



**Auditor of State
Betty Montgomery**

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Warren City School District
Trumbull County
261 Monroe St., NW
Warren, Ohio 44483

To the Board of Education:

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

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

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

As described in Note 3, the District has restated fund balances due to early implementation of GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Betty Montgomery
Auditor of State

March 7, 2006

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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, 2004. 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 2004 are as follows:

- In total, net assets of governmental activities increased \$141,375,484 which represents a 432.25% increase from 2003.
- General revenues accounted for \$191,707,822 in revenue or 91.94% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$16,796,744 or 8.06% of total revenues of \$208,504,566.
- The District had \$67,129,082 in expenses related to governmental activities; \$16,796,744 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 \$191,707,822 were adequate to provide for these programs.
- The District's major governmental funds are the general fund, debt service fund and classroom facilities fund. The general fund had \$52,323,812 in revenues and \$52,020,792 in expenditures and other financing uses. During fiscal 2004, the general fund's fund balance increased \$303,020 from \$8,698,721 to \$9,001,741.
- The debt service fund had \$40,105,052 in revenues and other financing sources and \$621,086 in expenditures. During fiscal 2004, the debt service fund's fund balance increased \$39,483,966 to \$39,483,966.
- The classroom facilities fund had \$33,918,598 in revenues and other financing sources and \$802,315 in expenditures. During fiscal 2004, the classroom facilities fund's fund balance increased \$33,116,283 to \$33,116,283.

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, 2004
UNAUDITED

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 2004?" 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, 2004
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 25-52 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 2004 and 2003.

	Net Assets	
	Governmental Activities <u>2004</u>	Governmental Activities <u>2003</u>
<u>Assets</u>		
Current and other assets	\$ 265,930,554	\$ 45,162,535
Capital assets	<u>17,964,325</u>	<u>17,913,944</u>
Total assets	<u>283,894,879</u>	<u>63,076,479</u>
<u>Liabilities</u>		
Current liabilities	29,196,410	26,757,312
Long-term liabilities	<u>80,615,804</u>	<u>3,611,986</u>
Total liabilities	<u>109,812,214</u>	<u>30,369,298</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	17,089,253	17,913,944
Restricted	143,417,500	1,512,427
Unrestricted	<u>13,575,912</u>	<u>13,280,810</u>
Total net assets	<u>\$ 174,082,665</u>	<u>\$ 32,707,181</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$174,082,665. Of this total, \$13,575,912 is unrestricted in use.

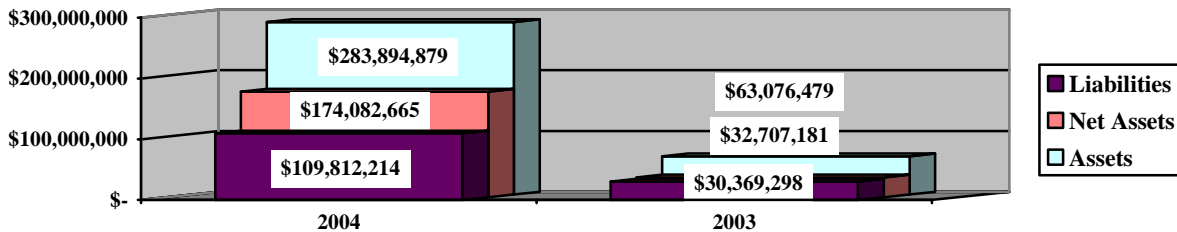
**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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At year-end, capital assets represented 6.33% 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, 2004, were \$17,089,253. 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, \$143,417,500, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$13,575,912 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 2004 and 2003.

Change in Net Assets

	Governmental Activities 2004	Governmental Activities 2003
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,947,841	\$ 2,427,774
Operating grants and contributions	14,195,178	15,001,587
Capital grants and contributions	653,725	82,119
General revenues:		
Property taxes	17,735,897	17,406,644
Grants and entitlements	35,488,263	32,451,611
Grants and entitlements restricted for Ohio Schools Facilities Commission	137,290,219	-
Investment earnings	879,358	698,758
Other	314,085	158,589
Total revenues	208,504,566	68,227,082

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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	Change in Net Assets	
	Governmental	Governmental
	Activities	Activities
	<u>2004</u>	<u>2003</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 26,087,332	\$ 26,940,781
Special	9,100,601	9,586,997
Vocational	803,937	847,899
Adult/continuing	231,435	-
Other	350,647	647,310
Support services:		
Pupil	3,881,455	3,729,023
Instructional staff	4,997,774	4,703,974
Board of education	25,980	24,589
Administration	4,830,575	4,924,986
Fiscal	989,310	941,399
Business	742,500	678,039
Operations and maintenance	7,313,870	7,559,866
Pupil transportation	2,359,914	2,378,121
Central	870,821	803,379
Food service operations	2,067,004	2,253,762
Operations of non-instructional services	642,457	134,021
Extracurricular activities	1,200,491	1,214,758
Intergovernmental	<u>632,979</u>	<u>816,054</u>
Total expenses	<u>67,129,082</u>	<u>68,184,958</u>
Change in net assets	141,375,484	42,124
Net assets at beginning of year	<u>32,707,181</u>	<u>32,665,057</u>
Net assets at end of year	<u>\$ 174,082,665</u>	<u>\$ 32,707,181</u>

Governmental Activities

Net assets of the District's governmental activities increased \$141,375,484. Total governmental expenses of \$67,129,082 were offset by program revenues of \$16,796,744 and general revenues of \$191,707,822. Program revenues supported 25.02% 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 91.37% of total governmental revenue.

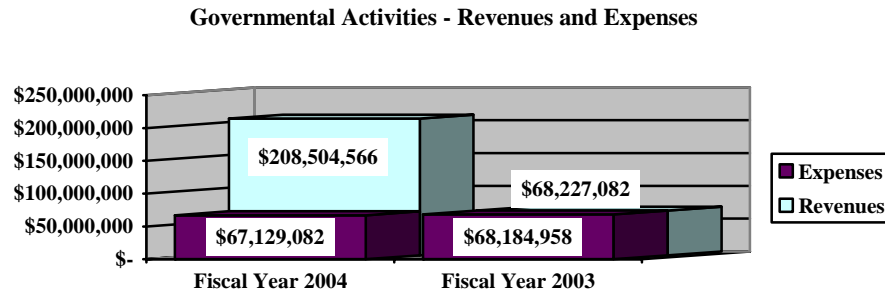
The District's financial condition has remained constant in recent years. Taxpayers have supported Emergency Levy renewals and State support has increased yearly. However, the District's personal property tax base is eroding due to business financial difficulties, revaluation reviews or moving from the 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 (closing two buildings for the fiscal year 2004 school year) to hold the line on a deficit.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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The largest expense of the District is for instructional programs. Instruction expenses totaled \$36,573,952 or 54.48% of total governmental expenses for fiscal 2004.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2004 and 2003.



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

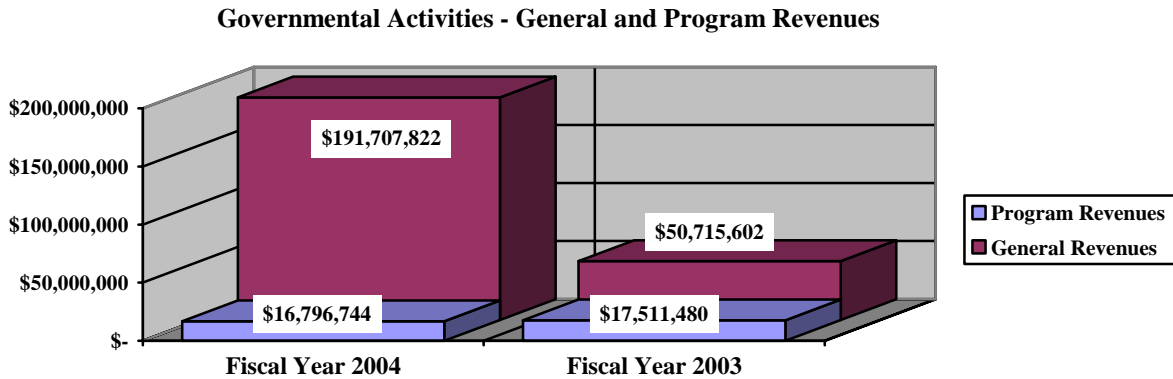
	Total Cost of Services 2004	Net Cost of Services 2004	Total Cost of Services 2003	Net Cost of Services 2003
Program expenses				
Instruction:				
Regular	\$ 26,087,332	\$ 20,453,817	\$ 26,940,781	\$ 20,891,783
Special	9,100,601	5,978,632	9,586,997	6,153,436
Vocational	803,937	617,406	847,899	291,069
Adult/continuing	231,435	231,435	-	-
Other	350,647	166,294	647,310	585,684
Support services:				
Pupil	3,881,455	2,830,603	3,729,023	2,546,887
Instructional staff	4,997,774	2,697,665	4,703,974	2,911,203
Board of education	25,980	25,980	24,589	24,589
Administration	4,830,575	4,542,482	4,924,986	4,563,435
Fiscal	989,310	894,702	941,399	825,399
Business	742,500	742,500	678,039	667,039
Operations and maintenance	7,313,870	6,730,648	7,559,866	7,308,789
Pupil transportation	2,359,914	2,252,606	2,378,121	2,269,515
Central	870,821	870,561	803,379	794,425
Food service operations	2,067,004	(71,746)	2,253,762	(104,572)
Other non-instructional services	642,457	(124,927)	134,021	14,866
Extracurricular activities	1,200,491	860,701	1,214,758	865,243
Intergovernmental	632,979	632,979	816,054	64,688
Total expenses	<u>\$ 67,129,082</u>	<u>\$ 50,332,338</u>	<u>\$ 68,184,958</u>	<u>\$ 50,673,478</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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The dependence upon tax and other general revenues for governmental activities is apparent, 75.05% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 74.98%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2004 and 2003.



The District's Funds

The District's governmental funds reported a combined fund balance of \$91,752,681, which is higher than last year's total of \$11,552,906. The June 30, 2003 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance <u>June 30, 2004</u>	Restated Fund Balance <u>June 30, 2003</u>	Increase (Decrease)	Percentage Change
General	\$ 9,001,741	\$ 8,698,721	\$ 303,020	3.48 %
Debt Service	39,483,966	-	39,483,966	100.00 %
Classroom Facilities	33,116,283	-	33,116,283	100.00 %
Other Governmental	<u>10,150,691</u>	<u>2,854,185</u>	<u>7,296,506</u>	255.64 %
Total	<u>\$ 91,752,681</u>	<u>\$ 11,552,906</u>	<u>\$ 80,199,775</u>	694.20 %

General Fund

The District's general fund balance increased \$303,020. The increase in fund balance can be attributed to several items related to increasing revenues and decreased 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, 2004
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	2004	Restated 2003	Increase (Decrease)	Percentage Change
	<u>Amount</u>	<u>Amount</u>		
<u>Revenues</u>				
Taxes	\$ 15,376,229	\$ 17,474,986	\$ (2,098,757)	(12.01) %
Tuition	639,410	729,591	(90,181)	(12.36) %
Earnings on investments	648,223	656,163	(7,940)	(1.21) %
Intergovernmental	35,348,907	32,451,611	2,897,296	8.93 %
Other revenues	<u>311,043</u>	<u>557,890</u>	<u>(246,847)</u>	(44.25) %
 Total	 <u>\$ 52,323,812</u>	 <u>\$ 51,870,241</u>	 <u>\$ 453,571</u>	 0.87 %
<u>Expenditures</u>				
Instruction	\$ 28,933,590	\$ 28,659,111	\$ 274,479	0.96 %
Support services	21,179,390	21,560,046	(380,656)	(1.77) %
Extracurricular activities	<u>848,812</u>	<u>826,093</u>	<u>22,719</u>	2.75 %
 Total	 <u>\$ 50,961,792</u>	 <u>\$ 51,045,250</u>	 <u>\$ (83,458)</u>	 (0.16) %

Debt Service Fund

The debt service fund had \$40,105,052 in revenues and other financing sources and \$621,086 in expenditures. During fiscal 2004, the debt service fund's fund balance increased \$39,483,966 to \$39,483,966.

Classroom Facilities Fund

The classroom facilities fund had \$33,918,598 in revenues and other financing sources and \$802,315 in expenditures. During fiscal 2004, the classroom facilities fund's fund balance increased \$33,116,283 to \$33,116,283.

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 2004, the District amended its general fund budget several times. For the general fund, original budgeted revenues and financing sources were \$51,350,665 and final budgeted revenues and other financing sources were \$52,115,923. Actual revenues and other financing sources for fiscal 2004 was \$52,539,963. This represents a \$424,040 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$52,249,814 were increased to \$53,249,814 in the final appropriations. The actual budget basis expenditures for fiscal year 2004 totaled \$53,038,391, which was \$211,423 less than the final budget appropriations. The District made a great effort to cut expenses throughout fiscal year 2004.

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TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$17,746,247 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 2004 balances compared to 2003:

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

	Governmental Activities	
	2004	2003
Land	\$ 443,356	\$ 443,356
Construction in progress	875,072	-
Building and improvements	9,289,332	9,429,667
Furniture and equipment	6,137,242	6,646,036
Vehicles	1,219,323	1,394,885
Total	\$ 17,964,325	\$ 17,913,944

The overall decrease in capital assets of \$50,381 is due to depreciation expense of \$962,235 exceeding capital outlays of \$1,012,616 in the fiscal year.

Debt Administration

At June 30, 2004, the District had \$76,000,000 in general obligation bonds and notes payable. Of this total, \$38,675,000 is due within one year and \$37,325,000 is due within greater than one year.

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.

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, 2003, 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

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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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 2007. 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 2003 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. Merri Smith, 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, 2004

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 102,046,579
Receivables:	
Taxes	24,263,096
Accounts	140,601
Intergovernmental	138,523,235
Accrued interest	99,746
Materials and supplies inventory	347,806
Unamortized bond issue costs	509,491
Capital assets:	
Land	443,356
Construction in progress	875,072
Depreciable capital assets, net	16,645,897
Capital assets, net.	17,964,325
Total assets.	283,894,879
Liabilities:	
Accounts payable.	1,931,358
Contracts payable.	451,693
Accrued wages and benefits	5,444,988
Pension obligation payable.	1,348,331
Intergovernmental payable	161,698
Deferred revenue	18,286,614
Accrued interest payable	734,728
Claims payable	837,000
Long-term liabilities:	
Due within one year.	39,044,703
Due within more than one year	41,571,101
Total liabilities	109,812,214
Net Assets:	
Invested in capital assets, net of related debt.	17,089,253
Restricted for:	
Capital projects	139,390,830
Debt service.	1,354,975
Classroom facilities and maintenance.	153,417
State funded programs	618,633
Federally funded programs	1,129,842
Student activities	53,306
Other purposes	716,497
Unrestricted.	13,575,912
Total net assets	\$ 174,082,665

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, 2004

		Program Revenues			Net (Expense) Revenue and and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental activities:					
Instruction:					
Regular	\$ 26,087,332	\$ 793,179	\$ 4,840,336	\$ -	\$ (20,453,817)
Special	9,100,601	-	3,121,969	-	(5,978,632)
Vocational	803,937	177,246	9,285	-	(617,406)
Adult/continuing	231,435	-	-	-	(231,435)
Other	350,647	-	184,353	-	(166,294)
Support services:					
Pupil.	3,881,455	6,073	1,044,779	-	(2,830,603)
Instructional staff	4,997,774	232	2,146,152	153,725	(2,697,665)
Board of education	25,980	-	-	-	(25,980)
Administration.	4,830,575	30,671	257,422	-	(4,542,482)
Fiscal.	989,310	-	94,608	-	(894,702)
Business.	742,500	-	-	-	(742,500)
Operations and maintenance	7,313,870	78,494	4,728	500,000	(6,730,648)
Pupil transportation	2,359,914	61,624	45,684	-	(2,252,606)
Central	870,821	-	260	-	(870,561)
Operation of non-instructional services:					
Food service operations	2,067,004	453,550	1,685,200	-	71,746
Other non-instructional services	642,457	6,982	760,402	-	124,927
Extracurricular activities.	1,200,491	339,790	-	-	(860,701)
Interest and fiscal charges	632,979	-	-	-	(632,979)
Total governmental activities	<u>\$ 67,129,082</u>	<u>\$ 1,947,841</u>	<u>\$ 14,195,178</u>	<u>\$ 653,725</u>	<u>(50,332,338)</u>
General Revenues:					
Property taxes levied for:					
General purposes					15,915,296
Special revenue.					144,421
Debt service.					1,531,900
Capital projects					144,280
Grants and entitlements restricted for					
Ohio School Facilities Commission					137,290,219
Grants and entitlements not restricted					
to specific programs					35,488,263
Investment earnings					879,358
Miscellaneous					314,085
Total general revenues					<u>191,707,822</u>
Change in net assets					141,375,484
Net assets at beginning of year.					<u>32,707,181</u>
Net assets at end of year					<u>\$ 174,082,665</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	<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	\$ 14,029,892	\$ 39,470,018	\$ 33,509,462	\$ 11,309,892	\$ 98,319,264
Receivables:					
Taxes	21,253,267	2,512,315	-	497,514	24,263,096
Accounts	61,320	-	-	31,932	93,252
Intergovernmental	221,075	-	135,743,231	2,558,929	138,523,235
Accrued interest	63,753	852	27,266	7,875	99,746
Interfund loans	123,914	-	-	-	123,914
Materials and supplies inventory	-	-	-	103,555	103,555
Restricted assets:					
Equity in pooled cash and cash equivalents	716,497	-	-	-	716,497
Total assets	<u>\$ 36,469,718</u>	<u>\$ 41,983,185</u>	<u>\$ 169,279,959</u>	<u>\$ 14,509,697</u>	<u>\$ 262,242,559</u>
Liabilities:					
Accounts payable	\$ 867,415	\$ -	\$ -	\$ 1,041,007	\$ 1,908,422
Contracts payable	-	-	420,445	31,248	451,693
Accrued wages and benefits	4,251,730	-	-	1,193,258	5,444,988
Compensated absences payable	99,218	-	-	10,122	109,340
Pension obligation payable.	980,126	-	-	368,205	1,348,331
Intergovernmental payable.	127,009	-	-	34,689	161,698
Interfund loan payable	-	-	-	123,914	123,914
Deferred revenue.	21,142,479	2,499,219	135,743,231	1,556,563	160,941,492
Total liabilities	<u>27,467,977</u>	<u>2,499,219</u>	<u>136,163,676</u>	<u>4,359,006</u>	<u>170,489,878</u>
Fund Balances:					
Reserved for encumbrances	496,323	-	-	307,080	803,403
Reserved for materials and supplies inventory.	-	-	-	103,555	103,555
Reserved for debt service	-	39,470,870	-	-	39,470,870
Reserved for tax revenue available for appropriation	110,788	13,096	-	2,594	126,478
Reserved for budget stabilization.	328,646	-	-	-	328,646
Reserved for textbooks.	166,524	-	-	-	166,524
Reserved for capital acquisition	221,327	-	-	-	221,327
Unreserved, undesignated, reported in:					
General fund	7,678,133	-	-	-	7,678,133
Special revenue funds.	-	-	-	1,955,243	1,955,243
Capital projects funds.	-	-	33,116,283	7,782,219	40,898,502
Total fund balances	<u>9,001,741</u>	<u>39,483,966</u>	<u>33,116,283</u>	<u>10,150,691</u>	<u>91,752,681</u>
Total liabilities and fund balances	<u>\$ 36,469,718</u>	<u>\$ 41,983,185</u>	<u>\$ 169,279,959</u>	<u>\$ 14,509,697</u>	<u>\$ 262,242,559</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, 2004

Total governmental fund balances		\$	91,752,681
<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.			17,964,325
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	5,850,004	
Intergovernmental revenue		136,804,874	
Total		142,654,878	142,654,878
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(734,728)
Unamortized premiums on bond issuance is not recognized in the funds.			(980,577)
Unamortized bond issuance costs are not recognized in the funds.			509,491
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.			2,442,482
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.			
Notes payable		38,000,000	
General obligation bonds payable		38,000,000	
Compensated absences		3,525,887	
Total		(79,525,887)	(79,525,887)
Net assets of governmental activities		\$	174,082,665

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, 2004

	General	Debt Service	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes	\$ 15,376,229	\$ 926,163	\$ -	\$ 168,747	\$ 16,471,139
Tuition	639,410	-	-	177,094	816,504
Transportation fees	51,725	-	-	-	51,725
Charges for services	-	-	-	453,550	453,550
Earnings on investments	648,223	2,339	167,610	61,186	879,358
Extracurricular	-	-	-	298,881	298,881
Classroom materials and fees	-	-	-	52,298	52,298
Other local revenues	259,318	-	-	409,785	669,103
Intergovernmental - State	34,835,000	42	1,546,988	6,743,538	43,125,568
Intergovernmental - Federal	513,907	-	-	7,929,668	8,443,575
Total revenue	<u>52,323,812</u>	<u>928,544</u>	<u>1,714,598</u>	<u>16,294,747</u>	<u>71,261,701</u>
Expenditures:					
Current:					
Instruction:					
Regular	21,629,599	-	-	4,820,201	26,449,800
Special	6,304,395	-	-	3,033,599	9,337,994
Vocational	656,783	-	-	154,349	811,132
Adult/continuing	-	-	-	231,435	231,435
Other	342,813	-	-	3,325	346,138
Support services:					
Pupil	2,818,261	-	-	1,023,155	3,841,416
Instructional staff	2,514,939	-	-	2,345,361	4,860,300
Board of education	25,980	-	-	-	25,980
Administration	4,399,884	-	-	287,221	4,687,105
Fiscal	874,318	17,413	-	97,721	989,452
Business	732,926	-	-	-	732,926
Operations and maintenance	6,761,942	-	-	598,541	7,360,483
Pupil transportation	2,196,504	-	-	57,696	2,254,200
Central	854,636	-	-	5,657	860,293
Operation of non-instructional services:					
Food service operations	-	-	-	2,060,605	2,060,605
Other non-instructional services	-	-	-	662,115	662,115
Extracurricular activities	848,812	-	-	355,274	1,204,086
Facilities acquisition and construction	-	-	802,315	106,108	908,423
Debt service:					
Bond issuance costs	-	513,363	-	-	513,363
Note issuance costs	-	90,310	-	-	90,310
Total expenditures	<u>50,961,792</u>	<u>621,086</u>	<u>802,315</u>	<u>15,842,363</u>	<u>68,227,556</u>
Excess of revenues over (under) expenditures	<u>1,362,020</u>	<u>307,458</u>	<u>912,283</u>	<u>452,384</u>	<u>3,034,145</u>
Other financing sources (uses):					
Transfers in	-	-	-	1,059,000	1,059,000
Transfers (out)	(1,059,000)	-	-	-	(1,059,000)
Sale of notes	-	-	32,204,000	5,796,000	38,000,000
Sale of bonds	-	38,000,000	-	-	38,000,000
Premium on sale of bonds	-	988,028	-	-	988,028
Premium on sale of notes	-	188,480	-	-	188,480
Total other financing sources (uses)	<u>(1,059,000)</u>	<u>39,176,508</u>	<u>32,204,000</u>	<u>6,855,000</u>	<u>77,176,508</u>
Net change in fund balances	303,020	39,483,966	33,116,283	7,307,384	80,210,653
Fund balances at beginning of year (restated)					
	8,698,721	-	-	2,854,185	11,552,906
Decrease in reserve for inventory	-	-	-	(10,878)	(10,878)
Fund balances at end of year	<u>\$ 9,001,741</u>	<u>\$ 39,483,966</u>	<u>\$ 33,116,283</u>	<u>\$ 10,150,691</u>	<u>\$ 91,752,681</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, 2004

Net change in fund balances - total governmental funds	\$	80,210,653
<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 depreciation expense exceeds capital outlays in the current period.		
Capital asset additions	\$ 1,012,616	
Current year depreciation	<u>(962,235)</u>	
Total		50,381
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	1,264,758	
Intergovernmental revenue	<u>135,978,107</u>	
Total		137,242,865
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		
		(10,878)
Proceeds of bonds and notes are recorded as revenue in the governmental funds, however, the proceeds increase long-term liabilities on the statement of net assets.		
		(76,000,000)
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.		
		(980,577)
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.		
		509,491
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.		
		(734,728)
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.		
		1,304
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.		
		<u>1,086,973</u>
Change in net assets of governmental activities	\$	<u>141,375,484</u>

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, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Over (Under)
	<u>Original</u>	<u>Final</u>		<u>(Under)</u>
Revenues:				
From local sources:				
Taxes	\$ 15,011,491	\$ 15,235,201	\$ 15,359,162	\$ 123,961
Tuition	743,485	754,565	760,704	6,139
Transportation fees	40,452	41,055	41,389	334
Earnings on investments	699,514	709,939	715,715	5,776
Other local revenues	224,861	228,212	230,069	1,857
Intergovernmental - State	34,046,473	34,553,853	34,835,000	281,147
Intergovernmental - Federal	365,631	371,080	374,099	3,019
Total revenue	<u>51,131,907</u>	<u>51,893,905</u>	<u>52,316,138</u>	<u>422,233</u>
Expenditures:				
Current:				
Instruction:				
Regular	21,593,981	22,007,265	22,123,596	(116,331)
Special	5,950,515	6,064,401	6,258,706	(194,305)
Vocational	652,824	665,318	674,955	(9,637)
Other	274,742	280,000	349,373	(69,373)
Support services:				
Pupil	2,867,620	2,922,503	2,833,326	89,177
Instructional staff	2,594,002	2,643,648	2,566,204	77,444
Board of education	40,829	41,610	30,060	11,550
Administration	4,452,286	4,537,498	4,421,249	116,249
Fiscal	934,545	952,431	883,430	69,001
Business	806,572	822,009	737,548	84,461
Operations and maintenance	7,026,525	7,161,004	7,091,250	69,754
Pupil transportation	2,319,722	2,364,119	2,212,666	151,453
Central	855,643	872,019	833,372	38,647
Extracurricular activities	674,805	687,720	836,473	(148,753)
Total expenditures	<u>51,044,611</u>	<u>52,021,545</u>	<u>51,852,208</u>	<u>169,337</u>
Excess of revenues over (under) expenditures	<u>87,296</u>	<u>(127,640)</u>	<u>463,930</u>	<u>591,570</u>
Other financing sources (uses):				
Transfers (out)	(1,107,081)	(1,128,269)	(1,062,269)	66,000
Advances in	169,337	171,862	173,260	1,398
Advances (out)	(98,122)	(100,000)	(123,914)	(23,914)
Refund of prior year expenditure	44,395	45,056	45,423	367
Sale of capital assets	5,026	5,100	5,142	42
Total other financing sources (uses)	<u>(986,445)</u>	<u>(1,006,251)</u>	<u>(962,358)</u>	<u>43,893</u>
Net change in fund balance	(899,149)	(1,133,891)	(498,428)	635,463
Fund balance at beginning of year	11,931,358	11,931,358	11,931,358	-
Prior year encumbrances appropriated	951,182	951,182	951,182	-
Fund balance at end of year	<u>\$ 11,983,391</u>	<u>\$ 11,748,649</u>	<u>\$ 12,384,112</u>	<u>\$ 635,463</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2004

	<u>Governmental Activities - Internal Service Funds</u>
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents.	\$ 3,010,818
Receivables:	
Accounts.	47,349
Materials and supplies inventory	<u>244,251</u>
 Total assets	 <u>3,302,418</u>
Liabilities:	
Current liabilities:	
Accounts payable.	22,936
Claims payable	<u>837,000</u>
 Total liabilities	 <u>859,936</u>
Net assets:	
Unrestricted.	<u>2,442,482</u>
 Total net assets	 <u><u>\$ 2,442,482</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Governmental Activities - Internal Service Funds
Operating revenues:	
Charges for services	\$ 7,901,137
Other	175,975
Total operating revenues	<u>8,077,112</u>
 Operating expenses:	
Personal services	3,919
Purchased services	22,998
Materials and supplies	147,460
Claims	6,815,762
Total operating expenses	<u>6,990,139</u>
 Change in net assets	1,086,973
 Net assets at beginning of year	<u>1,355,509</u>
 Net assets at end of year	<u><u>\$ 2,442,482</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, 2004

	Governmental Activities - Internal Service Funds
Cash flows from operating activities:	
Cash received from charges for services	\$ 7,901,137
Cash received from other operating revenues.	128,626
Cash payments for personal services	(3,919)
Cash payments for purchased services	(22,998)
Cash payments for materials and supplies.	(163,596)
Cash payments for claims.	<u>(7,176,762)</u>
 Net cash provided by operating activities	 <u>662,488</u>
 Net increase in cash and cash equivalents	 662,488
 Cash and cash equivalents at beginning of year.	 <u>2,348,330</u>
 Cash and cash equivalents at end of year	 <u><u>\$ 3,010,818</u></u>
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,086,973
Changes in assets and liabilities:	
Increase in accounts receivable.	(47,349)
Decrease in materials and supplies inventory.	4,266
Decrease in accounts payable	(20,402)
Decrease in claims payable	<u>(361,000)</u>
 Net cash provided by operating activities	 <u><u>\$ 662,488</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, 2004

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 27,177	\$ 71,459
Accrued interest	19	-
	27,196	-
Total assets.	27,196	\$ 71,459
Liabilities:		
Accounts payable.	-	\$ 41,610
Due to students	-	29,849
	-	29,849
Total liabilities	-	\$ 71,459
Net Assets:		
Held in trust for scholarships	27,196	
Total net assets	\$ 27,196	

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, 2004

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 570
Gifts and contributions.	197
	767
Total additions.	767
Change in net assets	767
Net assets at beginning of year	26,429
Net assets at end of year	\$ 27,196

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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 372 non-certified and 596 certified employees to provide services to approximately 6,714 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 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, 2004

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. The District contributed \$98,505 to NEOMIN for fiscal 2004.

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 2004. 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, 347 North Park Avenue, Warren, Ohio 44481.

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.

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, 2004

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, 347 North Park Avenue, Warren, Ohio 44481.

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, 347 North Park Avenue, Warren, Ohio 44481.

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, 2004

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, 2004**

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

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, 2004

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, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The 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, 2004

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 2004 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 2004.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the object level of expenditures, 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, 2004**

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 2004, 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 2004. 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, 2004.

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 2004, amounted to \$648,223, which includes \$254,591 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, 2004

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, 2004, 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, 2004

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, 2004, 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, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

L. Fund 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, budget stabilization, textbooks and capital acquisition. 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, 2004**

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. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

R. 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.

S. 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. Neither type of transaction occurred during fiscal 2004.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Prior Period Adjustment

For fiscal year 2004, the District has early implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2003:

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2003	\$ 9,018,296	\$ 3,033,396	\$ 12,051,692
GASB Technical Bulletin No. 2004-2	<u>(319,575)</u>	<u>(179,211)</u>	<u>(498,786)</u>
Restated Fund Balance, June 30, 2003	<u>\$ 8,698,721</u>	<u>\$ 2,854,185</u>	<u>\$ 11,552,906</u>

B. Deficit Fund Balances

Fund balances at June 30, 2004 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Other Grants	\$ 9,974
Disadvantaged Pupil Impact Aid	538,122
Community Development Block Grant	2,443
Drug Free Grant	4,440
Improving Teacher Quality	120,246

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, 2004**

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, 2004

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 \$6,020 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, 2004, the carrying amount of all District deposits was \$13,367,673, exclusive of the \$10,768,913 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, 2004, \$13,300,000 of the District's bank balance of \$13,515,000 was exposed to custodial risk as discussed below, while \$215,000 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.

C. Investments

As of June 30, 2004, the District had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities 6 months or less</u>
Repurchase Agreements	\$ 10,768,913	\$ 10,768,913
STAR Ohio	78,001,990	78,001,990
U.S. Government money market mutual funds	<u>619</u>	<u>619</u>
	<u>\$ 88,771,522</u>	<u>\$ 88,771,522</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2004:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
Repurchase Agreements	\$ 10,768,913	12.13%
STAR Ohio	78,001,990	87.87%
U.S. Government money market mutual fund	<u>619</u>	<u>0.00%</u>
	<u>\$ 88,771,522</u>	<u>100.00%</u>

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, 2004:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 13,367,673
Investments	88,771,522
Cash on hand	<u>6,020</u>
Total	<u>\$ 102,145,215</u>

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 102,046,579
Private-purpose trust funds	27,177
Agency funds	<u>71,459</u>
Total	<u>\$ 102,145,215</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances consisted of the following at June 30, 2004, as reported on the fund statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 123,914

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, 2004 are reported on the Statement of Net Assets.

- B. Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:	
General Fund	\$1,059,000

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.

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 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property 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 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-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, 2004, are available to finance fiscal year 2004 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, 2004 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, 2004 was \$110,788 in the general fund, \$13,096 in the debt service fund, \$1,297 in the permanent improvement fund and \$1,297 in the classroom facilities maintenance fund. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2003 was \$93,721 in the general fund.

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

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

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 315,601,390	71.87%	\$ 330,804,340	76.56%
Public utility personal	20,805,900	4.74%	20,340,220	4.71%
Tangible personal property	<u>102,732,068</u>	<u>23.39%</u>	<u>80,929,565</u>	<u>18.73%</u>
Total	<u>\$ 439,139,358</u>	<u>100.00%</u>	<u>\$ 432,074,125</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 54.95		\$ 62.05	

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004 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	\$ 24,263,096
Accounts	140,601
Accrued interest	99,746
Intergovernmental	<u>138,523,235</u>
Total	<u>\$ 163,026,678</u>

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

NOTE 8 - CAPITAL ASSETS

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

	Balance at 06/30/03	Additions	Deductions	Balance at 06/30/04
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 443,356	\$ -	\$ -	\$ 443,356
Construction in progress	<u>-</u>	<u>875,072</u>	<u>-</u>	<u>875,072</u>
Total capital assets, not being depreciated	<u>443,356</u>	<u>875,072</u>	<u>-</u>	<u>1,318,428</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	16,551,237	53,763	-	16,605,000
Furniture and equipment	13,003,061	83,781	-	13,086,842
Vehicles	<u>2,647,396</u>	<u>-</u>	<u>-</u>	<u>2,647,396</u>
Total capital assets, being depreciated	<u>32,201,694</u>	<u>137,544</u>	<u>-</u>	<u>32,339,238</u>
<i>Less: accumulated depreciation:</i>				
Buildings and improvements	(7,121,570)	(194,098)	-	(7,315,668)
Furniture and equipment	(6,357,025)	(592,575)	-	(6,949,600)
Vehicles	<u>(1,252,511)</u>	<u>(175,562)</u>	<u>-</u>	<u>(1,428,073)</u>
Total accumulated depreciation	<u>(14,731,106)</u>	<u>(962,235)</u>	<u>-</u>	<u>(15,693,341)</u>
Governmental activities capital assets, net	<u>\$ 17,913,944</u>	<u>\$ 50,381</u>	<u>\$ -</u>	<u>\$ 17,964,325</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 252,487
Special	47,202
Vocational	160
Other	6,690
<u>Support Services:</u>	
Pupil	23,474
Instructional staff	233,565
Administration	91,301
Fiscal	14,346
Business	26,450
Operations and maintenance	62,973
Pupil transportation	139,061
Central	1,977
Non-instructional	28,240
Food service operations	22,449
Extracurricular activities	<u>11,860</u>
Total depreciation expense	<u>\$ 962,235</u>

NOTE 9 - LONG-TERM OBLIGATIONS

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

	Balance 6/30/03	Additions	Reductions	Balance 6/30/04	Amounts Due in One Year
Governmental Activities					
Compensated absences payable	\$ 3,611,986	\$ 449,901	\$ (426,660)	\$ 3,635,227	\$ 369,703
G.O. Bonds payable	-	38,000,000	-	38,000,000	675,000
Notes payable	-	38,000,000	-	38,000,000	38,000,000
Total governmental activities long-term liabilities	<u>\$ 3,611,986</u>	<u>\$ 76,449,901</u>	<u>\$ (426,660)</u>	<u>\$ 79,635,227</u>	<u>\$ 39,044,703</u>
Add: Unamortized premium on bond issue				<u>980,577</u>	
Total on statement of net assets				<u>\$ 80,615,804</u>	

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 9 - LONG-TERM OBLIGATIONS

- 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.

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, 2004, the total estimated cost of the Construction Project is \$169,494,219, of which OSFC will pay approximately \$137,290,219.

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>Year Ended</u>	<u>General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 675,000	\$ 1,934,343	\$ 2,609,343
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 - 2014	4,305,000	8,087,137	12,392,137
2015 - 2019	5,880,000	7,013,318	12,893,318
2020 - 2024	6,775,000	5,441,375	12,216,375
2025 - 2029	10,255,000	3,356,375	13,611,375
2030 - 2033	7,995,000	619,625	8,614,625
Total	<u>\$ 38,000,000</u>	<u>\$ 33,284,140</u>	<u>\$ 71,284,140</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 will be retired using the proceeds from the District’s \$38,000,000 bond issue on July 15, 2004. In accordance with FASB Statement No. 6 “Classification of Short-Term Obligations Expected to Be Refinanced”, the bond anticipation notes were classified as long-term obligations because they have been replaced with long-term bonds before the financial statements have been issued.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

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, 2004, are a voted debt margin of \$2,370,637 and an unvoted debt margin of \$432,074.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 11 - RISK MANAGEMENT - (Continued)

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.

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 \$837,000 at June 30, 2004.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 11 - RISK MANAGEMENT - (Continued)

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>
2004	\$ 1,198,000	\$ 6,815,762	\$ (7,176,762)	\$ 837,000
2003	903,000	7,787,022	(7,492,022)	1,198,000

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 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% 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, 2004, 2003, and 2002 were \$1,042,903, \$1,064,368, and \$1,059,936, respectively; 53.50% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$484,494 represents the unpaid contribution for fiscal year 2004.

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, 2004**

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 year 2004, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 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, 2004, 2003, and 2002 were \$4,209,853, \$4,278,020, and \$4,144,704, respectively; 82.29% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$745,746 represents the unpaid contribution for fiscal year 2004.

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, 2004, 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, 2004**

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 \$300,704 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 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. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 4.91% 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 2004, the minimum pay has been established at \$25,400. 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.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$524,748 during the 2004 fiscal year.

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);

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (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).
- (d) Certain funds that are classified as part of the general fund (GAAP basis) are reported in other fund types on a cash basis (budget basis). These items are reflected as "fund reclassifications".

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:

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ (498,428)
Net adjustment for revenue accruals	(18,777)
Net adjustment for expenditure accruals	(389,590)
Net adjustment for other sources/uses	(96,642)
Adjustment for encumbrances	1,270,260
Adjustment for fund reclassification	36,197
GAAP basis	<u>\$ 303,020</u>

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, 2004.

B. Litigation

The District is not a party to any legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending at June 30, 2004.

C. School Funding Decision

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 15 - CONTINGENCIES - (Continued)

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

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

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, 2004, 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, 2003	\$ (208,257)	\$ -	\$ 328,646
Current year set-aside requirement	999,812	999,812	-
Current year offsets	-	-	-
Qualifying disbursements	<u>(625,031)</u>	<u>(778,485)</u>	<u>-</u>
Total	<u>\$ 166,524</u>	<u>\$ 221,327</u>	<u>\$ 328,646</u>
Balance carried forward to FY 2005	<u>\$ 166,524</u>	<u>\$ 221,327</u>	<u>\$ 328,646</u>

A schedule of the Governmental Fund restricted assets at June 30, 2004 follows:

Amount restricted for budget stabilization	\$ 328,646
Amount restricted for textbooks	166,524
Amount restricted for capital acquisition	<u>221,327</u>
Total restricted assets	<u>\$ 716,497</u>

NOTE 17 - SIGNIFICANT SUBSEQUENT EVENTS

On July 20, 2004, the District purchased real estate as follows:

<u>Amount</u>	<u>Seller</u>
\$125,000	George W. Thompson & Trudy L. Thompson
\$300,000	Phillip Mazza & William Mazza
\$475,000	DAF Corporation

At the same time the District issued \$395,000 in tax anticipation notes with no interest on unpaid principal, maturing in 2007, for the purpose of acquiring real estate. (Issued tax anticipation notes to Phillip Mazza for \$60,000, to William Mazza for \$60,000, and to DAF Corporation for \$275,000).

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 17 - SIGNIFICANT SUBSEQUENT EVENTS - (Continued)

On September 14, 2004, the Board of Education (BOE) entered into an agreement with the Ohio Schools Facilities Commission (OSFC) for the construction of six new buildings in the amount of \$169,494,219 of which 19% was to be paid by the Warren City School District.

The Board of Education authorized the execution of a real estate contract of sale and purchase between the BOE and the United Steelworkers of America, Local Union 1375 at the October 12, 2004 meeting. The contract was for \$225,000.

A contract for the McKinley Elementary School Hazardous Materials Abatement Program was awarded to Precision Environmental Company in the amount of \$171,453 at the November 23, 2004 meeting.

On December 16, 2004, the board passed a resolution to decrease the agreement with the OSFS for the construction from six to five new buildings (estimated decrease in local share of project is \$3,362,401).

A contract for the demolition of Dickey, McKinley, and Roosevelt Buildings to M&M Demolition in the amount of \$238,190 plus the add alternates in the amount of \$15,400 was awarded at the March 8, 2005 meeting.

At the May 17, 2005 meeting, the contract for the installation of artificial turf at the football field was awarded to Pro Grass LLC. The contract for the Mollenkoph Stadium Turf Replacement Project was for \$450,723 and was to be paid for by private donations.

A contract for the Hazardous Materials Abatement Program for Newly Acquired Elm Road Properties and Willard School to Cardinal Environmental in the amount of \$127, 897 was approved at the May, 24, 2005 meeting.

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

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
<i>Nutrition Cluster:</i>						
Food Distribution Program	N/A	10.550	_____	\$319,541 319,541	_____	\$319,541 319,541
School Breakfast Program	05PU-2003 05PU-2004	10.553	\$96,572 237,323 333,895	_____	\$96,572 237,323 333,895	_____
National School Lunch Program	LLP1-2004 LLP4-2003 LLP4-2004 VGS1-2003	10.555	752 320,554 742,504 8,951 1,072,761	_____	752 320,554 742,504 8,951 1,072,761	_____
Summer Food Service Program	23PU-2003 24PU-2003	10.559	17,095 1,776 18,871	_____	17,095 1,776 18,871	_____
Total U.S. Department of Agriculture - Nutrition Cluster			1,425,527	319,541	1,425,527	319,541
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>						
<i>Passed Through City of Warren, Ohio:</i>						
Community Development Block Grant	N/A	14.218	39,436	_____	38,486	_____
Total U.S. Department of Housing and Urban Development			39,436	_____	38,486	_____
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Adult Education- State Grant Program	ABS1-2003 ABS1-2003C ABS1-2004	84.002	141,773 26,407 97,075 265,255	_____	36,530 44,300 149,700 230,530	_____
Grants to Local Educational Agencies (ESEA Title I)	C1S1-2003 C1S1-2004 C1SD-2003 C1SD-2004 C1SK-2003	84.010	397,845 2,142,438 9,709 66,746 - 2,616,738	_____	407,109 2,196,206 7,370 70,445 240 2,681,370	_____
<i>Special Education Cluster:</i>						
Special Education Grants to States (IDEA Part B)	6BSD-2004-P 6BSF-2003-P 6BSF-2004	84.027	6,000 140,672 1,011,668 1,158,340	_____	4,335 195,723 1,070,037 1,270,095	_____
Total Special Education Cluster			1,158,340	_____	1,270,095	_____
Safe and Drug-Free Schools - National Programs	T4S1-2004	84.184C	19,759 19,759	_____	15,427 15,427	_____
Safe and Drug-Free Schools - State Grants	DRS1-2003 DRS1-2004	84.186	12,356 36,206 48,562	_____	9,820 55,724 65,544	_____
Innovative Education Program Strategies	C2S1-2003 C2S1-2004	84.298	13,972 54,775 68,747	_____	6,897 45,921 52,818	_____

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
Technology Literacy Challenge Fund	TJS1-2003 TJS1-2004	84.318	56,005		15,908 56,857	
			56,005		72,765	
Comprehensive School Reform Demonstration	RFCC-2003 RFCC-2004 RFK1-2002 RFK1-2003 RFS1-2002 RFS2-2003	84.332	55,000 91,424 33,680 16,320 - 40,234		135,242 29,364 33,680 13,834 20,612 28,088	
			236,658		260,820	
Technology Literacy Challenge Fund - Assistive Technology Infusion	ATS3-2002	84.352A			1,674 1,674	
Federal Emergency Repair Program	N/A	84.352A	494,000 494,000		452,256 452,256	
Improving Teacher Quality State Grants (Title II-A)	TRS1-2003 TRS1-2004	84.367	113,474 641,812 755,286		91,502 671,477 762,979	
<i>Direct Federal Programs:</i>						
Impact Aid	N/A	84.041	1,411 1,411		1,411 1,411	
21st Century Community Learning Centers	S2-87B-245-03	84.287	31,536 31,536		31,567 31,567	
Gaining Early Awareness and Readiness For Undergraduate Programs (GEAR-UP)	N/A	84.334	304,760 304,760		241,330 241,330	
Total U.S. Department of Education-Direct Federal Programs			337,707		274,308	
Total U.S. Department of Education			6,057,057		6,140,586	-
<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 (CAFS)		93.778	282,513 282,513		282,513 282,513	
Total U.S. Department of Health and Human Services			282,513		282,513	
TOTALS			<u>\$7,804,533</u>	<u>\$319,541</u>	<u>\$7,887,112</u>	<u>\$319,541</u>

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

**WARREN CITY SCHOOLS
TRUMBULL COUNTY
FISCAL YEAR ENDED JUNE 30, 2004**

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTE A — SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B — CHILD NUTRITION CLUSTER

Program regulations do not require the School to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary 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 School contribute non-Federal funds (matching funds) to support the Federally-funded programs. The School has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

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Auditor of State Betty Montgomery

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

Warren City School District
Trumbull County
261 Monroe St., NW
Warren, Ohio 44483

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Warren City School District (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 7, 2006, wherein we noted the District restated fund balances due to early implementation of GASB Technical Bulletin No. 2004-2. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-001.

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 material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the District's management dated March 7, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-002. In a separate letter to the District's management dated March 7, 2006, we reported other matters related to noncompliance we deemed immaterial.

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



Betty Montgomery
Auditor of State

March 7, 2006



Auditor of State Betty Montgomery

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

Warren City School District
Trumbull County
261 Monroe St., NW
Warren, Ohio 44483

To the Board of Education:

Compliance

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

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

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

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 timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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

Betty Montgomery
Auditor of State

March 7, 2006

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA # 84.027 Title VI-B CFDA # 84.352A FEMA CFDA # 10.550 Nutrition Cluster # 10.553 # 10.555 # 10.559
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

FINDING NUMBER 2001-001

REPORTABLE CONDITION

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, 2004 was calculated by adding the depreciation expense for the fiscal year 2004 additions to the prior fiscal year 2003 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, 2004.

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 cost 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
- 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.

FINDING NUMBER 2001-002

FINDING FOR RECOVERY

The employment contract between Douglas Dennis and the Board of Education of the District was effective for the period from July 1, 2003 through June 30, 2005, and provided for Mr. Dennis to receive tuition reimbursement based upon an agreed upon set of criteria. The agreement did state the Board shall reimburse Mr. Dennis for the cost of attending education credit courses relating to his duties as administrator. The maximum reimbursement per year, according to the contract, was \$350.

On May 27, 2004, Douglas Dennis was paid a tuition reimbursement of \$375 for attending the one credit education course called "Differentiated Instruction" held at Ashland University in September 2003. We noted, however, supporting documents indicated the entire cost of the course was only \$138.

In accordance with the foregoing facts, and pursuant to **Ohio Revised Code § 117.28**, a Finding for Recovery for public monies illegally expended is hereby issued against Douglas Dennis, in the amount of two hundred thirty seven dollars (\$237) and in favor of the General Fund of Warren City School District. Mr. Dennis repaid the \$237 to the credit of the District's General Fund on April 30, 2005

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

NONE

**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	The District did not maintain a complete and accurate record of capital assets, including additions and deletions.	No	The District has not corrected the matter, therefore, the same situation existed at June 30, 2004.



**Auditor of State
Betty Montgomery**

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Columbus, Ohio 43216-1140

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800-282-0370

Facsimile 614-466-4490

**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
MAY 9, 2006**