

Warren City School District

Audited Financial Statements

June 30, 2005



Mary Taylor, CPA
Auditor of State

Board of Education
Warren City School District
261 Monroe Street N.W.
Warren, Ohio 44483

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 3, 2007

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**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

JUNE 30, 2005

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TRUMBULL COUNTY**

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February 9, 2007

To the Board of Education
Warren City School District
Warren, OH 44483

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Warren City School District (the "School District"), Trumbull County, Ohio as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Warren City School District, Trumbull County, Ohio as of June 30, 2005, and the respective changes in financial position and the cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we also have issued our report dated February 9, 2007, on our consideration of the School 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Warren City School District
Independent Accountants' Report
February 9, 2007
Page 2

Management's Discussion and Analysis on pages 3 through 12 are not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for additional analysis as 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Hea & Associates, Inc.

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

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

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets of governmental activities decreased \$15,805,488 which represents a 9.11% decrease from 2004.
- General revenues accounted for \$55,285,989 in revenue or 80.34% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$13,531,829 or 19.66% of total revenues of \$68,817,818.
- The District had \$71,249,947 in expenses related to governmental activities; \$13,531,829 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$55,285,989 were not adequate to provide for these programs.
- The District reported a special item for a \$13,373,359 decrease in the State share of funding for the Ohio School Facilities Commission construction project (see Note 2.S. for detail).
- The District's major governmental funds are the general fund, debt service fund and classroom facilities fund. The general fund had \$52,252,923 in revenues and \$51,883,803 in expenditures and other financing uses. During fiscal 2005, the general fund's fund balance increased \$369,120 from fiscal 2004.
- The debt service fund had \$2,554,117 in revenues and \$41,072,036 in expenditures. During fiscal 2005, the debt service fund's fund balance decreased \$38,517,919 from \$39,483,966 to \$966,047.
- The classroom facilities fund had \$5,968,853 in revenues and \$2,908,227 in expenditures. During fiscal 2005, the classroom facilities fund's fund balance increased \$3,060,626 from \$33,116,283 to \$36,176,909.

Using these 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 the 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 District, presenting both an aggregate view of the 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 District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund, debt service fund and classroom facilities fund are by far the most significant funds, and the only governmental funds reported as major funds.

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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Reporting the 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 District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the 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 basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for self-insurance, warehouse service and parking programs. The basic proprietary fund financial statements can be found on pages 20-22 of this report.

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented in private-purpose trust funds. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 23 and 24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-53 of this report.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2005 and 2004. Net assets were restated at the beginning of the year (see Note 2.A in the notes to the basic financial statements for detail).

	Net Assets	
	Governmental Activities <u>2005</u>	(Restated) Governmental Activities <u>2004</u>
<u>Assets</u>		
Current and other assets	\$ 210,237,470	\$ 265,930,554
Capital assets	<u>22,316,568</u>	<u>17,964,325</u>
Total assets	<u>232,554,038</u>	<u>283,894,879</u>
<u>Liabilities</u>		
Current liabilities	31,843,028	29,698,665
Long-term liabilities	<u>42,936,088</u>	<u>80,615,804</u>
Total liabilities	<u>74,779,116</u>	<u>110,314,469</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	20,839,895	17,089,253
Restricted	125,968,684	143,417,500
Unrestricted	<u>10,966,343</u>	<u>13,073,657</u>
Total net assets	<u>\$ 157,774,922</u>	<u>\$ 173,580,410</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$157,774,922. Of this total, \$10,966,343 is unrestricted in use.

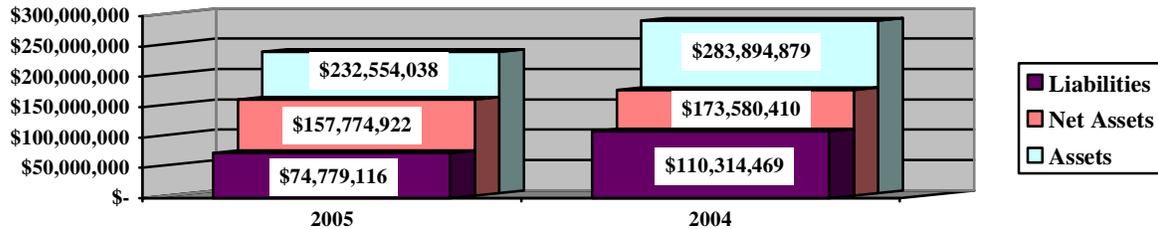
**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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At year-end, capital assets represented 9.60% of total assets. Capital assets include land, buildings and improvements, furniture and equipment, vehicles and construction in progress. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$20,839,895. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$125,968,684, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$10,966,343 may be used to meet the District's ongoing obligations to the students and creditors.

Governmental Activities



The table below shows the change in net assets for fiscal years 2005 and 2004.

Change in Net Assets

	Governmental Activities 2005	Governmental Activities 2004
Revenues		
Program revenues:		
Charges for services and sales	\$ 1,569,085	\$ 1,947,841
Operating grants and contributions	11,962,744	14,195,178
Capital grants and contributions	0	653,725
General revenues:		
Property taxes	16,808,884	17,735,897
Grants and entitlements	36,314,605	35,488,263
Grants and entitlements restricted for Ohio Schools Facilities Commission	0	137,290,219
Investment earnings	1,348,869	879,358
Other	813,631	314,085
Total revenues	\$ 68,817,818	\$ 208,504,566

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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	Governmental Activities 2005	(Restated) Governmental Activities 2004
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 27,893,403	\$ 26,311,926
Special	9,701,410	9,182,644
Vocational	647,405	809,697
Adult/continuing	294,501	231,435
Other	1,042,726	351,110
Support services:		
Pupil	3,767,328	3,909,454
Instructional staff	5,079,172	5,027,660
Board of education	34,772	25,980
Administration	4,890,577	4,876,600
Fiscal	1,190,790	994,013
Business	700,266	746,393
Operations and maintenance	6,663,123	7,350,995
Pupil transportation	2,370,117	2,370,156
Central	1,063,365	878,649
Food service operations	2,111,695	2,077,703
Operations of non-instructional services	840,636	643,751
Extracurricular activities	1,210,493	1,210,192
Interest and fiscal charges	1,748,168	632,979
Total expenses	<u>71,249,947</u>	<u>67,631,337</u>
Special item	<u>(13,373,359)</u>	<u>-</u>
Change in net assets	(15,805,488)	140,873,229
Net assets at beginning of year	<u>173,580,410</u>	<u>32,707,181</u>
Net assets at end of year	<u>\$ 157,774,922</u>	<u>\$ 173,580,410</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$15,805,488. Total governmental expenses of \$71,249,947 were offset by program revenues of \$13,531,829 and general revenues of \$55,285,989. Program revenues supported 18.99% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 77.19% of total governmental revenue.

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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The District's financial condition has remained constant in recent years. Taxpayers have supported Emergency Levy renewals and State support has increased yearly. However, the District's personal property tax base is eroding due to business financial difficulties, revaluation reviews or moving from the District. In addition, escalating health care, workers compensation, utility, maintenance, property, fleet and liability insurance, and vehicle fuel costs have out-paced revenue growth. The District has taken cost containment steps to hold the line on a deficit.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$39,579,445 or 55.55% of total governmental expenses for fiscal 2005.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

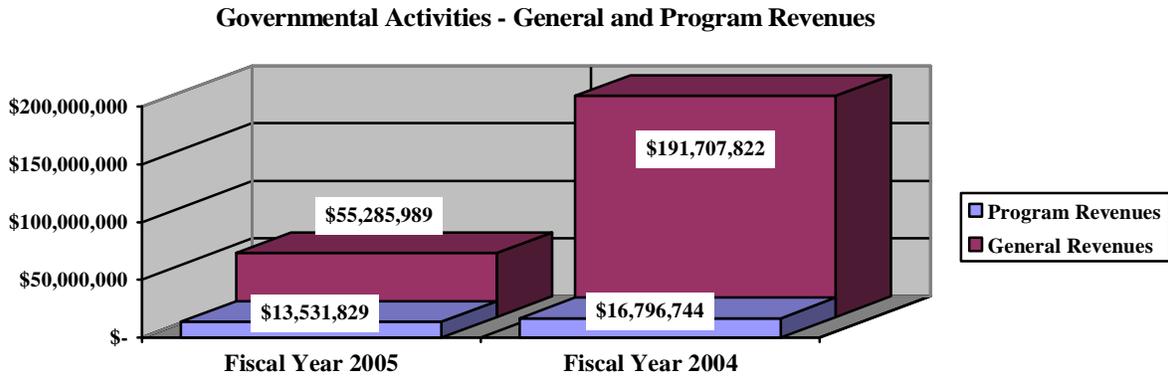
	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>	(Restated) Total Cost of Services <u>2004</u>	(Restated) Net Cost of Services <u>2004</u>
Program expenses				
Instruction:				
Regular	\$ 27,893,403	\$ 26,632,642	\$ 26,311,926	\$ 20,678,411
Special	9,701,410	3,829,944	9,182,644	6,060,675
Vocational	647,405	644,377	809,697	623,166
Adult/continuing	294,501	195,247	231,435	231,435
Other	1,042,726	827,485	351,110	166,757
Support services:				
Pupil	3,767,328	3,100,421	3,909,454	2,858,602
Instructional staff	5,079,172	3,174,398	5,027,660	2,727,551
Board of education	34,772	34,772	25,980	25,980
Administration	4,890,577	4,760,373	4,876,600	4,588,507
Fiscal	1,190,790	1,098,667	994,013	899,405
Business	700,266	700,266	746,393	746,393
Operations and maintenance	6,663,123	6,662,367	7,350,995	6,767,773
Pupil transportation	2,370,117	2,229,621	2,370,156	2,262,848
Central	1,063,365	1,063,071	878,649	878,389
Food service operations	2,111,695	(4,189)	2,077,703	(61,047)
Other non-instructional services	840,636	118,932	643,751	(123,633)
Extracurricular activities	1,210,493	901,556	1,210,192	870,402
Interest and fiscal charges	<u>1,748,168</u>	<u>1,748,168</u>	<u>632,979</u>	<u>632,979</u>
Total expenses	<u>\$ 71,249,947</u>	<u>\$ 57,718,118</u>	<u>\$ 67,631,337</u>	<u>\$ 50,834,593</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 81.18% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 81.00%. The District's taxpayers, as a whole, are by far the primary support for District's students.

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
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The graph below presents the District's governmental activities revenue for fiscal years 2005 and 2004.



The District's Funds

Fund balance at the beginning of the year was restated (see Note 2.A. of the notes to the basic financial statements for detail). The District's governmental funds reported a combined fund balance of \$53,704,488, which is lower than last year's total of \$91,250,426. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance <u>June 30, 2005</u>	(Restated) Fund Balance <u>June 30, 2004</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
General	\$ 8,868,606	\$ 8,499,486	\$ 369,120	4.34 %
Debt Service	966,047	39,483,966	(38,517,919)	(97.55) %
Classroom Facilities	36,176,909	33,116,283	3,060,626	9.24 %
Other Governmental	<u>7,692,926</u>	<u>10,150,691</u>	<u>(2,457,765)</u>	(24.21) %
Total	<u>\$ 53,704,488</u>	<u>\$ 91,250,426</u>	<u>\$ (37,545,938)</u>	(41.15) %

General Fund

The District's general fund balance increased \$369,120. The increase in fund balance can be attributed to several items related to decreasing revenues still outpacing increased expenditures. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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	<u>2005</u> <u>Amount</u>	<u>2004</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 16,102,834	\$ 15,376,229	\$ 726,605	4.73 %
Tuition	603,543	639,410	(35,867)	(5.61) %
Earnings on investments	514,278	648,223	(133,945)	(20.66) %
Intergovernmental	34,624,809	35,348,907	(724,098)	(2.05) %
Other revenues	<u>407,459</u>	<u>311,043</u>	<u>96,416</u>	31.00 %
Total	<u>\$ 52,252,923</u>	<u>\$ 52,323,812</u>	<u>\$ (70,889)</u>	(0.14) %
<u>Expenditures</u>				
Instruction	\$ 30,167,090	\$ 29,185,059	\$ 982,031	3.36 %
Support services	20,847,879	21,325,512	(477,633)	(2.24) %
Other expenditures	<u>837,237</u>	<u>852,151</u>	<u>(14,914)</u>	(1.75) %
Total	<u>\$ 51,852,206</u>	<u>\$ 51,362,722</u>	<u>\$ 489,484</u>	0.95 %

Debt Service Fund

The debt service fund had \$2,554,117 in revenues and \$41,072,036 in expenditures. During fiscal 2005, the debt service fund's fund balance decreased \$38,517,919 from \$39,483,966 to \$966,047.

Classroom Facilities Fund

The classroom facilities fund had \$5,968,853 in revenues and \$2,908,227 in expenditures. During fiscal 2005, the classroom facilities fund's fund balance increased \$3,060,626 from \$33,116,283 to \$36,176,909.

General Fund Budgeting Highlights

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

During the course of fiscal 2005, the District amended its general fund budget several times. For the general fund, original budgeted revenues and financing sources were \$51,461,376 and final budgeted revenues and other financing sources were \$51,461,376. Actual revenues and other financing sources for fiscal 2005 was \$52,673,195. This represents a \$1,211,819 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$51,867,327 were increased to \$54,374,177 in the final appropriations. The actual budget basis expenditures for fiscal year 2005 totaled \$52,835,945, which was \$1,538,232 less than the final budget appropriations. The District made a great effort to cut expenses throughout fiscal year 2005.

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
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Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$22,316,568 invested in land, buildings and improvements, furniture and equipment, vehicles and construction in progress. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

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

	Governmental Activities	
	2005	2004
Land	\$ 1,568,402	\$ 443,356
Construction in progress	4,449,939	875,072
Building and improvements	9,355,242	9,289,332
Furniture and equipment	5,875,667	6,137,242
Vehicles	1,067,318	1,219,323
Total	\$ 22,316,568	\$ 17,964,325

The overall increase in capital assets of \$4,352,243 is due to capital outlays of \$5,348,637 exceeding depreciation expense of \$996,394 in the fiscal year. See Note 8 to the basic financial statements for detail.

Debt Administration

At June 30, 2005, the District had \$37,628,611 in general obligation bonds and installment purchase obligations payable. Of this total, \$616,667 is due within one year and \$37,011,944 is due within greater than one year. See Note 9 to the basic financial statements for detail.

Current Related Financial Activities

Overall, the District has been financially strong. As the preceding information shows, the District depends upon local property taxes, primarily residential/agricultural class property. The anticipated additional state funding revenue, along with the District's cash balance, will provide the District with the necessary funds to meet its operating expenses in fiscal year 2006. However, the future financial stability of the District is not without challenges.

The District currently has a sufficient cash balance to meet operating expenses through fiscal year 2006. The District is currently continuing its plan to control spending for the future. The District will face some form of renewal of an emergency levy that it will collect through calendar year 2008.

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
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UNAUDITED**

The next challenge facing the District is the future of state funding. The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." Since 1997, the state has directed its tax revenue growth toward school districts with little property tax wealth. On May 16, 2004, the Ohio Supreme Court emphatically clarified that jurisdiction of the DeRolph case had ended. The Ohio Coalition for Equity and Adequacy of School Funding filed a petition with the U.S. Supreme Court for permission to file an appeal. The court rejected the petition. From a legislative standpoint many decisions have been made that have a deteriorating effect on school revenues: the decision in past years to raise the charge off millage on the school foundation program to 23 mills from 20 mills; the decision to phase out the personal property tax; the decision to grant authority to the State Department of Taxation charging a fee to distribute rollback, homestead and personal property tax.

The public schools in Ohio also face the challenges of meeting many unfunded mandates by both the state and federal government. Examples are the Educational Management Information System (state) and No Child Left Behind (federal) compliance.

The District has carefully managed its general fund budget in order to optimize the dollars available for educating the students it serves and to minimize the levy millage amounts needed periodically from the community. Sound fiscal management by the Board and Administration has enabled the District to maintain its cash balance.

The District's Five Year Forecast indicates that additional revenues will be required in fiscal year 2010. In recent fiscal years the Board and Administration have carefully managed the budget to minimize the size of an additional request from the community. The District will continue to monitor and cut costs where possible to further decrease the request.

The District is excited and looking forward to its Ohio School Facilities Commission (OSFC) Project that when completed will provide new school buildings for every student in the District. The local community passed a Bond Issue in November 2004 to provide the Local Share of the Project and the funds for Locally Funded Initiatives to further enhance the project.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Angela Lewis, Treasurer, Warren City School District, 261 Monroe Street, NW, Warren, Ohio 44483.

**BASIC
FINANCIAL STATEMENTS**

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . . .	\$ 39,777,629
Investments	26,223,648
Receivables:	
Taxes	24,115,696
Accounts	43,512
Intergovernmental	119,174,140
Accrued interest	65,322
Materials and supplies inventory	346,615
Unamortized bond issue costs	490,908
Capital assets:	
Land	1,568,402
Construction in progress	4,449,939
Depreciable capital assets, net	16,298,227
Capital assets, net.	22,316,568
 Total assets.	 232,554,038
Liabilities:	
Accounts payable.	2,133,724
Contracts payable.	208,488
Accrued wages and benefits	5,312,858
Pension obligation payable.	1,465,960
Intergovernmental payable	1,311,885
Deferred revenue	19,743,422
Accrued interest payable	139,291
Claims payable	1,527,400
Long-term liabilities:	
Due within one year.	1,601,648
Due within more than one year	41,334,440
 Total liabilities	 74,779,116
Net Assets:	
Invested in capital assets, net of related debt.	20,839,895
Restricted for:	
Capital projects	123,403,869
Debt service.	1,307,167
Classroom facilities and maintenance.	414,094
State funded programs	391,311
Federally funded programs	74,389
Student activities	49,208
Budget Stabilization	328,646
Unrestricted.	10,966,343
 Total net assets	 \$ 157,774,922

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Program Revenues			Net (Expense) Revenue and and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental activities:				
Instruction:				
Regular	\$ 27,893,403	\$ 621,482	\$ 639,279	\$ (26,632,642)
Special	9,701,410	-	5,871,466	(3,829,944)
Vocational	647,405	3,028		(644,377)
Adult/continuing	294,501	91,836	7,418	(195,247)
Other	1,042,726	35,695	179,546	(827,485)
Support services:				
Pupil	3,767,328	4,083	662,824	(3,100,421)
Instructional staff	5,079,172	-	1,904,774	(3,174,398)
Board of education	34,772	-	-	(34,772)
Administration	4,890,577	1,914	128,290	(4,760,373)
Fiscal	1,190,790	1,331	90,792	(1,098,667)
Business	700,266	-	-	(700,266)
Operations and maintenance	6,663,123	-	756	(6,662,367)
Pupil transportation	2,370,117	83,675	56,821	(2,229,621)
Central	1,063,365	-	294	(1,063,071)
Operation of non-instructional services:				
Food service operations	2,111,695	417,104	1,698,780	4,189
Other non-instructional services	840,636	-	721,704	(118,932)
Extracurricular activities	1,210,493	308,937	-	(901,556)
Interest and fiscal charges	1,748,168	-	-	(1,748,168)
Total governmental activities	<u>\$ 71,249,947</u>	<u>\$ 1,569,085</u>	<u>\$ 11,962,744</u>	<u>(57,718,118)</u>

General Revenues:

Property taxes levied for:	
General purposes	14,576,406
Special revenue	240,886
Debt service	1,779,467
Capital projects	212,125
Grants and entitlements not restricted	
to specific programs	36,314,605
Investment earnings	1,348,869
Miscellaneous	813,631
Total general revenues	<u>55,285,989</u>

Special item:

Decrease in State share of Ohio School Facilities Commission construction project	
	(13,373,359)
Total general revenues and special item	<u>41,912,630</u>

Change in net assets (15,805,488)

Net assets at beginning of year (restated) 173,580,410

Net assets at end of year \$ 157,774,922

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ 15,526,455	\$ 954,736	\$ 9,838,621	\$ 10,382,633	\$ 36,702,445
Investments	-	-	26,223,648	-	26,223,648
Receivables:					
Taxes.	20,777,885	2,775,513	-	562,298	24,115,696
Accounts	30,209	-	-	1,531	31,740
Intergovernmental	43,919	-	117,244,016	1,886,205	119,174,140
Accrued interest	-	-	65,322	-	65,322
Interfund loans	755,022	-	-	-	755,022
Materials and supplies inventory	-	-	-	81,066	81,066
Restricted assets:					
Equity in pooled cash and cash equivalents	328,646	-	-	-	328,646
Total assets	<u>\$ 37,462,136</u>	<u>\$ 3,730,249</u>	<u>\$ 153,371,607</u>	<u>\$ 12,913,733</u>	<u>\$ 207,477,725</u>
Liabilities:					
Accounts payable	\$ 792,459	\$ -	\$ -	\$ 1,313,296	\$ 2,105,755
Contracts payable	-	-	120,649	87,839	208,488
Accrued wages and benefits	3,966,492	-	-	1,346,366	5,312,858
Compensated absences payable	744,835	-	-	11,826	756,661
Pension obligation payable.	1,126,626	-	-	339,334	1,465,960
Intergovernmental payable.	1,269,901	-	-	41,984	1,311,885
Interfund loan payable	-	-	-	755,022	755,022
Deferred revenue.	20,693,217	2,764,202	117,074,049	1,325,140	141,856,608
Total liabilities	<u>28,593,530</u>	<u>2,764,202</u>	<u>117,194,698</u>	<u>5,220,807</u>	<u>153,773,237</u>
Fund Balances:					
Reserved for encumbrances	553,821	-	719,349	894,443	2,167,613
Reserved for materials and supplies inventory.	-	-	-	81,066	81,066
Reserved for tax revenue available for appropriation	84,668	11,311	-	1,804	97,783
Reserved for budget stabilization.	328,646	-	-	-	328,646
Unreserved, undesignated, reported in:					
General fund	7,901,471	-	-	-	7,901,471
Special revenue funds.	-	-	-	868,658	868,658
Debt service fund	-	954,736	-	-	954,736
Capital projects funds.	-	-	35,457,560	5,846,955	41,304,515
Total fund balances	<u>8,868,606</u>	<u>966,047</u>	<u>36,176,909</u>	<u>7,692,926</u>	<u>53,704,488</u>
Total liabilities and fund balances	<u>\$ 37,462,136</u>	<u>\$ 3,730,249</u>	<u>\$ 153,371,607</u>	<u>\$ 12,913,733</u>	<u>\$ 207,477,725</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Total governmental fund balances		\$	53,704,488
<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.			22,316,568
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	4,274,491	
Intergovernmental revenue		117,809,435	
Accrued interest		29,260	
Total		122,113,186	122,113,186
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(139,291)
Unamortized premiums on bond issuance is not recognized in the funds.			(944,811)
Unamortized bond issuance costs are not recognized in the funds.			490,908
Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.			1,468,490
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds payable		37,325,000	
Installment purchase obligation		303,611	
Compensated absences		3,606,005	
Total		(41,234,616)	(41,234,616)
Net assets of governmental activities		\$	157,774,922

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Taxes	\$ 16,102,834	\$ 2,074,793	\$ -	\$ 376,856	\$ 18,554,483
Tuition	603,543	-	-	99,164	702,707
Transportation fees	83,675	-	-	-	83,675
Charges for services	-	-	-	417,104	417,104
Earnings on investments	514,278	107,497	643,333	54,501	1,319,609
Extracurricular	-	-	-	308,937	308,937
Classroom materials and fees	-	-	-	52,035	52,035
Other local revenues	323,784	-	437	386,367	710,588
Other revenue	-	-	-	5,032	5,032
Intergovernmental - State	34,082,780	368,674	5,325,083	6,185,903	45,962,440
Intergovernmental - Federal	542,029	3,153	-	7,324,359	7,869,541
Total revenue	<u>52,252,923</u>	<u>2,554,117</u>	<u>5,968,853</u>	<u>15,210,258</u>	<u>75,986,151</u>
Expenditures:					
Current:					
Instruction:					
Regular	22,337,055	-	-	5,348,303	27,685,358
Special	6,151,531	-	-	3,312,483	9,464,014
Vocational	669,215	-	-	2,175	671,390
Adult/continuing	-	-	-	294,330	294,330
Other	1,009,289	-	-	25,637	1,034,926
Support services:					
Pupil	2,645,232	-	-	1,032,280	3,677,512
Instructional staff	2,381,347	-	-	2,363,039	4,744,386
Board of education	34,772	-	-	-	34,772
Administration	4,487,867	-	-	247,349	4,735,216
Fiscal	883,299	36,248	23,194	227,918	1,170,659
Business	661,084	-	-	1,293	662,377
Operations and maintenance	6,617,148	-	-	92,186	6,709,334
Pupil transportation	2,162,358	-	-	78,281	2,240,639
Central	974,772	-	-	72,370	1,047,142
Operation of non-instructional services:					
Food service operations	13,518	-	-	2,056,987	2,070,505
Other non-instructional services	6,946	-	-	829,322	836,268
Extracurricular activities	816,773	-	-	365,364	1,182,137
Facilities acquisition and construction	-	-	2,885,033	1,631,425	4,516,458
Debt service:					
Principal retirement	-	38,675,000	-	91,389	38,766,389
Interest and fiscal charges	-	2,360,788	-	-	2,360,788
Total expenditures	<u>51,852,206</u>	<u>41,072,036</u>	<u>2,908,227</u>	<u>18,072,131</u>	<u>113,904,600</u>
Excess of revenues over (under) expenditures	<u>400,717</u>	<u>(38,517,919)</u>	<u>3,060,626</u>	<u>(2,861,873)</u>	<u>(37,918,449)</u>
Other financing sources (uses):					
Transfers in	-	-	-	401,150	401,150
Transfers (out)	(31,597)	-	-	(369,553)	(401,150)
Installment purchase obligation	-	-	-	395,000	395,000
Total other financing sources (uses)	<u>(31,597)</u>	<u>-</u>	<u>-</u>	<u>426,597</u>	<u>395,000</u>
Net change in fund balances	369,120	(38,517,919)	3,060,626	(2,435,276)	(37,523,449)
Fund balances at beginning of year (restated)	8,499,486	39,483,966	33,116,283	10,150,691	91,250,426
Decrease in reserve for inventory	-	-	-	(22,489)	(22,489)
Fund balances at end of year	<u>\$ 8,868,606</u>	<u>\$ 966,047</u>	<u>\$ 36,176,909</u>	<u>\$ 7,692,926</u>	<u>\$ 53,704,488</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds	\$	(37,523,449)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation expense in the current period.		
Capital asset additions	\$ 5,348,637	
Current year depreciation	(996,394)	
Total		4,352,243
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	(1,575,513)	
Intergovernmental revenue	(18,995,439)	
Interest revenue	29,260	
Total		(20,541,692)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		
		(22,489)
Proceeds the installment purchase obligation are recorded as revenue in the governmental funds, however, the proceeds increase long-term liabilities on the statement of net assets.		
		(395,000)
Repayment of note and bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		38,766,389
Premiums on debt issuances are recognized as revenues in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		
		35,766
Bond issuance costs are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		
		(18,583)
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.		
		595,437
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		(80,118)
The internal service funds used by management to charge the costs of insurance to individual funds are not reported in the statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service funds is allocated among the governmental activities.		
		(973,992)
Change in net assets of governmental activities	\$	(15,805,488)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 15,757,885	\$ 15,757,885	\$ 16,128,954	\$ 371,069
Tuition.	610,001	610,001	624,365	14,364
Transportation fees	79,352	79,352	81,221	1,869
Earnings on investments.	563,712	563,712	576,986	13,274
Other local revenues.	323,048	323,048	330,655	7,607
Intergovernmental - State	33,298,659	33,298,659	34,082,780	784,121
Intergovernmental - Federal.	702,639	702,639	719,185	16,546
Total revenue	<u>51,335,296</u>	<u>51,335,296</u>	<u>52,544,146</u>	<u>1,208,850</u>
Expenditures:				
Current:				
Instruction:				
Regular	21,463,900	22,501,293	21,902,324	598,969
Special.	6,266,040	6,568,889	6,120,787	448,102
Vocational.	662,883	694,921	706,850	(11,929)
Other.	1,004,546	1,053,098	1,010,641	42,457
Support services:				
Pupil.	2,646,549	2,774,462	2,618,334	156,128
Instructional staff	2,474,950	2,594,569	2,364,949	229,620
Board of education	38,105	39,947	37,562	2,385
Administration.	4,346,225	4,556,287	4,513,549	42,738
Fiscal	852,174	893,361	930,239	(36,878)
Business	737,915	773,580	710,627	62,953
Operations and maintenance.	7,179,721	7,526,731	7,033,831	492,900
Pupil transportation	2,256,928	2,366,010	2,347,613	18,397
Central.	920,357	964,840	941,746	23,094
Extracurricular activities.	821,485	861,189	810,274	50,915
Total expenditures	<u>51,671,778</u>	<u>54,169,177</u>	<u>52,049,326</u>	<u>2,119,851</u>
Excess of revenues over (under) expenditures.	<u>(336,482)</u>	<u>(2,833,881)</u>	<u>494,820</u>	<u>3,328,701</u>
Other financing sources (uses):				
Transfers (out).	(62,003)	(65,000)	(31,597)	33,403
Advances in	121,063	121,063	123,914	2,851
Advances (out).	(95,390)	(100,000)	(755,022)	(655,022)
Refund of prior year expenditure	1,491	1,491	1,526	35
Other uses of funds	(38,156)	(40,000)	-	40,000
Sale of capital assets.	3,526	3,526	3,609	83
Total other financing sources (uses)	<u>(69,469)</u>	<u>(78,920)</u>	<u>(657,570)</u>	<u>(578,650)</u>
Net change in fund balance	(405,951)	(2,912,801)	(162,750)	2,750,051
Fund balance at beginning of year (restated)	13,474,379	13,474,379	13,474,379	-
Prior year encumbrances appropriated . . .	1,272,010	1,272,010	1,272,010	-
Fund balance at end of year	<u>\$ 14,340,438</u>	<u>\$ 11,833,588</u>	<u>\$ 14,583,639</u>	<u>\$ 2,750,051</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

	Governmental Activities - Internal Service Funds
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents.	\$ 2,746,538
Receivables:	
Accounts.	11,772
Materials and supplies inventory	<u>265,549</u>
 Total assets	 <u>3,023,859</u>
Liabilities:	
Current liabilities:	
Accounts payable.	27,969
Claims payable	<u>1,527,400</u>
 Total liabilities	 <u>1,555,369</u>
Net assets:	
Unrestricted.	<u>1,468,490</u>
 Total net assets	 <u><u>\$ 1,468,490</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Governmental Activities - Internal Service Funds
Operating revenues:	
Charges for services.	\$ 8,038,728
Other	149,675
Total operating revenues	<u>8,188,403</u>
 Operating expenses:	
Personal services	7,515
Purchased services	77,560
Materials and supplies.	153,811
Claims.	8,923,509
Total operating expenses	<u>9,162,395</u>
 Change in net assets.	(973,992)
 Net assets at beginning of year	 <u>2,442,482</u>
 Net assets at end of year	 <u><u>\$ 1,468,490</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Governmental Activities - Internal Service Funds
Cash flows from operating activities:	
Cash received from charges for services	\$ 8,038,728
Cash received from other operating revenues.	185,252
Cash payments for personal services	(7,515)
Cash payments for purchased services	(77,560)
Cash payments for materials and supplies.	(170,076)
Cash payments for claims.	<u>(8,233,109)</u>
Net cash used in operating activities	<u>(264,280)</u>
Net decrease in cash and cash equivalents	(264,280)
Cash and cash equivalents at beginning of year. . .	<u>3,010,818</u>
Cash and cash equivalents at end of year	<u><u>\$ 2,746,538</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (973,992)
Changes in assets and liabilities:	
Decrease in accounts receivable	35,577
Increase in materials and supplies inventory.	(21,298)
Increase in accounts payable.	5,033
Increase in claims payable	<u>690,400</u>
Net cash used in operating activities.	<u><u>\$ (264,280)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 27,411	\$ 69,954
Total assets.	<u>27,411</u>	<u>\$ 69,954</u>
Liabilities:		
Accounts payable.	-	\$ 9,282
Due to students	-	60,672
Total liabilities	<u>-</u>	<u>\$ 69,954</u>
Net Assets:		
Held in trust for scholarships	<u>27,411</u>	
Total net assets	<u>\$ 27,411</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 215
Total additions.	215
Change in net assets	215
Net assets at beginning of year	27,196
Net assets at end of year	\$ 27,411

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Warren City School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a city school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (five members) and is responsible for the provision of public education to residents of the District.

The District ranks as the 42nd largest by enrollment among the 614 public and community school districts in the state. The District employs 326 non-certified and 545 certified employees to provide services to approximately 6,567 students and community groups. The District provides regular, vocational and special instruction. The District also provides support services for the pupils, instructional staff, general and school administration, business and fiscal services, facilities acquisitions and construction services, operation and maintenance of plant, student transportation, food services, extracurricular activities and non-programmed services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and its internal service fund provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". When applying GASB Statement No. 14 and GASB Statement No. 39, management has considered all potential component units. The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, preschool and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise have access to the organizations' resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of this criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

JOINTLY GOVERNED ORGANIZATIONS

Trumbull Career and Technical Center

The Trumbull Career and Technical Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the fifteen participating school districts' elected boards, which possesses its own budgeting and taxing authority. Financial information can be obtained by contacting the Treasurer at 528 Educational Highway, Warren, Ohio 44483.

Northeast Ohio Management Information Network (NEOMIN)

NEOMIN is a jointly governed organization among thirty school districts in Trumbull and Ashtabula Counties. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the districts supports NEOMIN based upon a per pupil charge.

Superintendents of the participating school districts are eligible to be voting members of the Governing Board, which consists of ten members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County school districts, three superintendents from Trumbull County districts, and a treasurer from each county. The District was not represented on the Governing Board during fiscal year 2005. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. A complete set of separate financial statements may be obtained from the Trumbull County Educational Service Center, 6000 Youngstown-Warren Road, Niles, Ohio 44446.

North East Ohio Special Education Regional Resource Center (NEO/SERRC)

NEO/SERRC is a special education service center which selects its own board, adopts its own budget and receives direct federal and state grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

NEO/SERRC is governed by a governing board of 39 members made up of representatives from 35 superintendents of the participating districts, one non-public school, one county board of mental retardation and two parents whose term rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer at the Mahoning County Educational Service Center, 100 DeBartolo Place, Suite 105, Youngstown, Ohio 44512-7019.

North East Ohio Instructional Media Center (NEOIMC)

NEOIMC is a jointly governed organization among 45 school districts. The jointly governed organization was formed for the purpose of providing quality films and/or other media to support the educational curricula of the member school districts. Each member pays a monthly premium based on use of the media materials.

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

NEOIMC is governed by an advisory committee made up of a member from a parochial school, a joint vocational school, the county superintendent from each participating county, one city superintendent, and two local superintendents rotating every two years. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer at the Trumbull County Educational Service Center, 6000 Youngstown-Warren Road, Niles, Ohio 44446.

Region 12 Professional Development Center (RPDC)

The RPDC is a jointly governed organization among the school districts located in Trumbull, Mahoning, and Columbiana Counties. The jointly governed organization was formed for the purpose of establishing an articulated, regional structure for professional development, in which school districts, the business community, higher education and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improvements in instructional programs.

The RPDC is governed by a board made up of 19 representatives of the participating school districts, the business community, and Youngstown State University whose term rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer at the Trumbull County Educational Service Center, 6000 Youngstown-Warren Road, Niles, Ohio 44446.

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

B. Fund Accounting

The District uses funds to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

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

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

Debt Service Fund - The debt service fund is provided for the retirement of serial bonds and short term loans.

Classroom Facilities Fund - The classroom facilities fund is used to account for monies received and expended in connection with contracts entered into by the school district and the Ohio Department of Education for the building and equipping of classroom facilities.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; and (b) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service funds:

Internal Service Funds - The internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The internal service funds of the District account for self-insurance, warehouse service and parking programs.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's trust funds include two private purpose trusts which account for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency funds account for student activities.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal Service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The statement of net assets presents the financial condition of the governmental activities of the District at fiscal year-end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. 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 amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. The internal service funds are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

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.

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service funds are charges for services. Operating expenses for internal service funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The private purpose trust funds are reported using the economic resources measurement focus. The agency funds do not report a measurement focus as they do not report operations.

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 on the fund financial statements. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from 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, income taxes, interest, tuition, grants, student fees and rentals.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue. Unused donated commodities are reported as intergovernmental revenue.

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

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2005 is as follows.

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Trumbull County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the final budgeted amount in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2005.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.)

Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed appropriations totals.

5. Any revisions that alter the total of any object appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education throughout the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted. The final budget figures, which appear in the statements of budgetary comparisons, represent the permanent appropriation amounts plus all supplemental appropriations legally enacted during the year.

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

8. At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

F. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2005, investments were limited to federal agency securities, certificates of deposit, a repurchase agreement, a U.S. government money market mutual fund, and the State Treasury Asset Reserve (STAR Ohio). Investments are reported at fair value, which is based on quoted market prices, with the following exceptions: nonparticipating investment contracts such as repurchase agreements and certificates of deposit are reported at cost.

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenues credited to the general fund during fiscal year 2005, amounted to \$514,278, which includes \$177,103 assigned from other District funds.

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

An analysis of the District's investments at year-end is provided in Note 4.

G. Inventory

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

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

H. Capital Assets

General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets except land and construction in progress 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	25 - 50 years
Furniture and equipment	5 - 10 years
Vehicles	10 years

I. 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 type activities columns of the Statement of Net Assets.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2005, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least fifteen years or more of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund 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, and compensated absences 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 year. Bonds are recognized as a liability on the fund financial statements when due.

L. Fund Balance Reserves

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, materials and supplies inventory, tax advance unavailable for appropriation, and budget stabilization. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds. The reserve for tax revenue unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriations under state statute.

M. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set aside to create a reserve for budget stabilization. See Note 16 for details.

N. Estimates

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

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

O. Net Assets

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

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

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the fund.

Q. 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 and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

R. 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. During fiscal year 2005, the State share of the District's Ohio School Facilities Commission (OSFC) construction project decreased by \$13,373,359. Due to a decrease in enrollment, the master facility plan was revised and it was determined that one less PK through 8th grade building will be constructed. An intergovernmental receivable has been reported for the amount of the State share of the OSFC project due to the District at fiscal year-end. Since the \$13,373,359 was recognized as revenue and a receivable on the government-wide financial statements in the prior year, the decrease in the OSFC State share has been reported as a special item on the Statement of Activities.

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Prior Period Adjustments

A prior period adjustment has been made to include an intergovernmental payable of \$502,255 for workers compensation in the general fund at June 30, 2004. This prior period adjustment decreased the June 30, 2004 general fund balance from \$9,001,741 to \$8,499,486 and total governmental fund balance from \$91,752,681 to \$91,250,426. Net assets at June 30, 2004 decreased from \$174,082,665 to \$173,580,410.

Unencumbered fund balance at June 30, 2004 in the general fund has been restated to \$13,474,679 from \$12,384,112 as previously stated, to include all funds that are a component of the general fund on the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis).

B. Legal Compliance

Ohio Revised Code 5705.41(B) provides that no subdivision or taxing unit is to expend money unless it is appropriated. During fiscal year 2005, the District had expenditures in excess of appropriation at the fund (legal) level of control.

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess Expenditures</u>
<u>January 2005</u>			
Classroom Facilities Maintenance	\$ 2,500	\$ 3,133	\$ 633
District Managed School Activity	316,482	332,208	15,726
Auxiliary Services (NPSS)	659,101	855,017	195,916
Family and Children First	-	16,294	16,294
Community Development Block Grant	30,000	30,846	846
Debt Service	38,452,444	41,070,247	2,617,803
Permanent Improvement	622,627	648,086	25,459
Building	1,059,926	1,127,325	67,399
Student Managed Activity	81,307	84,902	3,595
Special Trust	28,067	35,004	6,937
<u>May 2005</u>			
Classroom Facilities Maintenance	\$ 2,500	\$ 3,133	\$ 633
District Managed School Activity	316,482	332,208	15,726
Auxiliary Services (NPSS)	853,536	855,017	1,481
Family and Children First	-	16,294	16,294
Community Development Block Grant	30,000	30,846	846
Debt Service	38,452,444	41,070,247	2,617,803
Permanent Improvement	622,627	648,086	25,459
Building	1,059,926	1,127,325	67,399
Student Managed Activity	81,307	84,902	3,595
Special Trust	28,067	35,004	6,937

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

Ohio Revised Code 5705.39 states in part the total appropriation from each fund should not exceed the total estimated resources. At June 30, 2005, appropriations exceeded estimated resources in the following funds:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Excess</u>
<u>January 2005</u>			
Auxiliary Services (NPSS)	\$ 806,827	\$ 1,018,942	\$ 212,115
Entry Year Programs	1,100	11,870	10,770
Student Intervention	282,776	299,282	16,506
Family and Children First	-	21,000	21,000
Alternative Schools	249,144	254,276	5,132
Miscellaneous State Grants	383,071	425,281	42,210
Title VI-B	2,142,085	2,142,132	47
Title I	4,468,617	5,264,390	795,773
Title V	54,677	57,442	2,765
Improving Teacher Quality	976,822	1,083,312	106,490
Miscellaneous Federal Grants	738,534	915,292	176,758
Student Managed Activity	114,013	138,003	23,990

C. Deficit Fund Balances

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

<u>Nonmajor Funds</u>	<u>Deficit</u>
Other Grants	\$ 13,710
Teacher Development	13,057
Disadvantaged Pupil Impact Aid	756,404
Ohio Reads	58,686
Summer Intervention	19,360
Alternative Schools	16,174
Title I	780,663
Title V	1,278
Improving Teacher Quality	162,186
Miscellaneous Federal Grants	87,990

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the 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 District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

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

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

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

8. Under limited circumstances, corporate debt interests rated in either of the two highest 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 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.

A. Cash on Hand

At year-end, the District had \$5,770 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

B. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$13,050,656, exclusive of the \$10,989,766 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$13,380,588 of the District's bank balance of \$13,595,444 was exposed to custodial risk as discussed below, while \$214,856 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities</u>			
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>
FHLB	\$ 13,456,322	\$ 9,961,570	\$ -	\$ -	\$ 3,494,752
FHLM	1,989,375	1,989,375	-	-	-
FNMA	1,491,094	-	-	1,491,094	-
FNMA DN	6,095,297	3,068,005	3,027,292	-	-
FHLM DN	3,191,560	-	3,191,560	-	-
Repurchase agreements	10,989,766	10,989,766	-	-	-
U.S. Government money market mutual fund	113,813	113,813	-	-	-
STAR Ohio	15,714,989	15,714,989	-	-	-
	<u>\$ 53,042,216</u>	<u>\$ 41,837,518</u>	<u>\$ 6,218,852</u>	<u>\$ 1,491,094</u>	<u>\$ 3,494,752</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The District's investments, except for the repurchase agreement as discussed above and STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the District's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the District.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
FHLB	\$ 13,456,322	25.37%
FHLM	1,989,375	3.75%
FNMA	1,491,094	2.81%
FNMA DN	6,095,297	11.49%
FHLM DN	3,191,560	6.02%
Repurchase Agreements	10,989,766	20.72%
U.S. Government money market mutual fund	113,813	0.21%
STAR Ohio	15,714,989	29.63%
	<u>\$ 53,042,216</u>	<u>100.00%</u>

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 13,050,656
Investments	53,042,216
Cash on hand	<u>5,770</u>
Total	<u>\$ 66,098,642</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 66,001,277
Private-purpose trust funds	27,411
Agency funds	<u>69,954</u>
Total	<u>\$ 66,098,642</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund balances consisted of the following at June 30, 2005, as reported on the fund statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 755,022

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the Statement of Net Assets.

B. Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:	
General Fund	\$ 31,597
Nonmajor Governmental Funds	369,553

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the 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 District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 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 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Trumbull County. The Trumbull County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$84,668 in the general fund, \$11,311 in the debt service fund, \$1,033 in the classroom maintenance facilities fund, and \$771 in the permanent improvement fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2004 was \$110,788 in the general fund, \$13,096 in the debt service fund, \$1,297 in the classroom facilities maintenance fund, and \$1,297 in the permanent improvement 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.

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 330,804,340	76.56%	\$ 330,817,900	76.53%
Public utility personal	20,340,220	4.71%	20,340,220	4.71%
Tangible personal property	<u>80,929,565</u>	<u>18.73%</u>	<u>81,089,713</u>	<u>18.76%</u>
Total	<u>\$ 432,074,125</u>	<u>100.00%</u>	<u>\$ 432,247,833</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 62.05		\$ 61.65	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:

Property taxes	\$ 24,115,696
Accounts	43,512
Accrued interest	65,322
Intergovernmental	<u>119,174,140</u>
Total	<u>\$ 143,398,670</u>

Receivables have been disaggregated on the face of the financial statements. All receivables are expected to be collected within one year.

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Balance at 06/30/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at 06/30/05</u>
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 443,356	\$ 1,125,046	\$ -	\$ 1,568,402
Construction in progress	875,072	3,574,867	-	4,449,939
Total capital assets, not being depreciated	<u>1,318,428</u>	<u>4,699,913</u>	<u>-</u>	<u>6,018,341</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	16,605,000	271,005	-	16,876,005
Furniture and equipment	13,086,842	352,922	-	13,439,764
Vehicles	<u>2,647,396</u>	<u>24,797</u>	<u>-</u>	<u>2,672,193</u>
Total capital assets, being depreciated	<u>32,339,238</u>	<u>648,724</u>	<u>-</u>	<u>32,987,962</u>
<i>Less: accumulated depreciation:</i>				
Buildings and improvements	(7,315,668)	(205,095)	-	(7,520,763)
Furniture and equipment	(6,949,600)	(614,497)	-	(7,564,097)
Vehicles	<u>(1,428,073)</u>	<u>(176,802)</u>	<u>-</u>	<u>(1,604,875)</u>
Total accumulated depreciation	<u>(15,693,341)</u>	<u>(996,394)</u>	<u>-</u>	<u>(16,689,735)</u>
Governmental activities capital assets, net	<u>\$ 17,964,325</u>	<u>\$ 4,352,243</u>	<u>\$ -</u>	<u>\$ 22,316,568</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 265,423
Special	48,649
Vocational	1,757
Adult/Continuing Education	68
Other	6,755

Support Services:

Pupil	24,148
Instructional staff	234,474
Administration	91,687
Fiscal	14,728
Business	26,775
Operations and maintenance	72,721
Pupil transportation	140,530
Central	2,035
Non-instructional	30,275
Food service operations	23,637
Extracurricular activities	<u>12,732</u>

Total depreciation expense \$ 996,394

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 9 - LONG-TERM OBLIGATIONS

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

	<u>Balance</u> <u>6/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/05</u>	<u>Amounts</u> <u>Due in</u> <u>One Year</u>
Governmental Activities					
Compensated absences payable	\$ 3,635,227	\$ 1,104,701	\$ (377,262)	\$ 4,362,666	\$ 984,981
Installment purchase obligation	-	395,000	(91,389)	303,611	151,667
G.O. Bonds payable	38,000,000	-	(675,000)	37,325,000	465,000
Notes payable	<u>38,000,000</u>	<u>-</u>	<u>(38,000,000)</u>	<u>-</u>	<u>-</u>
Total governmental activities long-term liabilities	<u>\$ 79,635,227</u>	<u>\$ 1,499,701</u>	<u>\$ (39,143,651)</u>	<u>\$ 41,991,277</u>	<u>\$ 1,601,648</u>
Add: Unamortized premium on bond issue				<u>944,811</u>	
Total on statement of net assets				<u>\$ 42,936,088</u>	

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid.

Installment Purchase Obligation: On July 24, 2004 the District entered into an installment purchase obligation with Phillip Mazza (\$60,000), William Mazza (\$60,000) and DAF Corporation (\$275,000) to acquire real estate in the amount of \$395,000.

The following is a summary of the future debt service requirements to maturity for the installment purchase obligation:

<u>Year Ended</u>	<u>Phillip</u> <u>Mazza</u> <u>Principal</u>	<u>William</u> <u>Mazza</u> <u>Principal</u>	<u>DAF</u> <u>Corporation</u> <u>Principal</u>	<u>Total</u>
2006	\$ 30,000	\$ 30,000	\$ 91,667	\$ 151,667
2007	22,500	22,500	91,667	136,667
2008	<u>-</u>	<u>-</u>	<u>15,277</u>	<u>15,277</u>
Total	<u>\$ 52,500</u>	<u>\$ 52,500</u>	<u>\$ 198,611</u>	<u>\$ 303,611</u>

B. During fiscal 2004, the District issued general obligation bonds to provide long-term financing of the construction and renovation of various school buildings in accordance with the terms of a Facilities grant from the Ohio Schools Facilities Commission (OSFC). The total project (hereafter "Construction Project") encompasses the construction of four new kindergarten through eight grade buildings and a new high school. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund. The source of payment is derived from a current 5.5 mill bonded debt tax levy.

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

These bonds represent the amount of the Construction Project that the District itself was required to finance, in accordance with the terms of a facilities grant from the Ohio School Facilities Commission (OSFC). OSFC will make quarterly disbursements to the District as the project is completed. As of June 30, 2005, the total estimated cost of the Construction Project is \$152,983,888, of which OSFC will pay approximately \$123,916,860.

This issue is comprised of current interest bonds, par value \$38,000,000. The interest rates on the current interest bonds range from 2.00% to 5.00%.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2031.

The following is a summary of the future debt service requirements to maturity for the 2004 series general obligation bonds:

	<u>General Obligation Bonds</u>		
<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 465,000	\$ 1,724,478	\$ 2,189,478
2007	505,000	1,714,778	2,219,778
2008	550,000	1,703,540	2,253,540
2009	595,000	1,689,171	2,284,171
2010	695,000	1,670,565	2,365,565
2011 - 2015	4,685,000	7,928,765	12,613,765
2016 - 2020	6,050,000	6,721,250	12,771,250
2021 - 2025	7,225,000	5,091,375	12,316,375
2026 - 2030	11,005,000	2,824,875	13,829,875
2031 - 2032	<u>5,550,000</u>	<u>281,000</u>	<u>5,831,000</u>
Total	<u>\$ 37,325,000</u>	<u>\$ 31,349,797</u>	<u>\$ 68,674,797</u>

- C. On December 23, 2003, the District issued \$38,000,000 in bond anticipation notes to begin various District building projects. The notes bear an annual interest rate of 2.00% and mature on July 15. The notes were retired using the proceeds from the District's \$38,000,000 bond issue on April 20, 2004.

D. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 2005, are a voted debt margin of \$2,543,352 and an unvoted debt margin of \$432,248.

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 10 - COMPENSATED ABSENCES

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and state laws. Full-time employees, including full-time hourly rated and per diem employees, are granted vacation with pay as follows:

<u>Years Service</u>	<u>Vacation Days</u>
0-1	None
1-8 inclusive	2 Weeks Annually
After 8-12	3 Weeks Annually
After 12 or more	4 Weeks Annually

Any vacation days which are not used as of December 31 are not available for use in a subsequent year for classified personnel. Administrators are permitted to carryover five (5) unused days to the next calendar year.

Each employee earns sick leave at the rate of one and one-quarter days for each completed month of service, or fifteen (15) days for each completed year of service. The maximum number of sick leave days that employees may accumulate is unlimited. Any sick leave earned or unused in prior employment with another public school district or other agency of the state, shall, upon presentation of a certified copy stating the number of sick leave days earned and unused from such employers, be transferred to the employees account at the time of employment in the manner prescribed by state law.

Retirement severance is paid to each employee with ten (10) or more years of service in the District who elects to retire from active service or who dies while on active service. The employee, or his/her estate shall receive, in one lump sum one-fourth (1/4) of the value of his/her accrued and unused sick leave to a maximum of thirty (30) days (1/4 of 120 days) multiplied times his/her per diem rate at the time of retirement. Sick leave balances in excess of the 120 days are paid at one-eighth the per diem rate.

NOTE 11 - RISK MANAGEMENT

A. General Risk

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers. General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$2,000,000 in the aggregate. In addition, the District maintains a \$6,000,000 umbrella liability policy.

The District maintains fleet insurance in the amount of \$1,000,000 for any one accident or loss.

B. Workers' Compensation

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

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 11 - RISK MANAGEMENT - (Continued)

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

C. Health Insurance

The District has established an internal service "self-insurance" fund, in conjunction with a formalized risk management program, in an effort to minimize risk exposure and control claims and premium costs.

This self-insurance fund was established for the purpose of accumulating balances sufficient to self-insure basic medical coverage and permit excess umbrella coverage for claims over a pre-determined level. Board and employee premium contributions are determined by negotiated agreement. Amounts are paid into this fund from the general fund and certain nonmajor governmental funds. Claims payments are made on an as-incurred basis, thus no "reserve" remains with the insurance carrier.

Expenses for claims are recorded as other expenses when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimate. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount.

Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using expected future investment assumptions as determined by the third party administrator. These liabilities are reported at their present value of \$1,527,400 at June 30, 2005.

A summary of changes in self-insurance claims for the current and proceeding years follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2005	\$ 837,000	\$ 8,923,509	\$ (8,233,109)	\$ 1,527,400
2004	1,198,000	6,815,762	(7,176,762)	837,000

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$1,066,448, \$1,042,903, and \$1,064,368, respectively; 44.13% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$595,812 represents the unpaid contribution for fiscal year 2005.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$4,238,355, \$4,209,853, and \$4,278,020, respectively; 83.23% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$710,660 represents the unpaid contribution for fiscal year 2005.

C. Social Security System

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

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 13 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$302,740 during fiscal 2005.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.3 billion at June 30, 2005. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254.780 million and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For this fiscal year, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-g basis. Net health care costs for the year ending June 30, 2005 were \$178,221,113. The target level for the health care fund is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long-term to provide for a health care reserve equal to at least 150% of estimated annual net claims costs. The number of eligible participants at June 30, 2005 is 58,123. For the District, the amount to fund health care benefits, including surcharge, equaled \$379,569 during the 2005 fiscal year.

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

The Combined Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented 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 the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis); and
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

	<u>General Fund</u>
Budget basis	\$ (162,750)
Net adjustment for revenue accruals	(291,223)
Net adjustment for expenditure accruals	(1,074,342)
Net adjustment for other sources/uses	625,973
Adjustment for encumbrances	<u>1,271,462</u>
GAAP basis	<u>\$ 369,120</u>

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and spending projects. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

NOTE 16 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	Textbooks/ Instructional <u>Materials</u>	Capital <u>Acquisition</u>	Budget <u>Stabilization</u>
Set-aside cash balance as of June 30, 2004	\$ (611,987)	\$ 221,327	\$ 328,646
Current year set-aside requirement	1,023,653	1,023,653	-
Carryover from prior years	-	(38,000,000)	-
Qualifying disbursements	<u>(772,392)</u>	<u>(1,639,695)</u>	<u>-</u>
Total	<u>\$ (360,726)</u>	<u>\$ (38,394,715)</u>	<u>\$ 328,646</u>
Balance carried forward to FY 2006	<u>\$ (360,726)</u>	<u>\$ (38,000,000)</u>	<u>\$ 328,646</u>

A schedule of the Governmental Fund restricted assets at June 30, 2005 follows:

Amount restricted for budget stabilization	<u>\$ 328,646</u>
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The District had qualifying disbursements during the year that reduced the textbooks set-aside amount below zero. This negative set-aside balance may be used to reduce the set-aside requirement of future years. The District had offsets and qualifying disbursements during the year that reduced the capital acquisition set-aside amount below zero. A portion of this extra amount (\$38,000,000) may be used to reduce the set-aside requirements for future years.

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 17 – CONTRACTUAL COMMITMENTS

As of June 30, 2005, the District had contractual purchase commitments for the following projects:

Contractor	Purchase Commitments	Amount Paid as of 6/30/2005	Amount Remaining on Contracts
M&M Excavating	\$ 97,664	\$ 0	\$ 97,664
M&M Demolition	253,590	0	253,590
Pro Grass LLC	450,723	0	450,723
Cardinal Environmental	127,897	0	127,897
Precision Environmental Company	262,900	0	262,900
Miller-Young Paving Company	50,241	0	50,241
<i>Totals</i>	<u>\$ 1,243,015</u>	<u>\$ 0</u>	<u>\$ 1,243,015</u>

NOTE 18 – SIGNIFICANT SUBSEQUENT EVENTS

Contracts were awarded to the following companies for the construction of Lincoln Elementary at the December 13, 2005 meeting.

1. Gibson Construction – General Contractor - \$11,159,350
2. Fire Foe Corporation – Fire Protection - \$30,043
3. Conti Corporation – Plumbing - \$4,530,500
4. Valley Electrical – Electric Services - \$214,550
5. WG Tomko – Heating and Cooling - \$918,388

Contracts were awarded to the following companies for the construction of Warren G. Harding High School at the June 6, 2006 meeting.

1. Mike Coates Construction - \$21,304,697
2. Stonecreek Interior Systems - \$1,109,200
3. High Tech Pools, Inc - \$965,954
4. Fire Foe Corporation - \$588,165
5. WG Tomko - \$588,165
6. Antenucci Inc - \$2,650,000
7. Valley Electrical Consolidated - \$8,223,700

On October 26, 2006, the Board awarded a contract to S.S. Kemp & Co. a contract for new food service equipment for Warren G. Harding High School in the amount of \$562,304.

February 9, 2007

To the Board of Education
Warren City School District
Warren, OH 44483

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Warren City School District (the "School District") as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 9, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be 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 School District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 2005-001.

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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 to be material weaknesses. However, none of the reportable conditions described above are considered to be material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the School District in a separate letter dated February 9, 2007.

Warren City School District
Independent Auditor's Report on Compliance and Internal Control
Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*
February 9, 2007
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2005-002 through 2005-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the School District in a separate letter dated February 9, 2007.

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

Rea & Associates, Inc.

February 9, 2007

To the Board of Education
Warren City School District
Warren, OH 44483

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of the Warren City School District (the "School District") with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Warren City School District
Independent Auditor's Report On Compliance With Requirements
Applicable To Each Major Program And Internal Control Over
Compliance In Accordance With OMB Circular A-133
February 9, 2007
Page 2

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over compliance and operations that we have reported to management of the District in a separate letter dated February 9, 2007.

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

Hea & Associates, Inc.

WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/ <i>Pass Through Grantor</i> Program Title	CFDA Number	Pass Through Entity Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U. S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	10.550	N/A		\$ 286,393		\$ 286,393
School Breakfast Program	10.553	05PU-2004 05PU-2005	\$ 149,764 299,235 <hr/> 448,999		\$ 149,764 299,235 <hr/> 448,999	
National School Lunch Program	10.555	VGS1-2003 LLP1-2004 LLP4-2004 LLP1-2005 LLP4-2005	87 960 399,302 3,922 858,620 <hr/> 1,262,891		87 960 399,302 3,922 858,620 <hr/> 1,262,891	
Summer Food Service Program for Children	10.559	23PU-2004 24PU-2004	23,587 2,485 <hr/> 26,072		23,587 2,484 <hr/> 26,071	
Total U.S. Department of Agriculture			<hr/> 1,737,962	<hr/> 286,393	<hr/> 1,737,961	<hr/> 286,393
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed through Ohio Department of Education:</i>						
Adult Education - State Grant Program	84.002	ABS1-2003C ABS1-2004 ABS1-2004C ABS1-2005	0 71,196 16,562 36,283 <hr/> 124,041		700 18,571 16,562 151,269 <hr/> 187,102	
Title I Grants to Local Educational Agencies	84.010	C1S1 - 2004 C1S1 - 2005 C1SD - 2004 C1SD - 2005 C1SN - 2005	320,176 2,456,325 168 77,429 22,013 <hr/> 2,876,111		341,781 2,953,477 10,839 63,510 20,018 <hr/> 3,389,625	
Special Education Grants to States	84.027	6BSD - 2004P 6BSF - 2004 6BSF - 2005	9,689 228,205 1,165,955 <hr/> 1,403,849		9,859 169,835 1,250,387 <hr/> 1,430,081	
Safe and Drug-Free Schools and Communities - State Grants	84.186	DRS1 - 2004 DRS1 - 2005	25,850 52,891 <hr/> 78,741		12,930 49,116 <hr/> 62,046	
Goals - Planning Grant	84.276	G2S5-2001	(339)		0	
State Grants for Innovative Programs	84.298	C2S1-2004 C2S1-2005	(6,282) 39,663 <hr/> 33,381		9,347 35,703 <hr/> 45,050	

WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/ <i>Pass Through Grantor</i> Program Title	CFDA Number	Pass Through Entity Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
Education Technology State Grants	84.318	TJS1-2004 TJS1-2005	\$ (1,394) 51,848 <u>50,454</u>		\$ 3,964 44,983 <u>48,947</u>	
Comprehensive School Reform Demonstration	84.332	RFCC-2003 RFCC-2004 RFCC-2005 RFK2-2003 RFK2-2004 RFS2-2003 RFS2-2004	0 (3,737) 80,884 2,923 6,077 26,336 10,935 <u>123,418</u>		6,366 50,136 85,700 16,251 30,565 49,418 20,400 <u>258,836</u>	
Federal Emergency Repair Program	84.352A	N/A	6,000		47,744	
Improving Teacher Quality State Grants	84.367	TRS1-2004 TRS1-2005	143,239 628,015 <u>771,254</u>		157,089 682,237 <u>839,326</u>	
Vocational Education - Occupational and Employment Information State Grants	84.346	N/A	4,952		3,562	
<i>Direct Federal Programs:</i>						
Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	84.334	N/A	293,135		335,217	
Safe and Drug-Free Schools and Communities - National Programs	84.184	T4S1-2004	<u>8,895</u>		<u>0</u>	
Total U.S. Department of Education			<u>5,773,892</u>		<u>6,647,536</u>	
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program	93.778	FY 2005	560,322		560,322	
State Children's Health Insurance Program (SCHIP)	93.767	FY 2005	56,005		56,005	
<i>Passed through the Trumbull County Educational Service Center:</i>						
Medical Assistance Program	93.778	FY 2005	<u>77,884</u>		<u>77,884</u>	
Total U.S. Department of Health and Human Services			<u>694,211</u>		<u>694,211</u>	
<u>U.S. Department of Housing and Urban Development</u>						
<i>Passed through the City of Warren:</i>						
Community Development Block Grant	14.218	N/A	<u>30,000</u>		<u>30,846</u>	
Total U.S. Department of Housing and Urban Development			<u>30,000</u>		<u>30,846</u>	
Total Federal Financial Assistance			<u>\$ 8,236,065</u>	<u>\$ 286,393</u>	<u>\$ 9,110,554</u>	<u>\$ 286,393</u>

WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2005

NOTE A: SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B: 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: MATCHING REQUIREMENTS

Certain federal programs require that the District contribute non-federal funds (matching funds) to support the federally-funded programs. The District has complied with the matching requirements. The expenditure of non-federal matching funds is not included on the Schedule.

WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2005

1. SUMMARY OF AUDITOR'S RESULTS

A-133 Ref.
.505(d)

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d) (1) (iii)	Was there any reported material non- compliance at the financial statement level (GAGAS)?	Yes
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any reportable conditions reported for major programs which were not considered to be material?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510(a) of Circular A-133?	No
(d) (1) (vii)	Major Programs (list): Title I Gaining Awareness (GEAR-UP) Medical Assistance Program (CAFS)	CFDA # 84.010 CFDA # 84.334 CFDA # 93.778
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2005

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

Reportable Condition

FINDING NUMBER	2005-001
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Capital Assets

Statement No. 34 of the Governmental Accounting Standards Board, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments defines capital assets as land, improvements to land, buildings, improvements other than buildings, infrastructure, vehicles, furniture, machinery, and equipment which are used in operations and that have initial lives extending beyond a single reporting period. Capitalization is a method of allocating the cost of a tangible asset throughout its useful life by an annual depreciation expense. Substantial financial resources have been used to acquire and maintain the capital assets of the District, and therefore, priority should be placed over their accountability. The District did not maintain a complete and accurate record of their capital assets, including capital asset additions and disposals during the year ended June 30, 2004.

The District’s capital asset additions for fiscal year 2004 were those items purchased from the 600 and 700 expenditure object codes. However, these additions included assets with a cost below the capitalization threshold of \$1,000 and omitted capital assets charged to other object codes. The District did not report any disposals of capital assets because of a lack of records. Depreciation expense for the year ended June 30, 2005 was calculated by adding the depreciation expense for the fiscal year 2005 additions to the prior fiscal year 2004 depreciation expense because the District’s capital asset records did not record annual depreciation expense for each capital asset.

These calculation methods and lack of records did not provide the documentation or assurance required to determine the completeness and accuracy of the District’s capital assets as reported in the financial statements at June 30, 2005.

To maintain safeguards over capital assets and reduce the risk that the capital assets will be misstated, we recommend the District’s Board of Education and management review the existing capital asset accounting policies and their applicability. The current policies do address vital information such as acquisition dates, salvage value, transfers, useful life, depreciation, disposition, construction-in-progress, etc. However, the policies have not been consistently applied to the District’s capital asset records. For example:

- The useful life of many assets has been misapplied causing the assets to be depreciated over a longer period of time than the policies intend,
- Salvage value has not been applied to each asset, thereby inflating the depreciable costs,
- New vehicles have been capitalized at incorrect costs and vehicles used as trade-ins have not been deleted due to misapplication of the vehicle trade-in policy,
- The location of many assets have been misreported because procedures regarding their transfers have not been followed, and

WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2005

FINDING NUMBER	2005-001 (continued)
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- Proper documentation was not maintained for disposal of assets as required by the policies, and, therefore, the Board approved disposals could not be verified.

The District is currently in the initial stages of the State of Ohio Classroom Facilities Program whereby a high school and elementary buildings will be built and furnished in future years. Therefore, it would benefit the District now to establish reliable and acceptable capital asset policies and implement accounting control procedures to ensure the policies are consistently and properly applied. Capital asset records should also be reviewed by management on a regular basis for completeness and accuracy.

Non-Compliance Citations

FINDING NUMBER	2005-002
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Ohio Rev. Code Section 5705.41(B) states no subdivision or taxing unit is to expend money unless it has been appropriated.

The District adjusted appropriations at fiscal year end 2005, so that expenditures plus encumbrances did not exceed appropriations. However, we noted during January 2005 and May 2005, expenditures plus encumbrances exceeded appropriations at the District's legal level of control as follows:

January 2005 Fund	Appropriations	Expenditures Plus Encumbrances	Variance
Classroom Facilities Maintenance	\$ 2,500	\$ 3,133	\$ (633)
District Managed School Activity	316,482	332,208	(15,726)
Auxiliary Services (NPSS)	659,101	855,017	(195,916)
Family and Children First	0	16,294	(16,294)
Community Development Block Grant	30,000	30,846	(846)
Debt Service Funds	38,452,444	41,070,247	(2,617,803)
Permanent Improvement	622,627	648,086	(25,459)
Building	1,059,926	1,127,325	(67,399)
Student Managed Activity	81,307	84,902	(3,595)
Special Trust	28,067	35,004	(6,937)

WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2005

FINDING NUMBER	2005-002 (continued)
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May 2005 Fund	Appropriations	Expenditures Plus Encumbrances	Variance
Classroom Facilities Maintenance	\$ 2,500	\$ 3,133	\$ (633)
District Managed School Activity	316,482	332,208	(15,726)
Auxiliary Services (NPSS)	853,536	855,017	(1,481)
Family and Children First	0	16,294	(16,294)
Community Development Block Grant	30,000	30,846	(846)
Debt Service Funds	38,452,444	41,070,247	(2,617,803)
Permanent Improvement	622,627	648,086	(25,459)
Building	1,059,926	1,127,325	(67,399)
Student Managed Activity	81,307	84,902	(3,595)
Special Trust	28,067	35,004	(6,937)

We recommend the Treasurer and the Board of Education monitor the funds to ensure expenditures plus encumbrances do not exceed appropriations.

FINDING NUMBER	2005-003
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Ohio Rev. Code Section 5705.39 states the total appropriations from each fund should not exceed the total estimated resources. As of June 30, 2005, appropriations exceeded estimated resources in the following funds:

Fund	Estimated Resources	Appropriations	Variance
Auxiliary Services (NPSS)	\$ 806,827	\$ 1,018,942	\$ (212,115)
Entry Year Programs	1,100	11,870	(10,770)
Student Intervention	282,776	299,282	(16,506)
Family and Children First	0	21,000	(21,000)
Alternative Schools	249,144	254,276	(5,132)
Miscellaneous State Grants	383,071	425,281	(42,210)
Title VI-B	2,142,085	2,142,132	(47)
Title I	4,468,617	5,264,390	(795,773)
Title V	54,677	57,442	(2,765)
Improving Teacher Quality	976,822	1,083,312	(106,490)
Miscellaneous Federal Grants	738,534	915,292	(176,758)
Student Managed Activity	114,013	138,003	(23,990)

We recommend the Treasurer and the Board of Education monitor the funds to ensure appropriations do not exceed estimated resources.

WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2005

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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NONE	
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**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133, SECTION .315(b)
JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2001-001	The District did not maintain a complete and accurate record of capital assets, including additions and deletions.	No	Re-issued as Finding 2005- 001
2002-002	A District employee was overpaid \$237 for tuition reimbursement.	Yes	



WARREN CITY SCHOOLS

OFFICE OF THE TREASURER

261 Monroe Street NW
Warren, Ohio 44483
(330) 841-2321, Ext. 204

CORRECTIVE ACTION PLAN IN RESPONSE TO THE 2005 AUDIT FINDINGS

2005-001 Reportable Condition in Capital Assets

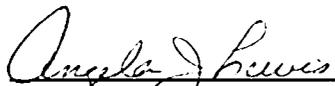
Warren City School District has experienced a high level of employee turnover in key management positions since 2002. There have been four different Treasurers between 2002 and 2006 and a new Business Manager replaced the prior one in October of 2005. During this transition period, capital assets records were not properly monitored. In September of 2006, the District entered into an agreement with Valuation Engineers, Inc. to develop and produce a detailed fixed asset inventory report including location, asset description, current replacement and sound insurable value, estimated historical acquisition costs, accumulated depreciation and undepreciated value. Valuation Engineers, Inc. will also provide the District with Annual Revaluation Services and an Annual Accounting Supplement agreement to maintain and update the Fixed Asset Management System. In addition to these services, control procedures will be implemented within the District to ensure that capital asset accounting policies and procedures are being consistently applied.

2005-002 Ohio Rev. Code Section 5705.41(B)

During fiscal year 2005, an interim Treasurer was named to replace the outgoing Treasurer. Due to the change in personnel, appropriations were not monitored on a regular basis. In 2007, appropriations are being monitored and adjusted regularly to ensure compliance with budgetary laws and regulations.

2005-003 Ohio Rev. Code Section 5705.39

During fiscal year 2005, an interim Treasurer was named to replace the outgoing Treasurer. Due to the change in personnel, appropriations and estimated resources were not monitored on a regular basis. In 2007, appropriations are being monitored and adjusted regularly to ensure compliance with budgetary laws and regulations. Estimated resources are analyzed throughout the year and adjusted accordingly if needed.



Angela J. Lewis, CPA
Treasurer
Warren City Schools

3/6/07
Date



Mary Taylor, CPA
Auditor of State

WARREN CITY SCHOOL DISTRICT
TRUMBULL 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
APRIL 17, 2007