville Heights City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

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 2004, \$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.

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 Brent Delman, Treasurer at Warrensville Heights City School District, 4500 Warrensville Center Road, Warrensville Heights, OH 44128.

Warrensville Heights City School District
Statement of Net Assets
June 30, 2004

		Governmental Activities
Assets		
Equity in Pooled Cash and Investments	\$	1,384,076
Receivables:		
Taxes		19,264,811
Accounts		600
Intergovernmental		126,922
Inventory Held for Resale		27,851
Materials and Supplies Inventory		4,126
Nondepreciable Capital Assets		414,153
Depreciable Capital Assets, Net		28,990,198
 <i>Total Assets</i>	 \$	 <u>50,212,737</u>
Liabilities		
Accrued Wages	\$	2,816,135
Compensated Absences Payable		88,173
Pension Obligation Payable		1,169,085
Intergovernmental Payable		192,784
Deferred Revenue		14,724,171
Accrued Interest Payable		119,363
Long-Term Liabilities:		
Due Within One Year		973,365
Due Within More Than One Year		26,621,247
 <i>Total Liabilities</i>	 \$	 <u>46,704,323</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	\$	3,928,180
Restricted for:		
Capital Projects		815,294
Debt Service		1,175,137
Other Purposes		138,115
Unrestricted (Deficit)		(2,548,312)
 <i>Total Net Assets</i>	 \$	 <u><u>3,508,414</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, 2004

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$ 13,961,654	\$ 166,608	\$ 1,337,775	\$ 91,282	\$ (12,365,989)
Special	3,472,972	-	673,889	-	(2,799,083)
Vocational	374,097	-	-	-	(374,097)
Adult/Continuing	1,763	-	-	-	(1,763)
Other	199,338	-	-	-	(199,338)
Support Services:					
Pupils	1,462,200	-	28,652	-	(1,433,548)
Instructional Staff	1,924,873	-	-	-	(1,924,873)
Board of Education	68,526	-	-	-	(68,526)
Administration	3,339,199	-	-	-	(3,339,199)
Fiscal	1,233,830	-	-	-	(1,233,830)
Business	699,969	-	-	-	(699,969)
Operation and Maintenance of Plant	4,031,042	-	59,399	4,528	(3,967,115)
Pupil Transportation	1,549,908	-	343,330	-	(1,206,578)
Central	550,273	-	-	-	(550,273)
Operation of Non-Instructional Services	913,473	237,293	164,287	-	(511,893)
Extracurricular Activities	490,377	94,366	-	-	(396,011)
Interest and Fiscal Charges	1,481,463	-	-	-	(1,481,463)
<i>Total Governmental Activities</i>	<u>35,754,957</u>	<u>498,267</u>	<u>2,607,332</u>	<u>95,810</u>	<u>(32,553,548)</u>
<i>Totals</i>	<u>\$ 35,754,957</u>	<u>\$ 498,267</u>	<u>\$ 2,607,332</u>	<u>\$ 95,810</u>	<u>\$ (32,553,548)</u>
General Revenues					
Property Taxes Levied for:					
General Purposes					\$ 17,968,654
Special Purposes					153,493
Debt Service					1,931,768
Capital Purposes					583,272
Grants and Entitlements not Restricted to Specific Programs					9,178,812
Investment Earnings					23,868
Miscellaneous					7,027
<i>Total General Revenues</i>					<u>29,846,894</u>
Gain on the Sale of Fixed Assets					712,362
Changes in Net Assets					(1,994,292)
<i>Net Assets Beginning of Year, restated (See Note 3)</i>					<u>5,502,706</u>
<i>Net Assets End of Year</i>					<u>\$ 3,508,414</u>

See accompanying notes to the basic financial statements

Warrensville Heights City School District
Balance Sheet
Governmental Funds
June 30, 2004

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Investments	\$ (127,986)	\$ 689,711	\$ 822,351	\$ 1,384,076
Receivables:				
Taxes	16,661,985	1,875,957	726,869	19,264,811
Accounts	600	-	-	600
Intergovernmental	-	-	126,922	126,922
Interfund Receivables	310,898	-	-	310,898
Inventory Held for Resale	-	-	27,851	27,851
Materials and Supplies Inventory	-	-	4,126	4,126
	Total Assets	2,565,668	1,708,119	21,119,284
	16,845,497	2,565,668	1,708,119	21,119,284
Liabilities				
Accrued Wages and Benefits	2,487,699	-	328,436	2,816,135
Compensated Absences Payable	-	-	88,173	88,173
Pension Obligation Payable	973,989	-	195,096	1,169,085
Interfund Payable	-	-	310,898	310,898
Intergovernmental Payable	192,334	-	450	192,784
Deferred Revenue	14,698,055	1,558,684	668,456	16,925,195
	Total Liabilities	1,558,684	1,591,509	21,502,270
	18,352,077	1,558,684	1,591,509	21,502,270
Fund Balances				
Reserved for:				
Encumbrances	743,609	-	346,400	1,090,009
Textbooks	80,106	-	-	80,106
Property Taxes	1,963,930	317,237	115,103	2,396,270
Budget Account	151,627	-	-	151,627
Undesignated, Reported in:				
General Fund	(4,445,852)	-	-	(4,445,852)
Special Revenue Funds	-	-	(814,373)	(814,373)
Debt Service Funds	-	689,747	-	689,747
Capital Projects Funds	-	-	469,480	469,480
	Total Fund Balances	1,006,984	116,610	(382,986)
	(1,506,580)	1,006,984	116,610	(382,986)
Total Liabilities and Fund Balances	\$ 16,845,497	\$ 2,565,668	\$ 1,708,119	\$ 21,119,284
	\$ 16,845,497	\$ 2,565,668	\$ 1,708,119	\$ 21,119,284

See accompany 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, 2004*

Total Governmental Fund Balances		\$ (382,986)
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		29,404,351
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	2,201,024	
Total		2,201,024
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(119,363)
Long-term liabilities, including bonds, notes payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated Absences	(2,118,441)	
Capital Leases Payable	(309,935)	
General Obligation Bonds Payable	(25,166,236)	
Total		(27,594,612)
 <i>Net Assets of Governmental Activities</i>		 \$ 3,508,414

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, 2004

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 16,161,719	\$ 1,920,358	\$ 740,560	\$ 18,822,637
Intergovernmental	11,143,470	193,211	2,709,323	14,046,004
Interest	12,859	7,638	3,371	23,868
Tuition	148,864	-	-	148,864
Extracurricular Activities	32,863	-	61,503	94,366
Food Service	-	-	237,293	237,293
Classroom Materials and Fees	6,098	-	11,646	17,744
Miscellaneous	1,087	-	5,940	7,027
<i>Total Revenues</i>	<u>27,506,960</u>	<u>2,121,207</u>	<u>3,769,636</u>	<u>33,397,803</u>
Expenditures				
Current:				
Instruction:				
Regular	12,435,181	-	1,462,364	13,897,545
Special	2,612,441	-	751,603	3,364,044
Vocational	402,177	-	-	402,177
Adult/Continuing	24	-	1,739	1,763
Other	199,338	-	-	199,338
Support Services:				
Pupils	1,381,554	-	116,993	1,498,547
Instructional Staff	1,468,170	-	478,021	1,946,191
Board of Education	55,406	-	-	55,406
Administration	3,197,254	-	96,572	3,293,826
Fiscal	826,313	31,135	390,512	1,247,960
Business	691,971	-	7,339	699,310
Operation and Maintenance of Plant	3,407,072	-	453,080	3,860,152
Pupil Transportation	1,522,661	-	47,406	1,570,067
Central	412,559	-	139,718	552,277
Operation of Non-Instructional Services	98,659	-	752,223	850,882
Extracurricular Activities	366,874	-	130,410	497,284
Capital Outlay	10,294	-	921,873	932,167
Debt Service:				
Principal Retirement	84,734	572,214	-	656,948
Interest and Fiscal Charges	17,514	1,466,616	-	1,484,130
<i>Total Expenditures</i>	<u>29,190,196</u>	<u>2,069,965</u>	<u>5,749,853</u>	<u>37,010,014</u>
<i>Excess of Revenue Over/(Under) Expenditures</i>	<u>(1,683,236)</u>	<u>51,242</u>	<u>(1,980,217)</u>	<u>(3,612,211)</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Fixed Assets	712,362	-	-	712,362
Transfer In	487,978	159,774	80,399	728,151
Transfer Out	(722,201)	-	(5,950)	(728,151)
<i>Total Other Financing Sources (Uses)</i>	<u>478,139</u>	<u>159,774</u>	<u>74,449</u>	<u>712,362</u>
<i>Net Change in Fund Balances</i>	(1,205,097)	211,016	(1,905,768)	(2,899,849)
<i>Fund Balances Beginning of Year</i>	<u>(301,483)</u>	<u>795,968</u>	<u>2,022,378</u>	<u>2,516,863</u>
<i>Fund Balances End of Year</i>	<u>\$ (1,506,580)</u>	<u>\$ 1,006,984</u>	<u>\$ 116,610</u>	<u>\$ (382,986)</u>

See accompany notes to the basic financial statements

Warrensville Heights City School District
*Reconciliation of the Statement of Revenues, Expenditures
and Changes in the Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2004*

Net Change in Fund Balances - Total Governmental Funds \$ (2,899,849)

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

Fixed Assets Additions (Deletions)	1,084,618	
Current Year Depreciation	<u>(1,001,748)</u>	
 Total		 82,870

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

Taxes	1,814,550	
Intergovernmental	<u>(2,164,050)</u>	
 Total		 (349,500)

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

656,948

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

Compensated Absences Payable	164,406	
Intergovernmental Payables	<u>348,166</u>	
 Total		 512,572

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

2,667

Change in Net Assets of Governmental Activities \$ (1,994,292)

See accompany notes to the basic financial statements

Warrensville Heights City School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Over (Under)
Revenues				
Property and Other Local Taxes	\$ 16,733,353	\$ 16,243,803	\$ 16,243,803	\$ -
Intergovernmental	11,533,364	11,195,944	11,195,944	-
Interest	14,313	13,895	13,895	-
Tuition and Fees	180,509	175,228	175,228	-
Extracurricular Activities	28,140	27,317	27,317	-
Contributions and Donations	-	-	-	-
Classroom Materials and Fees	6,282	6,098	6,098	-
Miscellaneous	54,935	53,328	53,328	-
<i>Total Revenues</i>	<u>\$28,550,896</u>	<u>27,715,613</u>	<u>27,715,613</u>	<u>-</u>
Expenditures				
Current:				
Instruction:				
Regular	12,821,802	12,841,767	12,841,767	-
Special	3,218,625	3,223,636	3,223,636	-
Vocational	419,538	420,192	420,192	-
Adult/Continuing	24	24	24	-
Other	199,028	199,338	199,338	-
Support Services:				
Pupil	1,437,685	1,439,923	1,439,923	-
Instructional Staff	1,347,825	1,349,924	1,349,924	-
Board of Education	46,543	46,616	46,616	-
Administration	3,123,874	3,128,738	3,128,738	-
Fiscal	780,773	781,989	781,716	273
Business	683,891	684,956	684,956	-
Operation and Maintenance of Plant	3,457,215	3,462,598	3,461,131	1,467
Pupil Transportation	1,626,525	1,629,058	1,629,058	-
Central	392,650	393,262	393,019	243
Operation of Non-Instructional Services	197,009	197,316	197,316	-
Extracurricular Activities	362,350	362,914	362,146	768
Capital Outlay	10,278	10,294	11,062	(768)
<i>Total Expenditures</i>	<u>30,125,635</u>	<u>30,172,545</u>	<u>30,170,562</u>	<u>1,983</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(1,574,739)</u>	<u>(2,456,932)</u>	<u>(2,454,949)</u>	<u>1,983</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Fixed Assets	733,831	712,362	712,362	-
Refund of Prior Year Expenditures	131,161	127,324	127,324	-
Refund of Prior Year Receipts	(2,940)	(2,945)	(2,945)	-
Advances In	448,552	435,429	435,429	-
Advances Out	(388,271)	(388,876)	(388,876)	-
Transfers In	499,440	484,830	484,830	-
Transfers Out	(720,703)	(721,826)	(721,826)	-
<i>Total Other Financing Sources (Uses)</i>	<u>701,070</u>	<u>646,298</u>	<u>646,298</u>	<u>-</u>
<i>Net Change in Fund Balance</i>	<u>(873,669)</u>	<u>(1,810,634)</u>	<u>(1,808,651)</u>	<u>1,983</u>
<i>Fund Balance Beginning of Year</i>	929,568	929,568	929,568	-
Prior Year Encumbrances Appropriated	741,626	741,626	741,626	-
<i>Fund Balance End of Year</i>	<u>\$ 797,525</u>	<u>\$ (139,440)</u>	<u>\$ (137,457)</u>	<u>\$ 1,983</u>

See accompanying notes to the basic financial statements

Warrensville Heights City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 50,786</u>
<i>Total Assets</i>	<u><u>50,786</u></u>
Liabilities	
Due to Students	<u>50,786</u>
<i>Total Liabilities</i>	<u><u>\$ 50,786</u></u>

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, 2004

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 150 classified employees, 249 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 2004 fiscal year was 2,804. 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 30,2004

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 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.

Warrensville Heights City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30,2004

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.

Warrensville Heights City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, 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, 2004, 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.

Warrensville Heights City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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.

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 2004, the School District's investments were limited to the State Treasury Asset Reserve (STAROhio). 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, 2004.

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 2004 amounted to \$13,895.

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, 2004, 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 30,2004

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:

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

K. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans 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 for administration employees.

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

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

Warrensville Heights City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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 and property taxes.

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

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.

Warrensville Heights City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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 – Restatement of Net Assets

The understatement of capital leases and accumulated depreciation for capital assets had the following effects on net assets:

	Governmental Activities
Net Assets June 30, 2003	\$ 5,168,510
Depreciable Capital Assets	505,705
Accumulated Depreciation	(171,509)
Adjusted Net Assets June 30, 2003	\$ 5,502,706

Note 4 – Accountability and Compliance

A. Accountability

At June 30, 2004, the following funds had deficit fund balances:

Major Fund	
General Fund	\$ 1,506,580
Nonmajor Funds	
Food Service	323,750
Recreation	17,654
Termination Benefits	87,545
DPIA	201,298
Alternative School	392
Title VI-B	52,913
Title VI	24,421
Class Size Reduction	89,681

B. Compliance

Contrary to Ohio Revised Code Section 5705.41(D)(1), the District had expenditures that were processed prior to receiving the Treasurer’s certification. During testing 25 percent of non-payroll expenditures were found to be processed prior to the Treasurer’s certification.

Contrary to Ohio Revised Code Section 5705.41(B)(D), the following funds had final expenditures plus encumbrances exceeding authorized appropriations at the legal level of budgetary control at January 31, 2004:

Warrensville Heights City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Funds	
Special Revenue Funds:	
Termination Benefits	\$ (2,871)
Ohio Reads Grant	(9,092)
Summer Intervention	(47,753)
Entry Year Program	(280)
Capital Project Fund:	
Telecommunity	(1,606)

Contrary to Ohio Revised Code Section 5705.39, the following funds had appropriations exceeding estimated resources at January 31, 2004:

Funds	Estimated Resources vs. Total Appropriations
General Fund	\$ (576,891)
Special Revenue Funds:	
School Food Service	(49,791)
Public Schools Fund	(11,674)
Special Grants	(3,142)
Student Activities	(925)
DPIA	(17,660)
Conflict Management	(2,524)
IDEA, Part B Special Education	(391,243)
Disadvantaged Children/Targeted Assistance	(573,925)
Title V - Innovative Education Programs	(19,539)
Drug Free Schools	(27,699)
IDEA Preschool Grant	(9,702)
Entry Year Tech. Assistance	(4,275)
Class Size Reduction	(189,192)
Summer Intervention	(21,973)
Capital Projects Funds:	
Permanent Improvement	(265,615)
Building Construction	(709,662)
Agency Fund:	
Student Activities	(20,682)

Warrensville Heights City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

The following funds had appropriations exceeding estimated resources at June 30, 2004:

Funds	Estimated Resources vs. Total Appropriations
General Fund	\$ (576,891)
Special Revenue Funds:	
School Food Service	(49,790)
Special Grants	(2,758)
DPIA	(17,147)
IDEA, Part B Special Education	(51,540)
Disadvantaged Children/Targeted Assistance	(46,161)
Title V - Innovative Education Programs	(25,642)
Drug Free Schools	(2,816)
Class Size Reduction	(150,757)
Capital Projects Funds:	
Permanent Improvement	(256,975)
Building Construction	(586,803)

Contrary to Ohio Revised Code Section 5705.14, 5705.15, and 5705.16, the District did not receive the proper approval for transfers and advances prior to the transfers or advance occurring. The District made two transfers out of the Bond retirement Fund to the General Fund for \$211,858 and \$24,279 respectively. These transfers did not have the approval of the Court of Common Pleas of Cuyahoga County. The District has agreed to an audit adjustment to return the funds to the Bond Retirement Fund. See the Schedule of Findings for additional detail on these violations of the Ohio Revised Code.

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).

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

Warrensville Heights City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Net Change in Fund Balance

GAAP Basis	\$ (1,205,097)
Net Adjustment for Revenue Accruals	332,829
Advances In	435,429
Net Adjustment for Expenditure Accruals	(241,310)
Advances Out	(388,876)
Adjustment for Encumbrances	<u>(741,626)</u>
Budget Basis	<u><u>\$ (1,808,651)</u></u>

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.

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;

Warrensville Heights City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

6. The State Treasurer's investment pool (STAROhio);
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 anyone 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.

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.

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 \$1,427,089 and the bank balance was \$1,517,305. Of the bank balance:

1. \$200,000 was covered by depository insurance; and
2. \$1,317,305 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 I 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
STAROhio	-	7,773
	\$ -	\$ 7,773

Warrensville Heights City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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	\$ 1,434,862	\$ -
Investments of the Cash Management Pool:		
STAROhio	(7,773)	7,773
GASB Statement No. 3	\$ 1,427,089	\$ 7,773

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 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 become a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 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 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three 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.

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, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Warrensville Heights City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 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, 2004 was \$1,963,930 in the general fund, \$317,273 in the bond retirement debt service fund, \$91,123 in the permanent improvement capital projects fund and \$23,980 in the recreation special revenue fund.

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

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Residential/Agricultural				
Other Real Estate	\$ 279,423,320	79.90%	\$ 293,272,480	82.36%
Public Utility Personal	15,269,550	4.37%	16,477,330	4.63%
Tangible Personal Property	55,009,331	15.73%	46,323,355	13.01%
Total	<u>\$ 349,702,201</u>	<u>100.00%</u>	<u>\$ 356,073,165</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$80.30		\$79.90	

Note 8 - Receivables

Receivables at June 30, 2004, 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.

A summary of principal items of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amount</u>
Title VI-B Grants and Subsidies	140
Title I Grants and Subsidies	108,950
Title VI Grants and Subsidies	2,680
Drug Free Schools Grants and Subsidies	50
Preschool Grants and Subsidies	248
Miscellaneous Federal Grants and Subsidies	<u>14,854</u>
Total	<u>\$ 126,922</u>

Warrensville Heights City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance 7/1/2003	Additions	Deletions	Balance 6/30/2004
Governmental Activities				
Capital Assets, not being depreciated:				
Land	\$ 414,153	\$ -	\$ -	\$ 414,153
Total Capital Assets, not being depreciated	414,153	-	-	414,153
Capital Assets, being depreciated				
Buildings and Improvements	36,437,813	902,565	-	37,340,378
Furniture, Fixtures and Equipment	2,358,378	163,043	(2,415)	2,519,006
Vehicles	850,074	19,010	-	869,084
Total Capital Assets, being depreciated	39,646,265	1,084,618	(2,415)	40,728,468
Less Accumulated Depreciation:				
Buildings and Improvements	(9,220,617)	(785,069)	-	(10,005,686)
Furniture, Fixtures and Equipment	(1,121,497)	(143,960)	2,415	(1,263,042)
Vehicles	(396,823)	(72,719)	-	(469,542)
Total Accumulated Depreciation	(10,738,937)	(1,001,748)	2,415	(11,738,270)
Total Capital Assets, being depreciated, net	28,907,328	82,870	-	28,990,198
Governmental Activities Capital Assets, Net	\$ 29,321,481	\$ 82,870	\$ -	\$ 29,404,351

* Depreciation expense was charged to governmental functions as follows:

Instruction	
Regular	\$ 307,242
Special	32,332
Vocational	5,163
Support Services:	
Pupil	10,951
Instructional Staff	32,572
Board of Education	13,120
Administration	109,062
Fiscal	11,933
Business	11,697
Operation and Maintenance of Plant	341,171
Pupil Transportation	337
Central	517
Operation of Non-Instructional Services	120,039
Extracurricular Activities	5,612
Total Depreciation Expense	\$ 1,001,748

Warrensville Heights City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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 2004, the School District contracted with several carriers for property and general liability insurance, and boiler and machinery .

Company	Type of Coverage	Coverage
Indiana Insurance Company	Property (\$10,000 Deductible)	\$82,454,588
	Inland Marine (\$250 deductible)	2,026,698
	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.

Warrensville Heights City School District
Notes to the Basic Financial Statements
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Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations; for fiscal year 2003, 8.17 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, 2004, 2003, and 2002 were \$260,325, \$393,080, and \$273,233, respectively; 68 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for fiscal years 2003 and 2002.

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, 2004 plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon 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, 2004, 2003, and 2002 were \$1,895,478, \$2,043,073, and \$1,432,545, respectively; 82 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for fiscal years 2003 and 2002.

Warrensville Heights City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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, 2004, one member of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 12- Postemployment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio, (STRS Ohio), and to retired non-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, 2004, 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 \$145,806 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 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, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease of .92 percent from fiscal year 2003. 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 2004, the minimum pay has been established as \$25,400. For the School District, the amount to fund health care benefits, including surcharge, during the 2004 fiscal year equaled \$416,791.

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, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004 SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

Warrensville Heights City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 13 - Other Employee Benefits

A. Compensated Absences

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

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

<u>Debt Issue</u>	<u>Original Issue Date</u>	<u>Original Issue Amount</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>
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

Warrensville Heights City School District
Notes to the Basic Financial Statements
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The changes in the School District's long-term obligations during the year consist of the following:

	Principal Outstanding 7/1/2003	Additions	Retired	Principal Outstanding 6/30/2004	Amount Due In One Year
Governmental Activities:					
General Obligations Bonds:					
Energy Conservation	\$ 288,450	\$ -	\$ (147,214)	\$ 141,236	\$ 141,236
School Improvement	25,450,000	-	(425,000)	25,025,000	475,000
<i>Total General Obligation Bonds</i>	<u>25,738,450</u>	<u>-</u>	<u>(572,214)</u>	<u>25,166,236</u>	<u>616,236</u>
Capital Leases	394,669	-	(84,734)	309,935	88,942
Compensated Absences	2,282,847	461,138	(625,544)	2,118,441	268,187
Total Governmental Activities	<u>\$ 28,415,966</u>	<u>\$ 461,138</u>	<u>\$ (1,282,492)</u>	<u>\$ 27,594,612</u>	<u>\$ 973,365</u>

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 are paid 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 are paid 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, 2004, was \$7,887,333 with an unvoted debt margin of \$356,073. Principal and interest requirements to retire energy conservation and school improvement bonds outstanding at June 30, 2004, are as follows:

	General Obligation Bonds	
	Principal	Interest
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	750,000	1,312,713
2010-2014	4,825,000	5,799,594
2015-2019	6,500,000	4,006,344
2020-2024	8,625,000	1,875,531
2025	2,025,000	58,219
Total	<u>\$ 25,166,236</u>	<u>\$ 18,624,118</u>

Warrensville Heights City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 15 - Capital Leases - Lessee Disclosure

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:	
Furnitures, Fixtures and Equipment	<u>\$ 505,705</u>
Less Accumulated Depreciation:	
Furnitures, Fixtures and Equipment	(101,140)
<i>Governmental Activities Capital Assets, Net</i>	<u><u>\$ 404,565</u></u>

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, 2004.

Fiscal Year Ending June 30	<u>Governmental Activities</u>
2005	\$ 102,248
2006	70,514
2007	54,647
2008	54,647
2009	54,648
2010	<u>9,108</u>
Total	345,812
Less: Amount Representing Interest	<u>(35,874)</u>
Present Value of Net Minimum Lease Payments	<u><u>\$ 309,938</u></u>

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 2004.

Warrensville Heights City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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 2004, 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.

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, 2004.

Warrensville Heights City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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.

Note 18 - Interfund Transfers

The interfund transfers consisted of the following at June 30, 2004 as reported on the fund financial statements:

Fund	Transfer Out	Transfer In
General	\$ 722,201	
Disadvantaged Pupils	1,148	
Early Childhood	18	
Alternative School	1,715	
Eisenhower Math and Science	3,069	
General		\$ 487,978
Food Service		75,000
Termination Benefits		3,500
Athletic Fund		1,899
Debt Service		159,774

Interfund balances at June 30, 2004, consist of the following individual fund receivables and payables:

Interfund Payable	Interfund Receivable General Fund
<i>Governmental Activities</i>	
Non-Major Funds	
Food Service	\$ 235,442
Recreation	70,000
Venture Capital	5,000
Athletic	63
Alternative School	392
Class Size Reduction	1
<i>Total Governmental Activities</i>	\$ 310,898

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, 2004

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, 2004, 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, 2003	\$ 19,436	\$ -	\$ 151,627
Current Year Set-aside Requirement	433,488	433,488	-
Current Year Offsets	-	-	-
Qualifying Disbursements	(372,818)	(1,252,501)	-
Totals	<u>\$ 80,106</u>	<u>\$ (819,013)</u>	<u>\$ 151,627</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$ 80,106</u>	<u>\$ -</u>	<u>\$ -</u>
Set-aside Reserve Balances as of June 30, 2004	<u>\$ 80,106</u>	<u>\$ -</u>	<u>\$ -</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.

The School District is required to present cash that is restricted in the general fund in the amount of the budget stabilization reserve. The District does not have a positive cash balance in the general fund which is able to be restricted and therefore will not be able to utilize those fund for qualified purposes.

Note 20 - State School Funding Decision

On December 11, 2003, 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.

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. Department of Agriculture						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution	N/A	10.550	\$0	\$49,913	\$0	\$49,913
School Breakfast Program	05PU-2003	10.553	25,595	0	25,595	0
School Breakfast Program	05PU-2004	10.553	70,586	0	70,586	0
Subtotal School Breakfast Program			96,181	0	96,181	0
National School Lunch Program	LLP1-2004	10.555	535	0	535	0
National School Lunch Program	LLP4-2003	10.555	130,861	0	130,861	0
National School Lunch Program	LLP4-2004	10.555	371,725	0	371,725	0
Subtotal National School Lunch Program			503,121	0	503,121	0
Total U.S. Department of Agriculture - Nutrition Cluster			599,302	49,913	599,302	49,913
U.S. Department of Education						
<i>Passed Through Ohio Department of Education:</i>						
Title I, Part A	C1S1-2003	84.010	68,879	0	89,812	0
Title I, Part A	C1S1-2004	84.010	415,525	0	394,487	0
Title I, Part A	C1SK-2004	84.010	50,000	0	40,258	0
Subtotal Title I, Part A			534,404	0	524,557	0
Special Education Cluster:						
IDEA Part B (Title VI-B)	6BSF-2003	84.027	20,247	0	65,931	0
IDEA Part B (Title VI-B)	6BSF-2004	84.027	261,790	0	261,729	0
Subtotal IDEA Part B			282,037	0	327,660	0
Preschool Disability Grant	PGS1-2003	84.173	(1,735)	0	1,127	0
Preschool Disability Grant	PGS1-2004	84.173	7,324	0	6,939	0
Subtotal Preschool Disability Grant			5,589	0	8,066	0
Total Special Education Cluster			287,626	0	335,726	0
Drug Free School Grant	DRS1-2003	84.186	6,943	0	7,553	0
Drug Free School Grant	DRS1-2004	84.186	21,271	0	19,677	0
Total Drug Free School Grant			28,214	0	27,230	0
Entry Year Grant	G2S1-2001	84.276	(1,319)	0	0	0
Entry Year Grant	G2S2-2000	84.276	(2,945)	0	0	0
Entry Year Grant	G2S3-2001	84.276	(507)	0	0	0
Total Entry Year Grant			(4,771)	0	0	0
Eisenhower Professional Development State Grant	MSS1-2000	84.281	(20)	0	0	0
Eisenhower Professional Development State Grant	MSS1-2001	84.281	(839)	0	11,338	0
Total Eisenhower Professional Development State Grant			(859)	0	11,338	0
Title V - Innovative Programs	C2S1-2001	84.298	(6,565)	0	0	0
Title V - Innovative Programs	C2S1-2003	84.298	6,423	0	10,649	0
Title V - Innovative Programs	C2S1-2004	84.298	12,766	0	37,187	0
Total Title V - Innovative Programs			12,624	0	47,836	0
Title II, Part D - Education Technology	TJS1-2003	84.318	8,456	0	11,258	0
Title II, Part D - Education Technology	TJS1-2004	84.318	4,770	0	2,251	0
Total Title II, Part D - Education Technology			13,226	0	13,509	0
Class Size Reduction	CRS1-2001	84.340	(11,020)	0	1,170	0
Assistive Technology Infusion	ATS3-2002	84.352A	(793)	0	3,910	0
Title II, Part A - Teacher and Principal Training and Recruiting	TRS1-2003	84.367	(10,244)	0	8,452	0
Title II, Part A - Teacher and Principal Training and Recruiting	TRS1-2004	84.367	105,044	0	197,788	0
Total Title II, Part A - Teacher and Principal Training and Recruiting			94,800	0	206,240	0
Total U.S. Department of Education			953,451	0	1,171,516	0
U.S. Department of Health and Human Services						
<i>Passed Through Ohio Department of MRDD:</i>						
Medicaid Assistance Program	N/A	93.778	86,613	0	59,083	0
Total U.S. Department of Education			86,613	0	59,083	0
Total Federal Financial Assistance			\$1,639,366	\$49,913	\$1,829,901	\$49,913

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

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

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

NOTE C - NEGATIVE RECEIPTS

The Ohio Department of Education (ODE) transferred \$10,244 from grant year 2003 to grant year 2004 in the Title II, Part A - Teacher and Principal Training and Recruiting Grant, \$82,552 from grant year 2003 to grant year 2004 in the Title I Grant, \$29,393 from grant year 2003 to grant year 2004 in the IDEA B Grant, \$2,301 from grant year 2003 to grant year 2004 in the Drug Free Grant, \$4,812 from grant year 2003 to grant year 2004 in the Title V Grant, and \$1,542 from grant year 2003 to grant year 2004 in the Title II Grant. The District returned receipts of \$1,735 from the Preschool Disability Grant, \$4,771 from the Entry Year Grant, \$859 from the Eisenhower Professional Development State Grant, \$11,020 from the Class Size Reduction Grant, and \$793 from the Assistive Technology Infusion Grant to ODE because all of the grant funds had not been expended within the allowable time period.

N/A - Not applicable.

CFDA - Catalog of Federal Domestic Assistance.



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Warrensville Heights City School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 27, 2006, wherein we noted the District restated the net assets in the governmental activities due to capital assets, as described in Note 3. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2004-006 and 2004-008 through 2004-011.

A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting 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 material weaknesses. We consider reportable condition 2004-008 listed above to be a material weakness. In a separate letter to the District's management dated April 27, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2004-001 through 2004-005 and 2004-007. In a separate letter to the District's management dated April 27, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the management, Board of Education, and federal awarding agencies and pass-through entities. It is not intended for 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

April 27, 2006



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Warrensville Heights City School District, Cuyahoga County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the Warrensville Heights City School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2004.

However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that OMB Circular A-133 requires us to report, which is described in the accompanying schedule of findings and questioned costs as item 2004-007.

Internal Control Over Compliance

The District's management 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 directly and materially affect a major federal program 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.

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We noted certain matters involving the internal control over compliance and its operation that we consider reportable conditions. 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. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2004-008 through 2004-011.

A material weakness is a reportable 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 caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when 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 material weaknesses. We consider item 2004-008 to be a material weakness. We also noted other matters involving the internal control over federal compliance not requiring inclusion in this report that we reported to the District's management in a separate letter dated April 27, 2006.

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



Betty Montgomery
Auditor of State

April 27, 2006

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	
(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)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	Yes
(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 (10.550, 10.553, 10.555, 10.556)
(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 AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

FINDING NUMBER 2004-001

Finding for Recovery

Compensated Absences

During our testing of compensated absences we noted that the District's calculation of severance pay for both fiscal years 2004 and 2005 had 8 employees whose severance calculation did not agree to our recalculation. We noted the following employees' calculations were incorrect:

Employee	District Amount	Recalculated Amount	Variance
Fiscal Year 2004:			
Robert Lariccia	\$30,444	\$25,761	\$4,683
Rose Hoffman	10,370	9,893	477
Ronald Ruzicka	15,405	14,966	439
Fiscal Year 2005:			
Barbara Murphy	11,222	9,994	1,228

In accordance with the forgoing facts, and pursuant to the Ohio Revised Code Section 117.28 a Finding for Recovery for public monies illegally expended is hereby issued against Michael Anderson, former Treasurer, and Fidelity and Deposit Company of Maryland, his bonding company, jointly and severally in the amount of \$6,827. In addition, Robert Lariccia is jointly and severally liable for \$4,683 of the \$6,827, Rose Hoffman is jointly and severally liable for \$477 of the \$6,827, Ronald Ruzicka is jointly and severally liable for \$439 of the \$6,827, and Barbara Murphy is jointly and severally liable for \$1,228 of the \$6,827.

Official's Response: The District is making every effort to recover these funds and is evaluating current and future severance payments to ensure proper payment.

FINDING NUMBER 2004-002

Noncompliance Citation

Proper Encumbering

Ohio Revised 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.

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

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

FINDING NUMBER 2004-002 (Continued)

Proper Encumbering (Continued)

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

Amounts of less than \$3,000 (\$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 District.

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

During our testing of non-payroll expenditures we noted 15 out of 60 (25%) of the transactions were processed prior to the Treasurer's certification.

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

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

Official's Response: The District will institute "Then and Now" certificates, will notify all staff that financial obligations of the District must be incurred through the established procedures which includes prior approval of expenditures, and refuse requisitions if funds are not available.

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

FINDING NUMBER 2004-003

Noncompliance Citation

Expenditures Plus Encumbrances Exceeded Appropriations

Ohio Revised Code Section 5705.41(B) prohibits a subdivision or taxing unit from making an expenditure or encumbrance unless it has been properly appropriated. Budgetary expenditures as enacted by the District may not exceed appropriations at the legal level of control for all funds. The following funds had final expenditures plus encumbrances exceeding authorized appropriations at the legal level of budgetary control at January 31, 2004:

Funds	Appropriations Plus Prior Year Encumbrances	Expenditures Plus Encumbrances	Variance
Special Revenue Funds:			
Termination Benefits	\$185,190	\$188,061	(\$2,871)
Ohio Reads Grant	36,901	45,993	(9,092)
Summer Intervention	83	47,836	(47,753)
Entry Year Program	0	280	(280)
Capital Project Fund:			
Telecommunity	0	1,606	(1,606)

All negative balances were corrected by year end. We recommend the District verify that all expenditures and encumbrances have proper appropriation authority prior to expending funds or certifying encumbrances and compare appropriations to expenditures plus encumbrances in all funds which are legally required to be budgeted, at the legal level of control (fund level), to maintain compliance with the above requirement.

Official's Response: In the future, the District will compare and confirm total expenditures and encumbrances do not exceed the appropriated amount.

FINDING NUMBER 2004-004

Noncompliance Citation

Appropriations Limited by Estimated Revenue

Ohio Revised Code Section 5705.39 provides, in part, total appropriations from each fund shall not exceed the total estimated revenue. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

FINDING NUMBER 2004-004 (Continued)

Appropriations Limited by Estimated Revenue (Continued)

The following funds were not in compliance with the above mentioned compliance requirement at January 31, 2004:

Funds	Total Certified Resources	Total Appropriations	Estimated Resources vs. Total Appropriations
General Fund	\$31,201,970	\$31,778,861	(\$576,891)
Special Revenue Funds:			
School Food Service	1,304,652	1,354,443	(49,791)
Public Schools Fund	73,175	84,849	(11,674)
Special Grants	5,744	8,886	(3,142)
Student Activities	35,113	36,038	(925)
DPIA	1,286,465	1,304,125	(17,660)
Conflict Management	16,894	19,418	(2,524)
IDEA, Part B Special Education	63,249	454,492	(391,243)
Disadvantaged Children/ Targeted Assistance	157,011	730,936	(573,925)
Title V – Innovative Education Programs	47,316	66,855	(19,539)
Drug Free Schools	16,538	44,237	(27,699)
IDEA Preschool Grant	6,721	16,423	(9,702)
Entry Year Tech. Assistance	0	4,275	(4,275)
Class Size Reduction	107,947	297,139	(189,192)
Summer Intervention	12,110	34,083	(21,973)
Capital Projects Funds:			
Permanent Improvement	666,670	932,285	(265,615)
Building Construction	634,821	1,344,483	(709,662)
Agency Fund:			
Student Activities	100,968	121,650	(20,682)

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

FINDING NUMBER 2004-004 (Continued)

Appropriations Limited by Estimated Revenue (Continued)

The following funds were not in compliance with the above mentioned compliance requirement at June 30, 2004:

Funds	Total Certified Resources	Total Appropriations	Estimated Resources vs. Total Appropriations
General Fund	\$30,509,506	\$31,828,345	(\$1,318,839)
Special Revenue Funds:			
School Food Service	1,055,335	1,105,125	(49,790)
Special Grants	244	3,002	(2,758)
DPIA	1,293,488	1,310,635	(17,147)
IDEA, Part B Special Education	427,319	478,859	(51,540)
Disadvantaged Children/ Targeted Assistance	684,415	730,576	(46,161)
Title V – Innovative Education Programs	41,601	67,243	(25,642)
Drug Free Schools	35,252	38,068	(2,816)
Class Size Reduction	147,748	298,505	(150,757)
Capital Projects Funds:			
Permanent Improvement	724,171	981,146	(256,975)
Building Construction	638,632	1,225,435	(586,803)

We recommend that the District compare current year appropriations to total certified resources, in all funds which are legally required to be budgeted, to ensure compliance with this requirement. This comparison should be performed on a monthly basis, at a minimum.

Official's Response: In the future, the District will compare appropriations to estimated revenue and will not appropriate more than the estimated revenue.

FINDING NUMBER 2004-005

Noncompliance Citation

Transfers and Advances

Ohio Revised Code Sections 5705.14, 5705.15, and 5705.16 provide guidelines pertaining to allowable interfund transfers. These guidelines include the following types of permissible transfers:

- The unexpended balance in a bond fund that is no longer needed for the purpose for which such fund was created shall be transferred to the sinking fund or bond retirement fund from which such bonds are payable. [ORC 5705.14(A)]

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

FINDING NUMBER 2004-005 (Continued)

Transfers and Advances (Continued)

- The unexpended balance in any specific permanent improvement fund, other than a bond fund, after the payment of all obligations incurred in the acquisition of such improvement, shall be transferred to the sinking fund or bond retirement fund of the subdivision. However, if such money is not required to meet the obligations payable from such funds, it may be transferred to a special fund for the acquisition of permanent improvements, or, with the approval of the court of common pleas of the county in which such subdivision is located, to the general fund of the subdivision. [ORC 5705.14(B)]
- The unexpended balance in the sinking fund or bond retirement fund of a subdivision, after all indebtedness, interest, and other obligations for the payment of which such fund exists have been paid and retired, shall be transferred, in the case of the sinking fund, to the bond retirement fund, and in the case of the bond retirement fund, to the sinking fund. However, if the transfer is impossible by reason of the nonexistence of the fund to receive the transfer, the unexpended balance may be transferred to any other fund of the subdivision with the approval of the court of common pleas of the county in which such division is located. [ORC 5705.14(C)]
- The unexpended balance in any special fund, other than an improvement fund, may be transferred to the general fund or to the sinking fund or bond retirement fund after the termination of the activity, service, or other undertaking for which such special fund existed, but only after the payment of all obligations incurred and payable from such special fund. [ORC 5705.14(D)]
- Money may be transferred from the general fund to any other fund of the subdivision by resolution of the taxing authority. [ORC 5705.14(E)]
- Except in the case of transfers from the general fund, transfers can be made only by resolution of the taxing authority passed with the affirmative vote of two thirds of the members. Transfers from the general fund require a resolution passed by a simple majority of the board members (i.e., a two thirds vote is not required for general fund transfers though a resolution is required) [ORC 5705.14; see also 1989 Op. Atty. Gen. No. 89-075]
- In addition to transfers from the General Fund and those permitted by Ohio Revised Code Section 5705.14, Ohio Revised Code Sections 5705.15 and 5705.16 permit the taxing authority of any political subdivision, with the approval of the Tax Commissioner and the Court of Common Pleas, to transfer from one fund to another any public funds under its supervision, except the proceeds or balances of loans, bond issues, special levies for the payment of loans or bond issues, the proceeds of funds derived from any excise tax levied by law for a specified purpose, and the proceeds or balances of any license fee imposed by law for a specified purpose.

During our testing we noted the following:

- The District made two transfers out the Bond Retirement Fund to the General Fund for \$211,858.35 and \$24,279.09 respectively. These transfers did not have the approval of the court of common pleas of Cuyahoga County. The Bond Retirement Fund is still an active fund; however, the special cost center from which the \$211,858.35 was made was closed by the District after the transfer was complete. The District has agreed to an audit adjustment to return the funds to the Bond Retirement Fund.

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

FINDING NUMBER 2004-005 (Continued)

Transfers and Advances (Continued)

- The District transferred the remaining amount of the Alternative Schools Fund to the General Fund and Effective Schools Fund and Early Childhood Fund to the Rotary Fund because the programs ended, and all obligations appeared to have been paid. The Board approved the transfer; however, they did so after the fiscal year ended.
- There were an additional three transfers not approved by the Board throughout the year. The transfers (\$763.20 from the Student Managed Activities Fund to the Public School Support Fund, and two transfers from the General Fund to the Bond Retirement Fund totaling \$14,524.87) were made at different times during the year.
- The District had several interfund payables that were long outstanding. The payables relating to the Food Service Fund, Recreation Fund, Venture Capital Fund, and Alternative School Fund have had the same balance since June 30, 2002.
- The District made a transfer out of the Eisenhower Fund to the Rotary Fund for \$3,068.78. The money in this fund was federal dollars, and therefore should have been transferred to another federal fund with similar goals, such as Title II-A, Improving Teacher Quality.

As a result of the above, some funds do not reflect the proper fund balance and decisions are being made without proper Board approval.

We recommend the Board of Education approve all transfers and advances prior to the actual transfer or advance occurring. In addition, we recommend the District receive approval from the Court of Common Pleas and the County Tax Commissioner prior to transferring funds to the General Fund from a prohibited fund. Also, we recommend the District reverse the transfer from the Eisenhower Fund to the Rotary Service Fund and then transfer the amount to the Title II-A Fund to follow federal guidelines. Finally, we recommend the Board evaluate the long outstanding interfund payables and determine if they should be reclassified to transfers.

Official's Response: The District will obtain a court order to transfer monies from the Debt Service Fund to the General Fund. In the future, the District will make transfers in the proper period, obtain approval prior to making transfers, and investigate long outstanding interfund payables and change them to transfers as necessary. The District will also reverse the transfer from the Eisenhower Fund to the Rotary Fund and make the transfer to the proper fund.

FINDING NUMBER 2004-006

Reportable Condition

Five Year Forecast

School districts are required to prepare 5 year projections of revenue and expenditures as part of the spending plans. This plan is supposed to give the school district an idea of where they are financially, and the place they will be in the future based on the revenue collection projections and current spending projections. These projections are based on assumptions made by the school district.

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

FINDING NUMBER 2004-006 (Continued)

Five Year Forecast (Continued)

Assumptions made by the district should be reasonable and easily verified through outside sources (i.e. County Auditor, prior year actual numbers, etc.). These assumptions should substantiate the numbers used on the five year forecast.

There are several instances where the District's assumptions for the five year forecast do not agree to the numbers presented (i.e. Tangible Personal Property assumption indicates that the amounts should be declining in future years, but the numbers indicate an increase in collections).

The five year forecast submitted by the District is projecting the General Fund to have a negative fund balance for fiscal years 2004 and 2005. The District believes that they will be able to have positive fund balances in fiscal years 2006, 2007, and 2008 based on their assumptions. We recommend the District reexamine their assumptions in order to prepare a more accurate picture of the District.

Official's Response: The five year forecast is now being constructed from trend information based on actual results, revenue is based on the most recent information from the County, and expenditures are based on estimated contractual obligations and operating expenses.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Daily Sales Sheets

Finding Number	2004-007
CFDA Title and Number	Nutrition Cluster (10.550, 10.553, 10.555, 10.556)
Federal Award Number / Year	School Breakfast (05PU-2003 and 05PU-2004) School Lunch (LLP4-2003 and LLP4-2004)
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Type of Finding: Questioned Cost

The District operates breakfast and lunch programs at all the schools. The District uses cash registers to maintain a count of the number and type (free, reduced, paid) of meals served on a daily basis. The Daily Sales Sheets are automatically generated from the cash registers, printed on a daily basis, and given to the Food Service Supervisor. The Supervisor then uses these reports to complete the Site claim forms at the end of the month.

During our review of 60 daily receipts, we noted significant variances between the Daily Sales Sheets and the Site Claim Forms. Due to these variances, we tested all of the receipts in the months of October and November to determine the actual differences between the total Daily Sales Sheets and the Site Claim Forms.

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

FINDING NUMBER 2004-007 (Continued)

Daily Sales Sheets (Continued)

We noted an overpayment by Ohio Department of Education to the District of \$5,871.78 for the month of October, \$4,199.99 for the month of November, and \$278.30 reimbursed for non-needy student workers which the District does not have, for a total overpayment of \$10,350.07. The over payment was due to the District reporting more meals served than actually provided. We projected the difference to the remaining months for an additional over payment to the District of \$42,716.71.

We recommend throughout the year the District maintain accurate records of the number of students who receive meals and the type of meals served. This information should be accurately reported on the Site Claim Forms. Also, if there is a difference between the Daily Sales Sheet for the month, and the amount reported to the State on the Site Claim Form, the District should maintain records stating the reason for the differences.

Official's Response: The District is emphasizing better coordination between departments to maintain accurate records of the number of students who receive meals and the type of meals served.

Site Claim Forms

Finding Number	2004-008
CFDA Title and Number	Nutrition Cluster (10.550, 10.553, 10.555, 10.556)
Federal Award Number / Year	School Breakfast (05PU-2003 and 05PU-2004) School Lunch (LLP4-2003 and LLP4-2004)
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Type of Finding: Material Weakness

The District is required to report several food service statistics to the Ohio Department of Education using an online Site Claim Form. This form includes the number of free, reduced, and paid breakfasts and lunches served for the month, current ADM counts for the District, number of students approved for free or reduced lunches, and food and non-food beginning and ending inventory.

During our review of the site claim forms we noted several instances where they were completed incorrectly, including:

- Twenty-seven of the 96 ending inventory numbers reported for a month did not agree to the beginning inventory amount for the month immediately following;
- The amount of free and reduced applicants reported did not match the number of applicants approved according to District records;
- Current ADM enrollment did not agree to District EMIS records;
- Three months included meals for "Non-Needy Student Workers Served" but the District did not have any non-needy student workers;

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

FINDING NUMBER 2004-008 (Continued)

Site Claim Forms (Continued)

- Nine out of 24 Site Claim Forms reviewed for meal counts (free, reduced and paid for lunch and dinner) did not agree to the back up information provided by the District (CN-6 and CN-7 Reports), the errors were as follows:
 - Two site claim forms had one error in the meal count;
 - Two site claim forms had three errors in the meal count; and
 - Four site claim forms had six errors in the meal count.

As a result the District is not accurately reporting inventory, meals served, and other information needed to support reimbursement for this program. This could lead to a loss in future funding.

We recommend the District properly report information on the Site Claim Form to the Ohio Department of Education.

Official's Response: The District will properly report information on the Site Claim Form to the Ohio Department of Education.

Safeguarding and Reporting Food Service Inventory and Records

Finding Number	2004-009
CFDA Title and Number	Nutrition Cluster (10.550, 10.553, 10.555, 10.556)
Federal Award Number / Year	School Breakfast (05PU-2003 and 05PU-2004) School Lunch (LLP4-2003 and LLP4-2004)
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Type of Finding: Reportable Condition

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

- Inventory sheets were not retained by the District;
- Inventory reported to the State did not agree to the actual inventory sheets and the District could not provide explanations for the variances;
- Procedures have not been established on the preparation and reporting of inventory and government donated commodities; and
- Procedures have not been established for periodic inventory counts which are signed by the employees conducting the counts.

These weaknesses resulted in food service goods not being properly reported and accounted for.

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

FINDING NUMBER 2004-009 (Continued)

Safeguarding and Reporting Food Service Inventory and Records (Continued)

We recommend the District properly report all inventory usage and balances to the State. The District should perform a reconciliation between the District and State reported amounts and provide explanations for all variances. We also recommend formal policies and procedures be formulated governing the accounting, reporting and safeguarding of food service items and records.

Official's Response: The District will strive to maintain an accurate inventory of usage and balances in order to submit accurate information to the State.

Free/Reduced Applications

Finding Number	2004-010
CFDA Title and Number	Nutrition Cluster (10.550, 10.553, 10.555, 10.556)
Federal Award Number / Year	School Breakfast (05PU-2003 and 05PU-2004) School Lunch (LLP4-2003 and LLP4-2004)
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Type of Finding: Reportable Condition

As part of the Nutrition Cluster federal program, the District must receive applications from students to determine if the student qualifies for free or reduced lunches. These applications are maintained in the Business Office. The District is only to report the amount of free and reduced meals served to qualified applicants so they are only reimbursed for meals served to qualified applicants.

During our testing we noted the following:

- For all the days of service in October and November, the Middle School had 217 approved free and reduced applicants, but the amount of free and reduced meals served ranged from 223 to 261;
- For 10 out of the 21 days of service in October and 10 out of the 15 days of service in November, Randallwood School had 266 approved free and reduced applicants, but the amount of free and reduced meals served ranged from 267 to 298; and
- For 1 out of the 21 days of service in October, Eastwood School had 170 approved free applicants, but 177 free and reduced meals were served.

We recommend the District maintain an accurate listing of free and reduced applicants, including their current status (approved free, approved reduced, or denied). At a minimum, this list should be updated on a monthly basis because of the ever changing student population in the District. The list of approved students should be maintained at each school to verify only approved students receive free or reduced meals. We also recommended the District compare the number of free and reduced meals served and reported to the number of approved applications.

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

FINDING NUMBER 2004-010 (Continued)

Free/Reduced Applications (Continued)

Official's Response: The District will maintain an accurate listing of free and reduced applicants and will update the list monthly.

Annual Certification

Finding Number	2004-011
CFDA Title and Number	Nutrition Cluster (10.550, 10.553, 10.555, 10.556)
Federal Award Number / Year	School Breakfast (05PU-2003 and 05PU-2004) School Lunch (LLP4-2003 and LLP4-2004)
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Type of Finding: Reportable Condition

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

An application made for a child who is a member of a household receiving benefits under the Food Stamp Program, the Head Start Program (42 USC 1758(b)(6)(A)), or the TANF program (42 USC 1758(b)) (Ohio's TANF program is called the Ohio Works First (OWF)), may provide the appropriate Food Stamp, Head Start, or TANF case number in lieu of otherwise required household and income information. When a household submits an application containing the required Food Stamp, Head Start, or TANF documentation, the child in the household must be approved for free benefits (7 CFR 245.6).

We noted the following errors when testing the applications submitted during the year.

Two errors were based on the completion of the form by the District. One instance occurred because the District portion of the application was not completed by the district (no signature and no check mark indicating the type of benefit approved). Another occurred because the form was not signed by a District official indicating final approval. Even though formal District approval was not obtained, both students received the correct response letter indicating the proper benefit approved.

Two errors were based on the incorrect benefit approved by the District. The first student was approved by the District for reduced lunches, but the master list showed the student receiving free lunches, and the family was sent a response letter stating the student was approved for free lunches. The second student was denied any benefit by the District official because the family's income level was too high, but the student was listed on the master list as approved for free lunches, and received a response letter from the District stating the same.

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

FINDING NUMBER 2004-011 (Continued)

Annual Certification (Continued)

We recommend the District fully complete all applications submitted during the year. This will aid in determining the form was properly reviewed and approved by the appropriate District Officials. In addition, we recommend the District review the application, the master file, and response letter for the student before they are distributed to the different schools and the student's home to ensure the student is receiving the proper benefits based on the application submitted.

Official's Response: The District will fully complete applications that qualify a child for free or reduced price meals/milk served.

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	Treasurer did not certify the availability of funds prior to entering into an obligation, contrary to Ohio Revised Code § 5705.41(D)	No	Repeated, see finding 2004-002 of the June 30, 2004 audit report
2003-002	Various internal control weaknesses were noted during testing of the federal Nutrition Cluster Program.	No	Repeated, see findings 2004-008, 2004-009, 2004-010, and 2004-011 of the June 30, 2004 audit report



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**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
JULY 11, 2006**