



**WARREN LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

**WARREN LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Warren Local School District
Washington County
220 Sweetapple Road
Vincent, Ohio 45784

To the Board of Education:

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 that our audit provides a reasonable basis for our opinions.

Ohio Administrative Code Section 117-2-03(B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Warren Local School District, Washington County, as of June 30, 2005, and the respective changes in modified cash 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2006, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 result of our audit.

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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 School District's basic financial statements. The Schedule of Federal Awards Receipts and Expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the Schedule of Federal Awards Receipts and Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

March 10, 2006

Warren Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

This discussion and analysis of the Warren Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005, within the limitations of the School District's modified cash basis of accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2005 are as follows:

- In total, net assets increased \$158,606. Net assets of governmental activities increased \$126,068; similarly, net assets of the business-type activity increased \$32,538 from 2004.
- General revenues accounted for \$17,404,476 in revenue or 83% of all revenues for governmental activities. Program specific revenues in the form of charges for services and sales, grants, contributions, and interest accounted for \$3,666,619 or 17% of total revenues of \$21,071,095.
- Total program expenses were \$21,635,346; \$20,945,027 in governmental activities and \$690,319 in the business-type activity.

Using this Annual Financial Report

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standard Board Statement No. 34, as applicable to the School District's modified cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the School District as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the School District as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the basic financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The School District has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the School District's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

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Unaudited

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the Government as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during 2005, within the limitations of modified cash basis of accounting. The statement of net assets presents the cash balances and investments of the governmental and the business-type activity of the School District at fiscal year end. The statement of activities compares cash disbursements with program receipts for each governmental program and the business-type activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the School District's general receipts.

These statements report the School District's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the School District's financial health. Over time, increases or decreases in the School District's cash position is one indicator of whether the School District's financial health is improving or deteriorating. When evaluating the School District's financial condition, you should also consider other non-financial factors as well, such as the School District's tax base, the condition of the School District's capital assets, the extent of the School District's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property taxes.

In the statement of net assets and the statement of activities, we divide the School District into two types of activities:

Governmental Activities – Most of the School District's basic services are reported here, including athletics and music. State and federal grants, state foundation receipts, and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

Business-type Activity – The School District has one business-type activity, the food service operations. It is financed by lunchroom sales and state and federal school breakfast/lunch programs.

Reporting the School District's Most Significant Funds

Fund financial statements provide detailed information about the School District's major funds – not the School District as a whole. The School District establishes separate funds to better manage its many activities and to help demonstrate the money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the School District are split into three categories; governmental, proprietary, and fiduciary.

Warren Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
 Unaudited

Governmental Funds Most of the School District's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the School District's operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance educational programs. The School District's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The School District's major funds include the General Fund and Permanent Improvement Capital Projects Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements. We describe this relationship in reconciliations presented with the governmental fund financial statements.

Proprietary Funds When the School District charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public (the students), the activity is reported as an enterprise fund. The School District has one enterprise fund, the Food Service Fund. When the services are provided to the employees of the School District, the services are reported as an internal service fund. The School District has one internal service fund to account for employee dental and prescription drug claims and the employee medical reimbursement program.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the School District's programs. The School District has one private purpose trust fund and one agency fund.

The School District as a Whole

Table 1 provides a summary of the School District's net assets for 2005 compared to 2004 on a modified cash basis:

Table 1
Net Assets

	Governmental Activities		Business-Type Activity		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current and Other Assets	\$4,657,483	\$4,592,805	\$171,022	\$135,220	\$4,828,505	\$4,728,025
Capital Assets, Net	5,467,360	5,404,571	51,933	55,197	5,519,293	5,459,768
<i>Total Assets</i>	<u>\$10,124,843</u>	<u>\$9,997,376</u>	<u>\$222,955</u>	<u>\$190,417</u>	<u>\$10,347,798</u>	<u>\$10,187,793</u>
Net Assets						
Invested in Capital Assets, Net of Related Debt	5,467,360	5,294,571	51,933	55,197	5,519,293	5,349,768
Restricted	49,037	34,030	0	0	49,037	34,030
Unrestricted	4,608,446	4,670,174	171,022	135,220	4,779,468	4,805,394
<i>Total Net Assets</i>	<u>\$10,124,843</u>	<u>\$9,998,775</u>	<u>\$222,955</u>	<u>\$190,417</u>	<u>\$10,347,798</u>	<u>\$10,189,192</u>

Warren Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

As mentioned previously, net assets of governmental activities increased \$126,068, which represents a 1.3% increase from 2004. The primary reasons contributing to the increase in cash balances are as follows:

- An increase in parity aid by approximately \$243,000 as per the state foundation formula and an increase in open enrollment of approximately \$84,000 as a result of an increase from the previous fiscal year of approximately 16 additional students coming into the School District opposed to leaving the School District.
- An increase over the prior fiscal year of \$44,000 in investment earnings due mainly to the increase in interest rates.
- There was also an increase of approximately \$301,000 in tax revenue due to fiscal year 2005 being a part of the revaluation process of property effective for calendar year 2004.
- These increases were offset by increases in salaries averaging 4.3% for the fiscal year based on current negotiated agreements and a rise in the cost of benefits resulting in approximately a 9% increase to this line item.

Table 2 reflects the changes in net assets in 2005. Since the School District did not prepare financial statements in this format for 2004, a comparative analysis of government-wide data has not been presented. In future fiscal years, when prior fiscal year information is available, a comparative analysis will be presented.

Warren Local School District, Ohio
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Table 2
 Changes in Net Assets

	Governmental Activities	Business-type Activity
	2005	2005
Receipts		
Program Cash Receipts:		
Charges for Services	\$1,247,769	\$491,483
Operating Grants, Contributions and Interest	2,384,452	229,981
Capital Grants and Contributions	34,398	0
Total Program Cash Receipts	<u>3,666,619</u>	<u>721,464</u>
General Receipts:		
Property Taxes	7,622,206	0
Grants and Entitlements	9,577,137	0
Investment Earnings	120,921	1,393
Miscellaneous	84,212	0
Total General Receipts	<u>17,404,476</u>	<u>1,393</u>
Total Receipts	<u>21,071,095</u>	<u>722,857</u>
Program Disbursements		
Instruction:		
Regular	10,003,455	0
Special	2,769,757	0
Vocational	193,321	0
Support Services:		
Pupils	818,605	0
Instructional Staff	970,042	0
Board of Education	70,660	0
Administration	1,654,899	0
Fiscal	612,774	0
Business	5,177	0
Operation and Maintenance of Plant	1,743,628	0
Pupil Transportation	1,497,585	0
Central	8,521	0
Operation of Non-Instructional Services	28,932	0
Extracurricular Activities	560,961	0
Capital Outlay	6,710	0
Food Service	0	690,319
Total Disbursements	<u>20,945,027</u>	<u>690,319</u>
Increase in Net Assets	126,068	32,538
Net Assets Beginning of Fiscal Year	9,998,775	190,417
Net Assets End of Fiscal Year	<u>\$10,124,843</u>	<u>\$222,955</u>

Governmental Activities:

Program receipts represent 17 percent of total receipts. They are primarily composed of Operating Grants, Contributions and Interest, which are Federal and State Grants. The Charges for Services are composed of fees for summer school, school supplies, and approximately \$945,000 in Open Enrollment fees. The remaining 83 percent is primarily from Grants and Entitlements (45 percent of total revenue) which is the unrestricted state foundation formula payment from the State.

Warren Local School District, Ohio
Management's Discussion and Analysis
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The expenses are composed of 62 percent for instruction, 20 percent for support services staff and administration, and 15 percent for expenses of plant operation and maintenance and pupil transportation.

Table 3
 Governmental Activities

	Total Cost of Services	Net Cost of Services
	2005	2005
Program Expenses		
Instruction:		
Regular	\$10,003,455	\$8,423,286
Special	2,769,757	1,574,388
Vocational	193,321	164,316
Support Services:		
Pupils	818,605	747,232
Instructional Staff	970,042	776,277
Board of Education	70,660	70,660
Administration	1,654,899	1,357,360
Fiscal	612,774	603,606
Business	5,177	5,177
Operation and Maintenance of Plant	1,743,628	1,735,364
Pupil Transportation	1,497,585	1,390,476
Central	8,521	8,521
Operation of Non-Instructional Services	28,932	11,618
Extracurricular Activities	560,961	403,417
Interest and Fiscal Charges	6,710	6,710
Total	\$20,945,027	\$17,278,408

The dependence upon tax revenues and state subsidies for governmental activities is apparent. For fiscal year 2005, approximately 75% of instruction activities were supported through taxes and other general revenues.

Business-type Activity:

Program receipts for this activity consist of food service sales and state and federal grants for lunchroom programs. The food service activity has operated effectively enough to avoid operating transfers from the governmental activities.

Warren Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
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The School District Funds

The School District's major funds (General Fund and Permanent Improvement Fund) are accounted for using the modified cash basis of accounting. All governmental funds had total receipts of \$21,071,095 and disbursements of \$21,351,871. The General Fund had a decrease in fund balance of \$511,250 while the Permanent Improvement Fund had an increase of \$115,998.

General Fund Budgeting Highlights

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

During the course of fiscal 2005, the School District amended its General Fund budget, but not significantly. The School District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, budget basis receipts were \$18,970,284, above original estimates of \$18,301,839. The difference was due to conservative estimates. Disbursements of \$19,736,799 were lower than original appropriations of \$20,174,313. The General Fund's balance at fiscal year end was \$2,880,922.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the School District had \$5,519,293 invested in land, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal year 2005 balances compared to 2004.

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

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$229,101	\$229,101	\$0	\$0	\$229,101	\$229,101
Buildings and Improvements	3,578,649	3,584,080	0	0	3,578,649	3,584,080
Furniture and Equipment	601,062	582,308	51,933	55,197	652,995	637,505
Vehicles	1,048,452	998,986	0	0	1,048,452	998,986
Construction in Progress	10,096	10,096	0	0	10,096	10,096
Totals	\$5,467,360	\$5,404,571	\$51,933	\$55,197	\$5,519,293	\$5,459,768

During fiscal year 2005, the School District made improvements to the parking lots and driveways at Warren Elementary, replaced the boiler at the High School, upgraded the electric at Barlow-Vincent Elementary, bought three new buses and purchased various furniture, lockers, and computers. In fiscal year 2004, the School District paid for engineering services for the replacement of the high school gym floor. The gym floor is set for replacement by the beginning of fiscal year 2006. See Note 7 to the basic financial statements for more information on capital assets.

Warren Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Debt

During fiscal year 2005, the School District made the final debt payment of \$110,000 on its School Bus bonds which had been issued in fiscal year 2000. See Note 12 to the basic financial statements for more information on debt.

Current Issues

Over the past several years, the School District has remained in a stable financial position, but due to the changing State funding formula and cost pressures, this is anticipated to change. Approximately 99% of the School District is in Washington County and the remaining 1% is in Athens County. Washington County went through a property reappraisal in calendar year 2004. This reappraisal increased the Schools District's property valuation \$17 million dollars. By June of 2005, the State Legislature had completed the biennial budget process and changed significant aspects of the school funding formula. These changes included a program reduction of the personal property tax base for school districts, a continuing historical trend in maintaining a 2.2 percent increase in the foundation formula, and reductions or containment of cost in previously funded items such as parity aid and transportation.

This continued attempt to control the inflationary raise in the school foundation formula and shifting of the tax base may contain the amount of payment the Legislature has to contribute to the school districts of the State. It will not contain the rising price of fuel for the buses, power and heating costs, the repair and maintenance of our aging facilities, the rising cost of benefits, and other contractual items. Over the last nine years, the School District has had only three years where expenditures exceeded revenue (deficit spending), the last two fiscal years 2004 and 2005 being two of the three. It is the stated goal of the Board of Education to assure the School District operates such that its one-year budget and five-year forecast maintain a cash surplus equal to or greater than two months operating expenses and to use a ratio of 80% to the total annual budget/total annual revenue as a benchmark for determining the fiscal "health" of the School District. Maintaining these goals with the influence of the previously listed budgetary factors will become increasingly difficult.

The challenge for all school districts is to provide a quality education to their students while staying within the restrictions imposed by limited, and in some cases shrinking, funding. The School District is reviewing its sources of revenue and has determined that increases will be difficult to obtain. We may be required to ask for an increase in our millage in the near future. We are currently reviewing our projected expenditures including benefits and staffing levels in an attempt to maintain our stated financial goals and the quality of education.

Contacting the School District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Sidney Brackenridge, Treasurer, at Warren Local School District, 220 Sweetapple Road, Vincent, Ohio 45784, or E-Mail at wl_sbrackenr@seovec.org.

Warren Local School District, Ohio
Statement of Net Assets - Modified Cash Basis
June 30, 2005

	Governmental Activities	Business-Type Activity	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$4,656,493	\$171,022	\$4,827,515
Cash and Cash Equivalents in Segregated Accounts	990	0	990
Nondepreciable Capital Assets	239,197	0	239,197
Depreciable Capital Assets, Net	5,228,163	51,933	5,280,096
<i>Total Assets</i>	<u>\$10,124,843</u>	<u>\$222,955</u>	<u>\$10,347,798</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	\$5,467,360	\$51,933	\$5,519,293
Restricted for:			
Bus Purchase	769	0	769
Other Purposes	48,268	0	48,268
Unrestricted	4,608,446	171,022	4,779,468
<i>Total Net Assets</i>	<u>\$10,124,843</u>	<u>\$222,955</u>	<u>\$10,347,798</u>

See accompanying notes to the basic financial statements

Warren Local School District, Ohio
Statement of Activities - Modified Cash Basis
For the Fiscal Year Ended June 30, 2005

	Program Cash Receipts				Net (Disbursements)Receipts and Changes in Net Assets		
	Cash Disbursements	Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities	Business-Type Activity	Total
Governmental Activities							
Instruction:							
Regular	\$10,003,455	\$1,059,776	\$520,393	\$0	(\$8,423,286)	\$0	(\$8,423,286)
Special	2,769,757	0	1,195,369	0	(1,574,388)	0	(1,574,388)
Vocational	193,321	0	29,005	0	(164,316)	0	(164,316)
Support Services:							
Pupils	818,605	0	71,373	0	(747,232)	0	(747,232)
Instructional Staff	970,042	0	193,765	0	(776,277)	0	(776,277)
Board of Education	70,660	0	0	0	(70,660)	0	(70,660)
Administration	1,654,899	50,510	247,029	0	(1,357,360)	0	(1,357,360)
Fiscal	612,774	0	9,168	0	(603,606)	0	(603,606)
Business	5,177	0	0	0	(5,177)	0	(5,177)
Operation and							
Maintenance of Plant	1,743,628	179	8,085	0	(1,735,364)	0	(1,735,364)
Pupil Transportation	1,497,585	10,141	62,570	34,398	(1,390,476)	0	(1,390,476)
Central	8,521	0	0	0	(8,521)	0	(8,521)
Operation of Non-Instructional							
Services	28,932	0	17,314	0	(11,618)	0	(11,618)
Extracurricular Activities	560,961	127,163	30,381	0	(403,417)	0	(403,417)
Interest and Fiscal Charges	6,710	0	0	0	(6,710)	0	(6,710)
<i>Total Governmental Activities</i>	<u>20,945,027</u>	<u>1,247,769</u>	<u>2,384,452</u>	<u>34,398</u>	<u>(17,278,408)</u>	<u>0</u>	<u>(17,278,408)</u>
Business-Type Activity							
Food Service	690,319	491,483	229,981	0	0	31,145	31,145
<i>Totals</i>	<u>\$21,635,346</u>	<u>\$1,739,252</u>	<u>\$2,614,433</u>	<u>\$34,398</u>	<u>(17,278,408)</u>	<u>31,145</u>	<u>(17,247,263)</u>
General Receipts							
Property Taxes Levied for:							
					7,505,496	0	7,505,496
					116,710	0	116,710
Grants and Entitlements not							
					9,577,137	0	9,577,137
					120,921	1,393	122,314
					84,212	0	84,212
<i>Total General Receipts</i>					<u>17,404,476</u>	<u>1,393</u>	<u>17,405,869</u>
<i>Change in Net Assets</i>					126,068	32,538	158,606
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>					<u>9,998,775</u>	<u>190,417</u>	<u>10,189,192</u>
<i>Net Assets End of Year</i>					<u>\$10,124,843</u>	<u>\$222,955</u>	<u>\$10,347,798</u>

See accompanying notes to the basic financial statements

Warren Local School District, Ohio
Statement of Modified Cash Basis Assets and Fund Balances
Governmental Funds
June 30, 2005

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$3,180,122	\$1,040,538	\$80,602	\$4,301,262
Cash in Segregated Accounts	0	0	990	990
Restricted Cash and Cash Equivalents	769	0	0	769
<i>Total Assets</i>	<u>\$3,180,891</u>	<u>\$1,040,538</u>	<u>\$81,592</u>	<u>\$4,303,021</u>
Fund Balances				
Reserved for Encumbrances	\$299,969	\$0	\$9,824	\$309,793
Reserved for Bus Purchases	769	0	0	769
Unreserved, Undesignated, Reported in:				
General Fund	2,880,153	0	0	2,880,153
Special Revenue Funds	0	0	71,768	71,768
Capital Projects Funds	0	1,040,538	0	1,040,538
<i>Total Fund Balances</i>	<u>\$3,180,891</u>	<u>\$1,040,538</u>	<u>\$81,592</u>	<u>4,303,021</u>

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	5,467,360
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets of the internal fund are included in governmental activities in the statement of net assets.	<u>354,462</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$10,124,843</u></u>

See accompanying notes to the basic financial statements

Warren Local School District, Ohio
Statement of Cash Receipts, Disbursements and Changes in Modified Cash Basis Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Receipts				
Taxes	\$7,505,496	\$0	\$116,710	\$7,622,206
Intergovernmental	10,324,049	0	1,636,431	11,960,480
Investment Earnings	3,423	117,498	207	121,128
Tuition and Fees	1,059,776	0	0	1,059,776
Extracurricular Activities	0	0	177,673	177,673
Miscellaneous	77,540	0	52,292	129,832
<i>Total Receipts</i>	<u>18,970,284</u>	<u>117,498</u>	<u>1,983,313</u>	<u>21,071,095</u>
Disbursements				
Current:				
Instruction:				
Regular	9,530,726	0	519,668	10,050,394
Special	2,310,825	0	475,149	2,785,974
Vocational	194,695	0	2,962	197,657
Support Services:				
Pupils	759,493	0	73,207	832,700
Instructional Staff	754,215	0	243,270	997,485
Board of Education	70,660	0	0	70,660
Administration	1,421,303	0	247,369	1,668,672
Fiscal	603,792	0	9,155	612,947
Business	5,177	0	0	5,177
Operation and Maintenance of Plant	1,870,900	0	4,511	1,875,411
Pupil Transportation	1,544,661	0	30,053	1,574,714
Central	8,521	0	0	8,521
Operation of Non-Instructional Services	3,240	0	28,965	32,205
Extracurricular Activities	358,622	0	162,522	521,144
Capital Outlay	0	1,500	0	1,500
Debt Service:				
Principal Retirement	0	0	110,000	110,000
Interest and Fiscal Charges	0	0	6,710	6,710
<i>Total Disbursements</i>	<u>19,436,830</u>	<u>1,500</u>	<u>1,913,541</u>	<u>21,351,871</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(466,546)</u>	<u>115,998</u>	<u>69,772</u>	<u>(280,776)</u>
Other Financing Sources (Uses)				
Advances In	0	0	48,393	48,393
Advances Out	(48,393)	0	0	(48,393)
Transfers In	3,689	0	0	3,689
Transfers Out	0	0	(3,689)	(3,689)
<i>Total Other Financing Sources (Uses)</i>	<u>(44,704)</u>	<u>0</u>	<u>44,704</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(511,250)</u>	<u>115,998</u>	<u>114,476</u>	<u>(280,776)</u>
<i>Fund Balances (Deficit) Beginning of Year - Restated (See Note 3)</i>	<u>3,692,141</u>	<u>924,540</u>	<u>(32,884)</u>	<u>4,583,797</u>
<i>Fund Balances End of Year</i>	<u>\$3,180,891</u>	<u>\$1,040,538</u>	<u>\$81,592</u>	<u>\$4,303,021</u>
Amounts reported for governmental activities in the statement of activities are different because:				
Net Change in Fund Balance				(\$280,776)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation:				
Capital Asset Additions			449,543	
Depreciation Expense			(386,754)	62,789
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.				
				110,000
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund receipts are eliminated. The net receipts (disbursements) of the internal service fund is allocated among the governmental activities.				
				<u>234,055</u>
<i>Change in Net Assets of Governmental Activities</i>				<u>\$126,068</u>

Warren Local School District, Ohio
*Statement of Cash Receipts, Disbursements and Changes in
Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2005*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Taxes	\$7,313,469	\$10,240,283	\$7,505,496	(\$2,734,787)
Intergovernmental	10,023,771	7,620,464	10,324,049	2,703,585
Investment Earnings	5,493	3,233	3,423	190
Tuition and Fees	949,246	1,061,767	1,059,776	(1,991)
Miscellaneous	9,860	21,952	77,540	55,588
<i>Total Receipts</i>	18,301,839	18,947,699	18,970,284	22,585
Disbursements				
Current:				
Instruction:				
Regular	10,419,925	9,709,774	9,596,142	113,632
Special	1,551,531	2,225,931	2,316,230	(90,299)
Vocational	218,491	218,491	194,695	23,796
Support Services:				
Pupils	771,853	771,853	764,649	7,204
Instructional Staff	806,366	806,366	756,480	49,886
Board of Education	102,587	102,587	91,459	11,128
Administration	1,530,377	1,553,083	1,437,485	115,598
Fiscal	680,944	690,944	606,891	84,053
Business	1,776	1,776	5,177	(3,401)
Operation and Maintenance of Plant	2,204,853	2,178,153	2,050,004	128,149
Pupil Transportation	1,555,737	1,595,737	1,546,639	49,098
Central	5,000	5,000	8,521	(3,521)
Non-Instructional Services	2,000	4,500	3,805	695
Extracurricular Activities	322,873	322,873	358,622	(35,749)
<i>Total Disbursements</i>	20,174,313	20,187,068	19,736,799	450,269
<i>Excess of Receipts Under Disbursements</i>	(1,872,474)	(1,239,369)	(766,515)	472,854
Other Financing Sources (Uses)				
Advances Out	0	0	(48,393)	(48,393)
Transfers In	23,657	22,789	3,689	(19,100)
Transfers Out	(60,000)	(60,000)	0	60,000
<i>Total Other Financing Sources (Uses)</i>	(36,343)	(37,211)	(44,704)	(7,493)
<i>Net Change in Fund Balance</i>	(1,908,817)	(1,276,580)	(811,219)	465,361
<i>Fund Balance Beginning of Year</i>	3,540,442	3,540,442	3,540,442	0
Prior Year Encumbrances Appropriated	151,699	151,699	151,699	0
<i>Fund Balance End of Year</i>	\$1,783,324	\$2,415,561	\$2,880,922	\$465,361

See accompanying notes to the basic financial statements

Warren Local School District, Ohio
Statement of Fund Net Assets - Modified Cash Basis
Proprietary Funds
June 30, 2005

	<u>Business-Type Activity</u>	<u>Governmental Activities</u>
	Food Service Enterprise Fund	Dental and Prescription Insurance Internal Service Fund
Assets		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$171,022	\$354,462
Noncurrent Assets:		
Depreciable Capital Assets, net	<u>51,933</u>	<u>0</u>
<i>Total Assets</i>	<u><u>\$222,955</u></u>	<u><u>\$354,462</u></u>
Net Assets		
Invested in Capital Assets	\$51,933	\$0
Unrestricted	<u>171,022</u>	<u>354,462</u>
<i>Total Net Assets</i>	<u><u>\$222,955</u></u>	<u><u>\$354,462</u></u>

See accompanying notes to the basic financial statements

Warren Local School District, Ohio
*Statement of Cash Receipts, Disbursements and
 Changes in Fund Net Assets - Modified Cash Basis
 Proprietary Funds
 For the Fiscal Year Ended June 30, 2005*

	Business-Type Activity	Governmental Activities
	Food Service Enterprise Fund	Dental and Prescription Insurance Internal Service Fund
Operating Receipts		
Sales	\$491,483	\$0
Charges for Services	0	1,007,084
<i>Total Operating Receipts</i>	<u>491,483</u>	<u>1,007,084</u>
Operating Disbursements		
Salaries	258,537	0
Fringe Benefits	126,893	0
Purchased Services	6,708	16,913
Materials and Supplies	291,777	0
Depreciation	6,404	0
Claims	0	756,116
<i>Total Operating Disbursements</i>	<u>690,319</u>	<u>773,029</u>
<i>Operating Income (Loss)</i>	<u>(198,836)</u>	<u>234,055</u>
Non-Operating Receipts		
Interest	1,393	0
Federal and State Subsidies	229,981	0
<i>Total Non-Operating Receipts</i>	<u>231,374</u>	<u>0</u>
<i>Net Change in Net Assets</i>	32,538	234,055
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>	<u>190,417</u>	<u>120,407</u>
<i>Net Assets End of Year</i>	<u><u>\$222,955</u></u>	<u><u>\$354,462</u></u>

See accompanying notes to the basic financial statements

Warren Local School District, Ohio
Statement of Cash Flows - Modified Cash Basis
Proprietary Funds
For the Fiscal Year Ended June 30, 2005

	<u>Business-Type Activity</u>	<u>Governmental Activities</u>
	Food Service Enterprise Fund	Dental and Prescription Insurance Internal Service Fund
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows from Operating Activities		
Cash Received from Customers	\$491,483	\$0
Cash Received from Quasi-External Transactions with Other Funds	0	1,007,084
Cash Payments to Suppliers for Goods and Services	(298,485)	(16,913)
Cash Payments for Employee Services	(258,537)	0
Cash Payments for Employee Benefits	(126,893)	0
Cash Payments for Claims	0	(756,116)
	<u>(192,432)</u>	<u>234,055</u>
Cash Flows from Noncapital Financing Activities		
Operating Grants Received	229,981	0
Cash Flows from Capital and Related Financing Activities		
Payments for Capital Acquisitions	(3,140)	0
Cash Flows from Investing Activities		
Interest	1,393	0
	<u>35,802</u>	<u>234,055</u>
<i>Net Increase in Cash and Cash Equivalents</i>		
	35,802	234,055
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>135,220</u>	<u>120,407</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$171,022</u>	<u>\$354,462</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities		
Operating Income (Loss)	(\$198,836)	\$234,055
Depreciation	6,404	0
	<u>(\$192,432)</u>	<u>\$234,055</u>
<i>Net Cash Provided by (Used for) Operating Activities</i>		
	<u>(\$192,432)</u>	<u>\$234,055</u>

See accompanying notes to the basic financial statements

Warren Local School District, Ohio
Statement of Fiduciary Net Assets - Modified Cash Basis
Agency Fund
June 30, 2005

Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$20,829</u>
Net Assets	
Restricted for Students	<u>\$20,829</u>

See accompanying notes to the basic financial statements

Warren Local School District, Ohio
Statement of Changes in Fiduciary Net Assets - Modified Cash Basis
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2005

	Private Purpose Trust
	Tracy Scholarship
Additions	
Gifts and Contributions	\$1,505
Deductions	
Scholarships Awarded	1,505
<i>Change in Net Assets</i>	0
<i>Net Assets Beginning of Year</i>	0
<i>Net Assets End of Year</i>	\$0

See accompanying notes to the basic financial statements

Warren Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

Note 1 - Description of the School District and Reporting Entity

Warren Local School 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 School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State and federal agencies. This Board of Education controls the School District's nine instructional/support facilities staffed by 98 classified employees and 194 certified personnel, who provide services to 2,597 students and other community members.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements of the School District are not misleading.

The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Warren Local School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the School District, are accessible to the School District, and are significant in amount to the School District. The School District has no component units.

The School District participates in four jointly governed organizations and one insurance purchasing pool. These organizations are the Southeastern Ohio Voluntary Education Cooperative, the Washington County Career Center, the Coalition of Rural and Appalachian Schools, the South Eastern Ohio Special Education Regional Resource Center, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 13 and 14 to the basic financial statements.

The School District's management believes these financial statements present all activities for which the School District is financially accountable.

Note 2 - Summary of Significant Accounting Policies

As discussed further in Note 2.C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting.

Warren Local School District, Ohio

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The School District does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise funds. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" receipts and disbursements. The statements distinguish between those activities of the School District that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts, or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of net assets presents the cash balance and capital assets of the governmental and business-type activities of the School District at fiscal year end. The statement of activities compares disbursements with program receipts for each function or program of the School District's governmental and business-type activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a modified cash basis or draws from the School District's general receipts.

Fund Financial Statements During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the fund's principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating.

Warren Local School District, Ohio

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The funds of the School District are divided into three categories: governmental, proprietary, and fiduciary.

Governmental Funds The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The School District's major funds are as follows:

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 to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Permanent Improvement Fund This fund accounts for the acquisition, construction, or improvement of capital facilities, other than those financed by the enterprise fund.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Fund The School District classifies funds financed primarily from user charges for goods or services as proprietary. Proprietary funds are classified as either enterprise funds or internal service funds.

Enterprise Fund Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The School District's only enterprise fund accounts for the operation of the School District's food service program.

Internal Service Fund The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund accounts for the operation of the School District's self-insurance program for employee dental and prescription drug claims and the employee medical reimbursement program.

Fiduciary Fund Type The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District's only trust fund is a private purpose trust which accounts for a college scholarship program for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only agency fund accounts for student activities.

C. Basis of Accounting

The School District's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the School District are described in the appropriate section in this note.

Warren Local School District, Ohio

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the fund level for all funds. Budgetary allocations at the function and object level within all funds are made by the Treasurer.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

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

E. Cash and Cash Equivalents

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

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During 2005, the School District invested in federal agency securities, which are reported at cost, and STAROhio. STAROhio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2005.

Warren Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the Permanent Improvement Capital Projects Fund during fiscal year 2005 amounted to \$117,498, which includes \$94,470 assigned from other School District funds.

The School District has a segregated bank account for athletic activities. This depository account is presented as “cash and cash equivalents in segregated accounts” since it is not deposited into the School District treasury.

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets include unexpended revenues restricted for the purchase of buses.

G. Inventory and Prepaid Items

The School District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from cash disbursements 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 on the fund financial statements. Capital assets utilized by the Food Service Enterprise Fund are reported both in the business-type activities column of the government-wide statement of net assets and in the fund.

All capital assets are capitalized at cost and updated for additions and retirements during the fiscal year. The School District maintains a capitalization threshold of fifteen hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized.

All reported capital assets, except land, land improvements, 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:

Description	Estimated Lives
Buildings and Improvements	20 – 80 years
Furniture and Equipment	5 – 20 years
Vehicles	12 years

I. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the School District’s modified cash basis of accounting.

Warren Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

J. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 10 and 11, the employer contributions include portions for pension benefits and for postretirement health care benefits.

K. Long-term Obligations

The School District's modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither other financing source nor capital outlay are reported at inception. Lease payments are reported when paid.

L. Interfund Activity

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general receipts.

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies 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 receipts/cash disbursements in proprietary funds. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented in the financial statements.

M. Fund Balance Reserves

The School District reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances and bus purchases.

N. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for music and athletic programs and federal and state grants restricted to cash disbursement for specified purposes. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide statement of net assets reports \$49,037 of restricted net assets, of which none are restricted by enabling legislation.

O. Estimates

The modified cash basis of accounting used by the School District requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

Warren Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

Note 3 – Change in Basis of Accounting and Restatement of Fund Equity

A. Change in Basis of Accounting

For 2005, the School District ceased to report using generally accepted accounting principles and reported on the modified cash basis as described in Note 2C.

B. Restatement of Fund Equity

The implementation of this change had the following effects on fund equity of the major and nonmajor funds of the School District as they were previously reported. The effects on net assets of governmental and business-type activities are also presented.

	General	Permanent Improvement	Other Governmental	Total Governmental
Fund Balance June 30, 2004	\$1,921,206	\$924,540	\$47,055	\$2,892,801
Eliminate Unreported Items	947	0	8,000	8,947
Eliminate Asset Accruals	(7,949,516)	0	(283,253)	(8,232,769)
Eliminate Prepaids	(145,919)	0	(4,338)	(150,257)
Eliminate Inventory	(87,188)	0	0	(87,188)
Eliminate Interfund Receivables/Payables	75	0	0	75
Eliminate Liability Accruals	9,952,536	0	199,652	10,152,188
Adjusted Fund Balance June 30, 2004	<u>\$3,692,141</u>	<u>\$924,540</u>	<u>(\$32,884)</u>	<u>\$4,583,797</u>

	Governmental Activities	Business-Type Activity
Net Assets June 30, 2004	\$7,038,126	\$147,040
Eliminate Unreported Items	8,947	39
Eliminate Asset Accruals	(8,232,769)	(27,327)
Eliminate Prepaids	(150,257)	(2,565)
Eliminate Inventory	(87,188)	(16,878)
Eliminate Interfund Receivables/Payables	75	(75)
Eliminate Liability Accruals	11,421,841	90,183
Adjusted Net Assets June 30, 2004	<u>\$9,998,775</u>	<u>\$190,417</u>

Note 4 - Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Cash Receipts, Disbursements and Changes in Fund Balance – Budget and Actual (Budgetary Basis) presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the modified cash basis are outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis). The encumbrances outstanding at fiscal year end (budgetary basis) amount to \$299,969 in the General Fund.

Warren Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

Note 5 - Deposits and Investments

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security 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 the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAROhio).

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

Warren Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

At fiscal year end, the School District had \$1,915 in undeposited cash on hand which is included as part of “Equity in Pooled Cash and Cash Equivalents”.

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$4,914,655 of the School District’s bank balance of \$5,223,867 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution.

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

Investments As of June 30, 2005, the School District had the following investments:

	Carrying Value	Maturity
Federal Home Loan Mortgage Corporation Notes	\$147,844	6/02/06
STAROhio	10,658	31 Days
Total Investments	<u>\$158,502</u>	

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The School District’s investment policy addresses interest rate risk by requiring that the School District’s investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

The Federal Home Loan Mortgage Corporation Notes carry a rating of AA- by Standard and Poor’s. STAROhio carries a rating of AAAm by Standard and Poor’s. The School District has no investment policy dealing with investment credit risk beyond the requirements in State statutes.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal Home Loan Mortgage Corporation Notes are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty’s trust department or agent but not in the School District’s name. The School District has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14(M)(2) which states, “Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee.”

Warren Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

Note 6 - Property Taxes

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

Property taxes include amounts levied against all real, public utility, and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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

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

Warren Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

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

	2004 Second- Half Collections		2005 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$165,250,660	64.12%	\$179,660,320	65.44%
Public Utility Personal	25,557,580	9.91%	25,969,900	9.46%
Tangible Personal Property	66,922,770	25.97%	68,895,870	25.10%
Total	\$257,731,010	100.00%	\$274,526,090	100.00%
Tax Rate per \$1,000 of assessed valuation	\$35.90		\$35.90	

Note 7 - Capital Assets

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

	Balance 6/30/04	Additions	Reductions	Balance 6/30/05
Governmental Activities:				
Capital assets not being depreciated				
Land	\$229,101	\$0	\$0	\$229,101
Construction in Progress	10,096	0	0	10,096
Total capital assets not being depreciated	239,197	0	0	239,197
Other capital assets:				
Buildings and Improvement	8,862,745	133,141	0	8,995,886
Furniture and Equipment	1,919,934	121,147	0	2,041,081
Vehicles	2,173,444	195,255	0	2,368,699
Total other capital assets	12,956,123	449,543	0	13,405,666
Accumulated depreciation				
Buildings and Improvement	(5,278,665)	(138,572)	0	(5,417,237)
Furniture and Equipment	(1,337,626)	(102,393)	0	(1,440,019)
Vehicles	(1,174,458)	(145,789)	0	(1,320,247)
Total accumulated depreciation	(7,790,749)	(386,754) *	0	(8,177,503)
Other capital assets, net	5,165,374	62,789	0	5,228,163
Governmental activities capital assets, net	\$5,404,571	\$62,789	\$0	\$5,467,360

Warren Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

	<u>Balance</u> <u>6/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/05</u>
Business-Type Activity:				
Capital assets being depreciated				
Furniture and Equipment	<u>\$276,499</u>	<u>\$3,140</u>	<u>\$0</u>	<u>\$279,639</u>
Less Accumulated Depreciation	<u>(221,302)</u>	<u>(6,404)</u>	<u>0</u>	<u>(227,706)</u>
Business-Type Activity capital assets, net	<u><u>\$55,197</u></u>	<u><u>(\$3,264)</u></u>	<u><u>\$0</u></u>	<u><u>\$51,933</u></u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$97,081
Special Instruction	10,607
Vocational	3,427
Support Services:	
Pupils	9,951
Instructional Staff	35,601
Administration	10,712
Fiscal	3,364
Operation and Maintenance of Plant	19,786
Pupil Transportation	149,071
Extracurricular Activities	40,701
Operation of Non-Instructional Services	<u>6,453</u>
Total Depreciation Expense	<u><u>\$386,754</u></u>

Note 8 - Interfund Transfers

During fiscal year 2005, \$3,689 was transferred from the Federal Grants Special Revenue Fund to the General Fund. As authorized by the grant, the transfer closes the grant and represents unspent grant dollars.

Note 9 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the School District contracted with Utica National Insurance Company for property insurance and boiler and machinery coverage. Property damage is on a replacement cost basis for a blanket amount of \$36,428,500 on buildings and contents. The policies include a \$5,000 deductible.

Professional and general liability is protected by the Utica National Insurance Group with a \$1,000,000 single occurrence limit with a \$5,000,000 aggregate and no deductible. Vehicles are covered by Utica National Insurance Group with a \$1,000 deductible for comprehensive and a \$1,000 deductible for collision. Automobile liability has a \$1,000,000 combined single limit of liability.

Warren Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

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

B. Workers' Compensation

For fiscal year 2005, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 14). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of 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 the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then 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 & Co. provides administrative, cost control, and actuarial services to the GRP.

C. Employee Dental and Prescription Benefits

Dental and prescription drug insurance is offered to employees through a self-insurance internal service fund. American Benefits, Inc, the third party administrator, reviews and processes the claims which the School District then pays. The self-insurance internal service fund allocates the cost of providing claims servicing and claims payments by charging a monthly premium, per individual, to the various funds of the School District. These premiums go into the self-insurance internal service fund. Claims and services are paid from the self-insurance internal service fund. The claims liability of \$70,000 at June 30, 2005, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be disclosed. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2004	\$71,365	\$758,817	\$756,775	\$73,407
2005	73,407	752,709	756,116	70,000

Note 10 - Defined Benefit Pension Plans

A. School Employees Retirement System

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

Warren Local School District, Ohio

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003, were \$289,058, \$236,631, and \$204,856, respectively; 47.40 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

B. State Teachers Retirement System

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

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

DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2004, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

Warren Local School District, Ohio

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003, were \$1,207,019, \$1,232,622, and \$1,042,039, respectively; 82.53 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$10,838 made by the School District and \$13,952 made by the plan members.

C. Social Security System

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

Note 11 - Postemployment Benefits

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$92,848 for fiscal year 2005.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004 (the latest information available), the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, the School District paid \$134,425 to fund health care benefits, including the surcharge.

Warren Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

Note 12 - Long Term Obligations

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

	Principal Outstanding 6/30/04	Additions	Reductions	Principal Outstanding 6/30/05	Amounts Due in One Year
Governmental Activities					
June 1, 2000, \$495,000					
School Bus Bonds - 5.55%-6.1%	\$110,000	\$0	\$110,000	\$0	\$0

The school bus acquisition bonds were issued for a 5 year period with final maturity during fiscal year 2005. The debt was repaid through tax revenue allocations from the General Fund to the Bond Retirement Debt Service Fund to meet current fiscal year principal and interest obligations.

The overall debt margin of the School District as of June 30, 2005, was \$24,707,348, with an unvoted debt margin of \$274,526.

Note 13 - Jointly Governed Organizations

A. Southeastern Ohio Voluntary Education Cooperative (SEOVEC)

SEOVEC was created as a regional council of governments pursuant to State statutes. SEOVEC is a computer consortium formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. SEOVEC has 38 participants consisting of 30 school districts and 8 educational service centers. SEOVEC is governed by a governing board which is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. During fiscal year 2005, the School District paid \$71,595 to SEOVEC. To obtain financial information write to the Southeastern Ohio Voluntary Education Cooperative at 221 North Columbus Road, Athens, Ohio 45701.

B. Washington County Career Center

The Washington County Career 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 six participating school districts' elected boards and one representative from the Washington County Educational Service Center's board. The Board possesses its own budgeting and taxing authority. To obtain financial information write to the Washington County Career Center, Mary Bee, Treasurer, at 21740 SR 676, Marietta, Ohio 45750.

Warren Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

C. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization including over 100 hundred school districts in southeastern Ohio. The Coalition is operated by a Board which is composed of fourteen members. The board members are composed of one superintendent from each county elected by the school districts within that county. The Council provides various in-service training programs for school district administrative personnel; gathering of data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Council. The School District's membership fee was \$315 for fiscal year 2005.

D. South Eastern Ohio Special Education Regional Resource Center (SEOSERRC)

SEOSERRC is a special education regional resource 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. SEOSERRC is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, and representatives of county boards of MR/DD, Ohio University, and the Southeast Regional Professional Development Center whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. During fiscal year 2005, the School District paid \$9,835 to SEOSERRC. Financial information can be obtained by contacting Bryan Swann, Treasurer, at the Athens-Meigs Educational Service Center, 507 Richland Avenue, Suite 108, Athens, Ohio 45701.

Note 14 - Insurance Purchasing Pool

Ohio School Boards Association Workers' Compensation Group Rating Plan

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (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 OSBA. 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.

Note 15 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005.

Warren Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

B. Litigation

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

Note 16 – Set-Asides

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year end or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years. In prior fiscal years, the School District was also required to set aside money for budget stabilization.

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

	Capital Improvements Reserve	Textbooks/ Instructional Materials Reserve
Set-aside Reserve Balance as of June 30, 2004	\$0	\$13,664
Current Year Set-aside Requirement	387,714	387,714
Qualifying Disbursements	(845,000)	(480,442)
Total	<u>(457,286)</u>	<u>(79,064)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$0</u>	<u>(\$79,064)</u>

The School District had qualifying disbursements during the fiscal year that reduced the textbook set-aside amount below zero. This extra amount may be used to reduce the set-aside requirements of future fiscal years.

**WARREN LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

FEDERAL GRANTOR <i>Pass-through Grantor</i> Program Title	Federal CFDA Number	Pass-through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Donation	10.550	N/A	\$	\$ 53,536	\$	\$ 53,536
School Breakfast Program	10.553	05PU-2004	2,547		2,547	
		05PU-2005	7,361		7,361	
Total School Breakfast Program			9,908	0	9,908	0
National School Lunch Program	10.555	LLP4-2004	56,674		56,674	
		LLP4-2005	154,525		154,525	
Total National School Lunch Program			211,199	0	211,199	0
Total Nutrition Cluster			221,107	53,536	221,107	53,536
Total United States Department of Agriculture			221,107	53,536	221,107	53,536
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	84.010	C1S1-2004	14,520		12,182	
		C1S1-2005	225,956		225,158	
Total Title I Grants to Local Educational Agencies			240,476	0	237,340	0
Special Education - Grants to States	84.027	6BSF-2004	93,067		12,435	
		6BSF-2005	476,581		476,581	
Total Special Education - Grants to States			569,648	0	489,016	0
Safe and Drug-Free Schools and Communities - State Grants	84.186	DRS1-2004	3,718		176	
		DRS1-2005	7,992		7,992	
Total Safe and Drug-Free Schools and Communities - State Grants			11,710	0	8,168	0
Twenty - First Century Community Learning Centers	84.287	T1S1-2005	477,460		477,460	
State Grants for Innovative Programs	84.298	C2S1-2004	4,728			
		C2S1-2005	9,238		9,078	
Total State Grants for Innovative Programs			13,966	0	9,078	0
Education Technology - State Grants	84.318	TJS1-2004	344			
		TJS1-2005	3,254		3,254	
Total Education Technology - State Grants			3,598	0	3,254	0
Special Education - State Program Improvement Grants for Children with Disabilities	84.323	STS1-2005	7,500		685	
Improving Teacher Quality State Grants	84.367	TRS1-2004	15,812		13,135	0
		TRS1-2005	90,399		90,399	0
Total Improving Teacher Quality State Grants			106,211	0	103,534	0
Total United States Department of Education			1,430,569	0	1,328,535	0
UNITED STATES DEPARTMENT OF HOMELAND SECURITY						
<i>Passed through the Ohio Emergency Management Agency:</i>						
Public Assistance Grants	97.036		3,689		3,689	
Total United States Department of Homeland Security			3,689	0	3,689	0
Total Federal Awards Receipts and Expenditures			\$ 1,655,365	\$ 53,536	\$ 1,553,331	\$ 53,536

The Notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of this Schedule.

**WARREN LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

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

NOTE C – TRANSFERS AND REFUNDS

During fiscal year 2005, the Ohio Department of Education (ODE) authorized the School District to carryover monies from the prior fiscal year to the current fiscal year. Authorized carryover monies are shown as a reduction of federal revenues in the program that the transfer was made from and increased federal revenue in the program that received the transfer or carryover. Also during 2005, the School District refunded to the Ohio Department of Education monies that were not expended during the period of availability. Refunds to the Ohio Department of Education are shown as a reduction of federal revenue in the accompanying Schedule. A detailed listing of the transfers/carryovers and refund are as follows:

CFDA Number	Program Title	Pass- Through Entity Number	Transfers Out	Transfers In
84.010	Title I Grants to Local Educational Agencies	C1S1-2004	\$ 2,909	
84.010	Title I Grants to Local Educational Agencies	C1S1-2005		\$ 2,909
		Totals	<u>\$ 2,909</u>	<u>\$ 2,909</u>



**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 Local School District
Washington County
220 Sweetapple Road
Vincent, Ohio 45784

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Warren Local School District, Washington County, Ohio (the School District), as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 10, 2006, wherein we noted the School District uses a comprehensive basis of accounting other than generally accepted accounting principles. 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 School District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the basic financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. In a separate letter to the School District's management dated March 7, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2005-001 and 2005-002. In a separate letter to the School District's management dated March 10, 2006, we reported other matters related to noncompliance we deemed immaterial.

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Warren Local School District
Washington County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*

We intend this report solely for the information and use of the audit committee, management, the 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 10, 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 Local School District
Washington County
220 Sweetapple Road
Vincent, Ohio 45784

To the Board of Education:

We have audited the compliance of Warren Local School District, Washington County, Ohio (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal programs for the year ended June 30, 2005. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the School District's major federal programs. The School 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 School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to 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 School 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 School District's compliance with those requirements.

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

Internal Control Over Compliance

The School 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 School District's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Warren Local School District
Washington County
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

Our consideration of the internal controls over compliance would not necessarily disclose all matters in the internal controls 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, regulation, 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, the 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 10, 2006

**WARREN LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE YEAR ENDED JUNE 30, 2005**

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 conditions reported at the financial statement level (GAGAS)?	No
<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):	Special Education – Grants to States – CFDA #84.027 Twenty-First Century Community Learning Grants – CFDA #84.287
<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 2005-001

Noncompliance Citation

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. Cash-basis entities must file annual reports with the Auditor of State within 60 days of the fiscal year end. GAAP-basis entities must file annual reports within 150 days. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

**WARREN LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005
(Continued)**

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

FINDING NUMBER 2005-001 (Continued)

Noncompliance Citation – Ohio Rev. Code 117.38 (Continued)

Ohio Admin. Code Section 117-2-03(B) requires the School District to file its annual financial report in accordance with generally accepted accounting principles. However, the School District prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the School District can be fined and/or subjected to various other administrative remedies for its failure to file the required financial report.

We recommend the School District take the necessary steps to ensure that the annual financial report is prepared and filed pursuant to generally accepted accounting principles.

FINDING NUMBER 2005-002

Finding For Recovery – Repaid Under Audit

Ohio Rev. Code Section 3313.12 states, in part, that each member of a district board or educational service center governing board may be paid such compensation as the respective board provides by resolution for attendance at an approved training program, provided that such compensation shall not exceed sixty dollars a day for attendance at a training program three hours or fewer in length and one hundred twenty-five dollars a day for attendance at a training program longer than three hours in length.

This Section was amended by Senate Bill 187, effective September 20, 2002, to reflect the current language stated above. The provisions apply to board of education members who begin a new term of office after September 20, 2002.

On December 15, 2003, the Board of Education approved Resolution No. 182-03, which stated in paragraph "a", "Board member compensation of \$125 per meeting and approved training programs up to \$60 per day per board member if the program is three hours or less and up to \$125 per day if the program is longer than three hours, as provided by Ohio Revised Code 3313.12."

Board of Education members Matthew Glancy and Willie Holbert were serving terms that began January 1, 2002 and ended December 31, 2005. On January 7, 2005, they received payments of \$185 and \$310, respectively, in compensation for trainings they attended in November 2004. This resulted in Board of Education members Mr. Glancy and Mr. Holbert receiving in-term increases in compensation, contrary to Section 3313.12.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for money illegally expended is hereby issued against Matthew Glancy, in the amount of \$185, and against Willie Holbert, in the amount of \$310, for a total amount of \$495, in favor of the Warren Local School District General Fund.

**WARREN LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005
(Continued)**

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

FINDING NUMBER 2005-002 (Continued)

Finding For Recovery – Repaid Under Audit (Continued)

Mr. Glancy repaid the finding for recovery in full on April 6, 2006. Mr. Holbert has agreed to have his April 2006 compensation as a Board member reduced by the amount of the finding for recovery to satisfy the finding.

3. FINDINGS FOR FEDERAL AWARDS

None.

**WARREN LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2004-001	A material weakness was issued for a lack of service organization auditing procedures.	Yes	



**Auditor of State
Betty Montgomery**

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WARREN LOCAL SCHOOL DISTRICT

WASHINGTON 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**