



**Auditor of State  
Betty Montgomery**



**WARREN CITY SCHOOL DISTRICT  
TRUMBULL COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANT'S REPORT**

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Warren City School District, Trumbull County, (the District) as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Warren City School District, Trumbull County, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of 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.



**Betty Montgomery**  
Auditor of State

November 3, 2004

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
UNAUDITED**

The discussion and analysis of the Warren City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2003 are as follows:

- In total, net assets of governmental activities increased \$42,124 which represents a 0.13% increase from 2002.
- General revenues accounted for \$50,715,602 in revenue or 74.33% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$17,511,480 or 25.67% of total revenues of \$68,227,082.
- The District had \$68,184,958 in expenses related to governmental activities; \$17,511,480 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$50,715,602 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$51,870,241 in revenues and \$50,725,675 in expenditures. During fiscal 2003, the general fund's fund balance increased \$1,054,566 from \$7,963,730 to \$9,018,296.

**Using these Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
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**Reporting the District as a Whole**

*Statement of Net Assets and the Statement of Activities*

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

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

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

**Reporting the District's Most Significant Funds**

*Fund Financial Statements*

The analysis of the District's major governmental fund begins on page 10. Fund financial reports provide detailed information about the District's major fund. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the general fund.

*Governmental Funds*

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements.



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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
UNAUDITED

***Reporting the District's Fiduciary Responsibilities***

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

**The District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting, therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the District's net assets for 2003.

	<b>Net Assets</b>
	Governmental Activities <u>2003</u>
<b><u>Assets</u></b>	
Current and other assets	\$ 45,162,535
Capital assets	<u>17,913,944</u>
Total assets	<u>63,076,479</u>
<b><u>Liabilities</u></b>	
Current liabilities	26,757,312
Long-term liabilities	<u>3,611,986</u>
Total liabilities	<u>30,369,298</u>
<b><u>Net Assets</u></b>	
Invested in capital assets, net of related debt	17,913,944
Restricted	1,512,427
Unrestricted	<u>13,280,810</u>
Total net assets	<u>\$ 32,707,181</u>

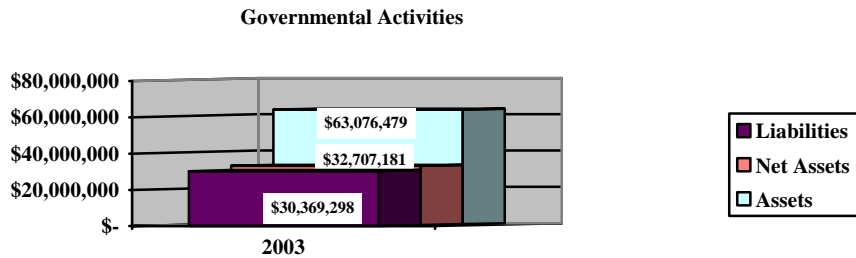
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2003, the District's assets exceeded liabilities by \$32,707,181. Of this total, \$13,280,810 is unrestricted in use.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
UNAUDITED**

At year-end, capital assets represented 28.40% of total assets. Capital assets include land, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2003, were \$17,913,944. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,512,427, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$13,280,810 may be used to meet the District's ongoing obligations to the students and creditors.



The table below shows the change in net assets for fiscal year 2003. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2002 are not available. A comparative analysis will be provided in future years when prior year information is available.

**Change in Net Assets**

	Governmental Activities 2003
<b><u>Revenues</u></b>	
Program revenues:	
Charges for services and sales	\$ 2,427,774
Operating grants and contributions	15,001,587
Capital grants and contributions	82,119
General revenues:	
Property taxes	17,406,644
Grants and entitlements	32,451,611
Investment earnings	698,758
Other	158,589
Total revenues	68,227,082

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
UNAUDITED

**Change in Net Assets**

	Governmental Activities <u>2003</u>
<b><u>Expenses</u></b>	
Program expenses:	
Instruction:	
Regular	\$ 26,940,781
Special	9,586,997
Vocational	847,899
Other	647,310
Support services:	
Pupil	3,729,023
Instructional staff	4,703,974
Board of education	24,589
Administration	4,924,986
Fiscal	941,399
Business	678,039
Operations and maintenance	7,559,866
Pupil transportation	2,378,121
Central	803,379
Food service operations	2,253,762
Operations of non-instructional services	134,021
Extracurricular activities	1,214,758
Intergovernmental	<u>816,054</u>
Total expenses	<u>68,184,958</u>
Increase in net assets	<u>\$ 42,124</u>

**Governmental Activities**

Net assets of the District's governmental activities increased by \$42,124. Total governmental expenses of \$68,184,958 were offset by program revenues of \$17,511,480 and general revenues of \$50,715,602. Program revenues supported 25.68% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 73.08% of total governmental revenue.

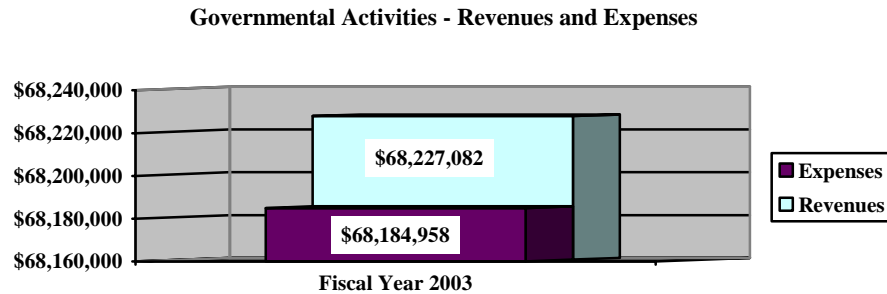
The District's financial condition has remained constant in recent years. Taxpayers have supported Emergency Levy renewals and State support has increased yearly. However, the District's personal property tax base is eroding due to business financial difficulties, revaluation reviews or moving from the District. In addition, escalating health care, workers compensation, utility, maintenance, property, fleet and liability insurance, and vehicle fuel costs have out-paced revenue growth. The District has taken cost containment steps (closing two buildings for the fiscal year 2004 school year) to hold the line on a deficit.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
UNAUDITED**

The largest expense of the District is for instructional programs. Instruction expenses totaled \$38,022,987 or 55.76% of total governmental expenses for fiscal 2003.

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



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2002 have not been presented since they are not available.

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

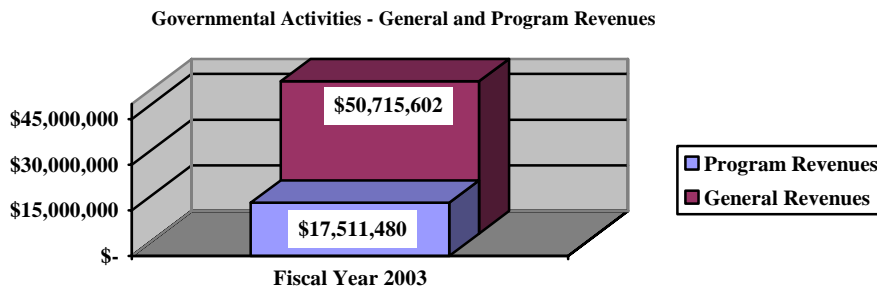
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
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**Governmental Activities**

	<u>Total Cost of Services 2003</u>	<u>Net Cost of Services 2003</u>
<b>Program expenses</b>		
Instruction:		
Regular	\$ 26,940,781	\$ 20,891,783
Special	9,586,997	6,153,436
Vocational	847,899	291,069
Other	647,310	585,684
Support services:		
Pupil	3,729,023	2,546,887
Instructional staff	4,703,974	2,911,203
Board of education	24,589	24,589
Administration	4,924,986	4,563,435
Fiscal	941,399	825,399
Business	678,039	667,039
Operations and maintenance	7,559,866	7,308,789
Pupil transportation	2,378,121	2,269,515
Central	803,379	794,425
Operations of non-instructional services:		
Food service operations	2,253,762	(104,572)
Other non-instructional services	134,021	14,866
Extracurricular activities	1,214,758	865,243
Intergovernmental	816,054	64,688
<b>Total expenses</b>	<u><u>\$ 68,184,958</u></u>	<u><u>\$ 50,673,478</u></u>

The dependence upon tax and other general revenues for governmental activities is apparent, 73.43% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 74.32%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2003.



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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
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**The District's Funds**

The District's governmental funds reported a combined fund balance of \$12,051,692, which is higher than last year's total of \$11,967,921. The June 30, 2002 fund balances have been restated as described in Note 3.A to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2003 and 2002.

	<u>Fund Balance</u> <u>June 30, 2003</u>	<u>Fund Balance</u> <u>June 30, 2002</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
General	\$ 9,018,296	\$ 7,963,730	\$ 1,054,566	13.24%
Other Governmental	<u>3,033,396</u>	<u>4,004,191</u>	<u>(970,795)</u>	(24.24)%
Total	<u>\$ 12,051,692</u>	<u>\$ 11,967,921</u>	<u>\$ 83,771</u>	0.70%

**General Fund**

The District's general fund balance increased by \$1,054,566 (after a restatement to the June 30, 2002, fund balance which is detailed in Note 3.A. to the basic financial statements). The increase in fund balance can be attributed to several items related to increasing revenues and decreased expenditures. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2003 <u>Amount</u>	(Restated) 2002 <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 17,474,986	\$ 17,731,402	\$ (256,416)	(1.45)%
Tuition	729,591	857,164	(127,573)	(14.88)%
Earnings on investments	656,163	569,710	86,453	15.17%
Intergovernmental	32,451,611	29,614,832	2,836,779	9.58%
Other revenues	<u>557,890</u>	<u>297,559</u>	<u>260,331</u>	87.49%
Total	<u>\$ 51,870,241</u>	<u>\$ 49,070,667</u>	<u>\$ 2,799,574</u>	5.71%
<b><u>Expenditures</u></b>				
Instruction	\$ 28,659,111	\$ 27,766,567	\$ 892,544	3.21%
Support services	21,243,123	21,311,377	(68,254)	(0.32)%
Non-instructional services	-	359	(359)	(100.00)%
Extracurricular activities	823,441	769,195	54,246	7.05%
Capital outlay	<u>-</u>	<u>6,392</u>	<u>(6,392)</u>	(100.00)%
Total	<u>\$ 50,725,675</u>	<u>\$ 49,853,890</u>	<u>\$ 871,785</u>	1.75%

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
UNAUDITED

***General Fund Budgeting Highlights***

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

During the course of fiscal 2003, the District amended its general fund budget several times. For the general fund, original budgeted revenues and financing sources were \$49,826,313 and final budgeted revenues and other financing sources were \$51,913,343. Actual revenues and other financing sources for fiscal 2003 was \$51,960,866. This represents a \$2,134,553 increase over original budgeted revenues.

General fund original appropriations and final appropriations (appropriated expenditures including other financing uses) totaled \$53,784,101. The actual budget basis expenditures for fiscal year 2003 totaled \$52,236,307, which was \$1,547,794 less than the final budget appropriations. The District made a great effort to cut expenses throughout fiscal year 2003.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2003, the District had \$17,913,944 invested in land, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2003 balances compared to 2002:

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

	Governmental Activities	
	2003	2002
Land	\$ 443,356	\$ 443,356
Building and improvements	9,429,667	9,622,690
Furniture and equipment	6,646,036	6,954,782
Vehicles	1,394,885	1,372,764
 Total	 \$ 17,913,944	 \$ 18,393,592

The overall decrease in capital assets of \$479,648 is due to depreciation expense of \$956,882 exceeding capital outlays of \$488,995 in the fiscal year and \$11,761 net loss in disposal of equipment.

***Debt Administration***

At June 30, 2003, the District had no debt obligations outstanding.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
UNAUDITED

**Current Related Financial Activities**

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

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

The next challenge facing the District is the future of state funding. The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." Since 1997, the state has directed its tax revenue growth toward school districts with little property tax wealth. On May 16, 2003, the Ohio Supreme Court emphatically clarified that jurisdiction of the DeRolph case had ended. The Ohio Coalition for Equity and Adequacy of School Funding filed a petition with the U.S. Supreme Court for permission to file an appeal. The court rejected the petition. From a legislative standpoint many decisions have been made that have a deteriorating effect on school revenues: the decision in past years to raise the charge off millage on the school foundation program to 23 mills from 20 mills; the decision to phase out the personal property tax; the decision to grant authority to the State Department of Taxation charging a fee to distribute rollback, homestead and personal property tax.

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

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

The District's Five Year Forecast indicates that additional revenues will be required in fiscal year 2007. In recent fiscal years the Board and Administration have carefully managed the budget to minimize the size of an additional request from the community. The District will continue to monitor and cut costs where possible to further decrease the request.

The District is excited and looking forward to its Ohio School Facilities Commission (OSFC) Project that when completed will provide new school buildings for every student in the District. The local community passed a Bond Issue in November 2003 to provide the Local Share of the Project and the funds for Locally Funded Initiatives to further enhance the project.

**Contacting the District's Financial Management**

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



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

STATEMENT OF NET ASSETS  
JUNE 30, 2003

	<u>Governmental Activities</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . .	\$ 20,286,697
Receivables:	
Taxes . . . . .	22,052,935
Accounts . . . . .	89,411
Intergovernmental . . . . .	2,277,518
Accrued interest . . . . .	66,240
Prepayments . . . . .	26,784
Materials and supplies inventory . . . . .	362,950
Capital assets:	
Land . . . . .	443,356
Depreciable capital assets, net . . . . .	<u>17,470,588</u>
Capital assets, net. . . . .	<u>17,913,944</u>
 Total assets. . . . .	 <u>63,076,479</u>
 <b>Liabilities:</b>	
Accounts payable. . . . .	1,172,767
Contracts payable. . . . .	7,527
Accrued wages and benefits . . . . .	5,493,985
Pension obligation payable. . . . .	1,392,246
Intergovernmental payable . . . . .	118,819
Deferred revenue . . . . .	17,373,968
Accrued interest payable . . . . .	
Claims payable . . . . .	1,198,000
Long-term liabilities:	
Due within one year. . . . .	515,135
Due within more than one year . . . . .	<u>3,096,851</u>
 Total liabilities . . . . .	 <u>30,369,298</u>
 <b>Net Assets:</b>	
Invested in capital assets, net	
of related debt. . . . .	17,913,944
Restricted for:	
Capital projects . . . . .	886,074
Other purposes . . . . .	626,353
Unrestricted. . . . .	<u>13,280,810</u>
 Total net assets . . . . .	 <u>\$ 32,707,181</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Program Revenues				Net (Expense) Revenue and and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
<b>Governmental activities:</b>					
Instruction:					
Regular . . . . .	\$ 26,940,781	\$ 1,114,474	\$ 4,934,524	\$ -	\$ (20,891,783)
Special . . . . .	9,586,997	41,368	3,392,193	-	(6,153,436)
Vocational . . . . .	847,899	184,528	372,302	-	(291,069)
Other . . . . .	647,310	524	61,102	-	(585,684)
Support services:					
Pupil . . . . .	3,729,023	13,280	1,168,856	-	(2,546,887)
Instructional staff . . . . .	4,703,974	27,318	1,690,245	75,208	(2,911,203)
Board of education . . . . .	24,589	-	-	-	(24,589)
Administration . . . . .	4,924,986	43,468	318,083	-	(4,563,435)
Fiscal . . . . .	941,399	3,064	112,936	-	(825,399)
Business . . . . .	678,039	2,885	8,115	-	(667,039)
Operations and maintenance . . . . .	7,559,866	107,787	143,290	-	(7,308,789)
Pupil transportation . . . . .	2,378,121	73,536	35,070	-	(2,269,515)
Central . . . . .	803,379	3,619	5,335	-	(794,425)
Operation of non-instructional services:					
Food service operations . . . . .	2,253,762	461,709	1,896,625	-	104,572
Other non-instructional services . . . . .	134,021	7,610	111,545	-	(14,866)
Extracurricular activities . . . . .	1,214,758	342,604	-	6,911	(865,243)
Intergovernmental . . . . .	816,054	-	751,366	-	(64,688)
Total governmental activities . . . . .	<u>\$ 68,184,958</u>	<u>\$ 2,427,774</u>	<u>\$ 15,001,587</u>	<u>\$ 82,119</u>	<u>(50,673,478)</u>
<b>General Revenues</b>					
Property taxes levied for:					
General purposes . . . . .					17,406,644
Grants and entitlements not restricted to specific programs . . . . .					32,451,611
Investment earnings . . . . .					698,758
Miscellaneous . . . . .					158,589
Total general revenues . . . . .					50,715,602
Change in net assets . . . . .					42,124
Net assets at beginning of year (restated). . . . .					32,665,057
Net assets at end of year . . . . .					\$ 32,707,181

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2003

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 13,698,582	\$ 3,911,139	\$ 17,609,721
Receivables:			
Taxes . . . . .	22,052,935	-	22,052,935
Accounts . . . . .	53,281	36,130	89,411
Intergovernmental . . . . .	223,383	2,054,135	2,277,518
Accrued interest . . . . .	63,176	3,064	66,240
Interfund loans . . . . .	173,260	-	173,260
Prepayments . . . . .	25,755	1,029	26,784
Materials and supplies inventory . . . . .	-	114,433	114,433
Restricted assets:			
Equity in pooled cash and cash equivalents . . . . .	328,646	-	328,646
Total assets . . . . .	\$ 36,619,018	\$ 6,119,930	\$ 42,738,948
<b>Liabilities:</b>			
Accounts payable . . . . .	\$ 621,922	\$ 507,507	\$ 1,129,429
Contracts payable . . . . .	-	7,527	7,527
Accrued wages and benefits . . . . .	4,241,547	1,252,438	5,493,985
Compensated absences payable . . . . .	76,530	8,265	84,795
Pension obligation payable. . . . .	608,718	284,742	893,460
Intergovernmental payable. . . . .	92,791	26,028	118,819
Interfund loan payable . . . . .	-	173,260	173,260
Deferred revenue. . . . .	21,959,214	826,767	22,785,981
Total liabilities . . . . .	27,600,722	3,086,534	30,687,256
<b>Fund Balances:</b>			
Reserved for encumbrances . . . . .	478,150	348,265	826,415
Reserved for materials and supplies inventory. . . . .	-	114,433	114,433
Reserved for prepayments . . . . .	25,755	1,029	26,784
Reserved for tax revenue available for appropriation . . . . .	93,721	-	93,721
Reserved for budget stabilization . . . . .	328,646	-	328,646
Unreserved, undesignated, reported in:			
General fund . . . . .	8,092,024	-	8,092,024
Special revenue funds. . . . .	-	1,730,909	1,730,909
Capital projects funds. . . . .	-	838,760	838,760
Total fund balances . . . . .	9,018,296	3,033,396	12,051,692
Total liabilities and fund balances . . . . .	\$ 36,619,018	\$ 6,119,930	\$ 42,738,948

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2003

<b>Total governmental fund balances</b>		\$	12,051,692
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			17,913,944
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	4,585,246	
Intergovernmental revenue		826,767	
Total			5,412,013
Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.			1,355,509
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		3,527,191	
Pension obligation payable		498,786	
Total			(4,025,977)
<b>Net assets of governmental activities</b>		<b>\$</b>	<b>32,707,181</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Taxes . . . . .	\$ 17,474,986	\$ 900	\$ 17,475,886
Tuition . . . . .	729,591	221,346	950,937
Charges for services . . . . .	-	452,667	452,667
Earnings on investments . . . . .	656,163	42,595	698,758
Extracurricular . . . . .	-	293,334	293,334
Other local revenues . . . . .	557,890	617,737	1,175,627
Other revenue . . . . .	-	9,316	9,316
Intergovernmental - State . . . . .	31,769,946	6,106,423	37,876,369
Intergovernmental - Federal . . . . .	681,665	7,854,907	8,536,572
Total revenue . . . . .	<u>51,870,241</u>	<u>15,599,225</u>	<u>67,469,466</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular . . . . .	21,899,687	4,789,428	26,689,115
Special . . . . .	5,850,510	3,632,777	9,483,287
Vocational . . . . .	609,726	231,233	840,959
Other . . . . .	299,188	348,115	647,303
Support services:			
Pupil . . . . .	2,578,610	1,102,949	3,681,559
Instructional staff . . . . .	2,517,715	1,989,356	4,507,071
Board of education . . . . .	24,571	-	24,571
Administration . . . . .	4,452,326	343,568	4,795,894
Fiscal . . . . .	814,756	110,988	925,744
Business . . . . .	630,410	8,167	638,577
Operations and maintenance . . . . .	7,070,304	226,959	7,297,263
Pupil transportation . . . . .	2,360,648	46,575	2,407,223
Central . . . . .	793,783	6,807	800,590
Operation of non-instructional services:			
Food service operations . . . . .	-	2,296,446	2,296,446
Other non-instructional services . . . . .	-	113,229	113,229
Extracurricular activities . . . . .	823,441	389,059	1,212,500
Facilities acquisition and construction . . . . .	-	234,532	234,532
Intergovernmental pass through . . . . .	-	816,054	816,054
Total expenditures . . . . .	<u>50,725,675</u>	<u>16,686,242</u>	<u>67,411,917</u>
Excess of revenues under expenditures . . . . .	<u>1,144,566</u>	<u>(1,087,017)</u>	<u>57,549</u>
<b>Other financing sources (uses):</b>			
Transfers in . . . . .	-	90,000	90,000
Transfers (out) . . . . .	(90,000)	-	(90,000)
Total other financing sources (uses) . . . . .	<u>(90,000)</u>	<u>90,000</u>	<u>-</u>
Net change in fund balances . . . . .	1,054,566	(997,017)	57,549
<b>Fund balances at beginning of year (restated) . . . . .</b>	7,963,730	4,004,191	11,967,921
<b>Increase in reserve for inventory . . . . .</b>	-	26,222	26,222
<b>Fund balances at end of year . . . . .</b>	<u>\$ 9,018,296</u>	<u>\$ 3,033,396</u>	<u>\$ 12,051,692</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

<b>Net change in fund balances - total governmental funds</b>	\$	57,549
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period.		(467,887)
Governmental funds only report the gain from the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		(11,761)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		26,222
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		757,616
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(143,808)
The internal service funds used by management to charge the costs of insurance to individual funds are not reported in the statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service funds is allocated among the governmental activities.		(175,807)
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b>42,124</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Over (Under)</b>
	<u>Original</u>	<u>Final</u>		<u>(Under)</u>
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$16,771,419	\$17,473,908	\$17,473,908	\$ -
Tuition. . . . .	759,560	791,375	826,555	35,180
Earnings on investments. . . . .	513,389	534,893	547,069	12,176
Other local revenues. . . . .	301,305	313,925	314,092	167
Intergovernmental - State . . . . .	30,492,725	31,769,946	31,769,946	-
Intergovernmental - Federal . . . . .	<u>630,725</u>	<u>657,144</u>	<u>657,144</u>	<u>-</u>
Total revenue . . . . .	<u>49,469,123</u>	<u>51,541,191</u>	<u>51,588,714</u>	<u>47,523</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	23,122,249	22,441,717	22,279,556	162,161
Special. . . . .	6,179,141	5,977,181	5,939,799	37,382
Vocational. . . . .	863,685	685,539	628,912	56,627
Other. . . . .	175,000	299,196	299,188	8
Support services:				
Pupil. . . . .	2,619,863	2,769,763	2,726,757	43,006
Instructional staff . . . . .	2,797,853	2,844,584	2,533,389	311,195
Board of education . . . . .	39,872	39,876	26,915	12,961
Administration. . . . .	4,596,470	4,648,989	4,513,078	135,911
Fiscal . . . . .	909,343	915,847	833,699	82,148
Business . . . . .	765,528	781,404	662,370	119,034
Operations and maintenance. . . . .	7,135,585	7,684,418	7,389,468	294,950
Pupil transportation . . . . .	2,637,441	2,624,331	2,475,082	149,249
Central. . . . .	852,864	863,812	819,820	43,992
Operation of non-instructional services . . . . .	192,800	-	-	-
Extracurricular activities. . . . .	622,436	919,635	838,622	81,013
Facilities acquisition and construction. . . . .	<u>30,624</u>	<u>24,462</u>	<u>6,392</u>	<u>18,070</u>
Total expenditures . . . . .	<u>53,540,754</u>	<u>53,520,754</u>	<u>51,973,047</u>	<u>1,547,707</u>
Excess of revenues over (under) expenditures. . . . .	<u>(4,071,631)</u>	<u>(1,979,563)</u>	<u>(384,333)</u>	<u>1,595,230</u>
<b>Other financing sources (uses):</b>				
Transfers (out). . . . .	(70,000)	(90,000)	(90,000)	-
Advances in . . . . .	105,206	109,613	109,613	-
Advances (out). . . . .	(173,347)	(173,347)	(173,260)	87
Refund of prior year expenditure . . . . .	251,656	262,197	262,197	-
Proceeds from sale of capital assets . . . . .	328	342	342	-
Total other financing sources (uses) . . . . .	<u>113,843</u>	<u>108,805</u>	<u>108,892</u>	<u>87</u>
Net change in fund balance . . . . .	(3,957,788)	(1,870,758)	(275,441)	1,595,317
<b>Fund balance at beginning of year . . . . .</b>	11,186,034	11,186,034	11,186,034	-
<b>Prior year encumbrances appropriated . . . . .</b>	1,020,765	1,020,765	1,020,765	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 8,249,011</u>	<u>\$ 10,336,041</u>	<u>\$ 11,931,358</u>	<u>\$ 1,595,317</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2003

	<b>Governmental Activities - Internal Service Funds</b>
<b>Assets:</b>	
Current assets:	
Equity in pooled cash and cash equivalents. . . . .	\$ 2,348,330
Receivables:	
Accounts. . . . .	-
Materials and supplies inventory . . . . .	<u>248,517</u>
 Total assets . . . . .	 <u>2,596,847</u>
<b>Liabilities:</b>	
Current liabilities:	
Accounts payable. . . . .	43,338
Claims payable . . . . .	<u>1,198,000</u>
 Total liabilities . . . . .	 <u>1,241,338</u>
<b>Net assets:</b>	
Unrestricted. . . . .	<u>1,355,509</u>
 Total net assets . . . . .	 <u>\$ 1,355,509</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<b>Private Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest . . . . .	\$ 602
Total additions. . . . .	602
Change in net assets . . . . .	602
Net assets at beginning of year. . . . .	25,827
Net assets at end of year . . . . .	\$ 26,429

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<b>Governmental Activities - Internal Service Funds</b>
<b>Cash flows from operating activities:</b>	
Cash received from charges for services . . . . .	\$ 7,629,187
Cash received from other operating revenues . . . . .	205,694
Cash payments for personal services . . . . .	(2,802)
Cash payments for purchased services . . . . .	(43,460)
Cash payments for materials and supplies. . . . .	(160,857)
Cash payments for claims. . . . .	<u>(7,492,022)</u>
 Net cash provided by operating activities . . . . .	 <u>135,740</u>
 Net increase in cash and cash equivalents . . . . .	 135,740
 <b>Cash and cash equivalents at beginning of year. . .</b>	 <u>2,212,590</u>
 <b>Cash and cash equivalents at end of year . . . . .</b>	 <u><u>\$ 2,348,330</u></u>
 <b>Reconciliation of operating loss to net cash provided by operating activities:</b>	
Operating loss . . . . .	\$ (175,807)
Changes in assets and liabilities:	
Decrease in accounts receivable . . . . .	16,554
Increase in materials and supplies inventory. . . . .	(14,331)
Increase in accounts payable . . . . .	14,324
Decrease in claims payable. . . . .	<u>295,000</u>
 Net cash provided by operating activities . . . . .	 <u><u>\$ 135,740</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2003

	<b>Private Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 26,429	\$ 66,997
Total assets. . . . .	26,429	66,997
<b>Liabilities:</b>		
Accounts payable. . . . .	-	6,077
Due to students . . . . .	-	60,920
Total liabilities . . . . .	-	\$ 66,997
<b>Net Assets:</b>		
Held in trust for scholarships . . . . .	26,429	
Total net assets . . . . .	\$ 26,429	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<b>Governmental Activities - Internal Service Funds</b>
<b>Operating revenues:</b>	
Charges for services. . . . .	\$ 7,629,187
Other . . . . .	189,140
Total operating revenues . . . . .	7,818,327
 <b>Operating expenses:</b>	
Personal services . . . . .	2,802
Purchased services . . . . .	43,460
Materials and supplies. . . . .	160,850
Claims. . . . .	7,787,022
Total operating expenses . . . . .	7,994,134
 Change in net assets. . . . .	(175,807)
 <b>Net assets at beginning of year (restated). .</b>	<b>1,531,316</b>
 <b>Net assets at end of year . . . . .</b>	<b>\$ 1,355,509</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

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

The District ranks as the 42<sup>nd</sup> largest by enrollment among the 740 public and community school districts in the state. The District employs 372 non-certified and 641 certified employees to provide services to approximately 6,918 students and community groups. The District provides regular, vocational and special instruction. The District also provides support services for the pupils, instructional staff, general and school administration, business and fiscal services, facilities acquisitions and construction services, operation and maintenance of plant, student transportation, food services, extracurricular activities and non-programmed services.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, preschool and student related activities of the District.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

*JOINTLY GOVERNED ORGANIZATIONS*

Trumbull Career and Technical Center

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

Northeast Ohio Management Information Network (NEOMIN)

NEOMIN is a jointly governed organization among thirty school districts in Trumbull and Ashtabula Counties. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the districts supports NEOMIN based upon a per pupil charge. The District contributed \$116,892 to NEOMIN for fiscal 2003.

Superintendents of the participating school districts are eligible to be voting members of the Governing Board, which consists of ten members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County school districts, three superintendents from Trumbull County districts, and a treasurer from each county. The District was not represented on the Governing Board during fiscal year 2003. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. A complete set of separate financial statements may be obtained from the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio 44481.

North East Ohio Special Education Regional Resource Center (NEOSERRC)

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

NEOSERRC is governed by a governing board of 39 members made up of representatives from 35 superintendents of the participating districts, one non-public school, one county board of mental retardation and two parents whose term rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer at the Mahoning County Educational Service Center, 2801 Market Street, Youngstown, Ohio 44507.

North East Ohio Instructional Media Center (NEOIMC)

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

NEOIMC is governed by an advisory committee made up of a member from a parochial school, a joint vocational school, the county superintendent from each participating county, one city superintendent, and two local superintendents rotating every two years. The degree of control exercised by any participating school district is limited to its representation on the Board. In fiscal year 2003, the District contributed \$15,733. Financial information can be obtained by contacting the Treasurer at the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio 44481.

Region 12 Professional Development Center (RPDC)

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

The RPDC is governed by a board made up of 19 representatives of the participating school districts, the business community, and Youngstown State University whose term rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer at the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio 44481.

*PUBLIC ENTITY RISK POOL*

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

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

**B. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

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

**WARREN CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

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

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

*PROPRIETARY FUNDS*

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

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

*FIDUCIARY FUNDS*

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

**C. Basis of Presentation and Measurement Focus**

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

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



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

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

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

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

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

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting on the fund financial statements. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

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

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

**E. Budgets**

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2003 is as follows.

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Trumbull County Budget Commission for tax rate determination.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the final budgeted amount in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2003.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the object level of expenditures, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.)

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

5. Any revisions that alter the total of any object appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education throughout the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted. The final budget figures, which appear in the statements of budgetary comparisons, represent the permanent appropriation amounts plus all supplemental appropriations legally enacted during the year.
8. At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

**F. Cash and Investments**

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

During fiscal year 2003, investments were limited to federal agency securities, certificates of deposit, a repurchase agreement, a U.S. government money market mutual fund, and the State Treasury Asset Reserve (STAR Ohio). Investments are reported at fair value, which is based on quoted market prices, with the following exceptions: nonparticipating investment contracts such as repurchase agreements and certificates of deposit are reported at cost.

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenues credited to the general fund during fiscal year 2003, amounted to \$656,163, which includes \$231,126 assigned from other District funds.

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

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

**G. Inventory**

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

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

**H. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District increased its capitalization threshold from \$500 to \$1,000 during fiscal year 2003. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25 - 50 years
Furniture and equipment	5 - 10 years
Vehicles	10 years

**I. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental type activities columns of the Statement of Net Assets.

**J. Compensated Absences**

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

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2003, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least fifteen years or more of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2003, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

**K. Prepayments**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

**L. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

**M. Fund Reserves**

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

**N. Restricted Assets**

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

**O. Estimates**

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

**P. Net Assets**

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

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

**Q. Operating Revenues and Expenses**

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

**R. Contributions of Capital**

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

**S. Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**T. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2003.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles and Restatement of Fund Balance**

For fiscal year 2003, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2002, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38 and 41.

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

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

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

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the elimination of the internal service fund and the conversion to the accrual basis of accounting.

***Governmental Activities - Fund Reclassification and Restatement of Fund Balance*** - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. In addition, tax revenue was overstated at June 30, 2002 in the general fund. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2002.



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	General	Nonmajor	Total
Fund balance June 30, 2002	\$ 7,407,129	\$ 2,301,494	\$ 9,708,623
Fund reclassifications	805,721	1,699,922	2,505,643
Adjustment for overstatement of tax revenue	(363,842)	-	(363,842)
Implementation of GASB Interpretation No. 6	114,722	2,775	117,497
Restated fund balance, June 30, 2002	\$ 7,963,730	\$ 4,004,191	\$ 11,967,921

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	Total
Restated fund balance, June 30, 2002	\$ 11,967,921
GASB 34 adjustments:	
Long-term (deferred) assets	4,654,397
Capital assets	18,393,592
Pension obligation	(501,164)
Long-term liabilities	(3,381,005)
Internal service fund	1,531,316
Governmental activities net assets, June 30, 2002	\$ 32,665,057

***Internal Service Funds - Fund Reclassification and Restatement of Fund Balance*** - A certain fund formerly reported as an internal service fund has been reclassified as a component of the general fund to properly reflect its intended purpose in accordance with GASB Statement No. 34. In addition, prior period adjustments will be made for the overstatement of accounts receivable at June 30, 2002, and to remove capital assets that would not be capitalized under the District's increased capitalization threshold (see Note 2.H. for detail). The fund reclassifications and adjustments had the following effect on net assets:

	Internal Service Funds
Fund equity as previously reported	\$ 2,815,470
Fund reclassification	(3,723)
Adjustment for accounts receivable	(1,270,420)
Adjustment for capital assets	(10,011)
Restated net assets as of July 1, 2002	\$ 1,531,316

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

**B. Deficit Fund Balances**

Fund balances at June 30, 2003 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Teacher Development	\$ 2,216
Disadvantaged Pupil Impact Aid	792,574
Project Youthbuild	7,339
Education for Economic Security	2,268
Community Development Block Grant	13,290
Continuous Improvement	5,040

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

**NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS**

State statutes classify monies held by the District into three categories:

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

Inactive deposits are public deposits the Board of Education has identified as not required for use within the current two-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 certificates of deposit maturing not more than one year from the date of deposit or by savings accounts, including passbook accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;

**WARREN CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)**

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

*Deposits:* At year-end, the carrying amount of the District's deposits was \$9,198,825, and the bank balance, including nonnegotiable certificates of deposit, was \$9,515,000. Of the bank balance:

1. \$215,000 was covered by federal depository insurance; and
2. \$9,300,000 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)**

*Investments:* Investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio and U.S. government money market mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form.

	<u>Category 2</u>	<u>Category 3</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Repurchase agreements	\$ -	\$ 6,644,689	\$ 6,644,689	\$ 6,644,689
Federal agency securities	<u>4,022,520</u>	<u>-</u>	4,022,520	4,022,520
Total	<u>\$ 4,022,520</u>	<u>\$ 6,644,689</u>		
Investment in STAR Ohio			306,950	306,950
U.S. government money market mutual fund			<u>200,619</u>	<u>200,619</u>
Total investments			<u>\$ 11,174,778</u>	<u>\$ 11,174,778</u>

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

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

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 20,380,123	\$ -
Investments of the cash management pool:		
Federal agency securities	(4,022,420)	4,022,520
Repurchase agreements	(6,644,689)	6,644,689
Investment in STAR Ohio	(306,950)	306,950
U.S. government money market mutual fund	(200,619)	200,619
Cash on hand	<u>(6,520)</u>	<u>-</u>
GASB Statement No. 3	<u>\$ 9,198,925</u>	<u>\$ 11,174,778</u>

**WARREN CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 5 - INTERFUND TRANSACTIONS**

- A. Interfund balances consisted of the following at June 30, 2003, as reported on the fund statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 173,260

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2003 are reported on the Statement of Net Assets.

- B. Interfund transfers for the year ended June 30, 2003, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:		
General Fund		\$90,000

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

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property 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 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

**WARREN CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 6 - PROPERTY TAXES - (Continued)**

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

The District receives property taxes from Trumbull County. The Trumbull County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2003 was \$93,721 in the general fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2002 was \$92,643 in the general fund.

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

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

	2002 Second Half Collections		2003 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 313,492,390	70.04	\$ 315,601,390	71.87
Public utility personal	20,937,470	4.68	20,805,900	4.74
Tangible personal property	<u>113,158,263</u>	<u>25.28</u>	<u>102,732,068</u>	<u>23.39</u>
Total	<u>\$ 447,588,123</u>	<u>100.00</u>	<u>\$ 439,139,358</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 52.55		\$ 54.95	

**WARREN CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2003 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

**Governmental Activities:**

Property taxes	\$	22,052,935
Accounts		89,411
Accrued interest		66,240
Intergovernmental		<u>2,277,518</u>
 Total	 \$	 <u><u>24,486,104</u></u>

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

**NOTE 8 - CAPITAL ASSETS**

- A. The capital asset balances of the governmental activities have been restated due to changes in the District's capital asset policy (see Note 2.H. for detail), the fund reclassifications described in Note 3.A., and the depreciation of capital assets in accordance with GASB Statement No. 34.

	<u>Balance at</u> <u>06/30/02</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance at</u> <u>06/30/02</u>
<b>Governmental Activities:</b>			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 443,364	\$ (8)	\$ 443,356
Total capital assets, not being depreciated	<u>443,364</u>	<u>(8)</u>	<u>443,356</u>
<i>Capital assets, being depreciated:</i>			
Buildings and improvements	16,558,762	(7,525)	16,551,237
Furniture and equipment	18,463,692	(5,709,557)	12,754,135
Vehicles	<u>2,419,382</u>	<u>30,331</u>	<u>2,449,713</u>
Total capital assets, being depreciated	<u>37,441,836</u>	<u>(5,686,751)</u>	<u>31,755,085</u>
<i>Less: accumulated depreciation</i>	<u>-</u>	<u>(13,804,849)</u>	<u>(13,804,849)</u>
Governmental activities capital assets, net	<u>\$ 37,885,200</u>	<u>\$ (19,491,608)</u>	<u>\$ 18,393,592</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 8 - CAPITAL ASSETS - (Continued)**

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

	Restated Balance at <u>06/30/02</u>	<u>Additions</u>	<u>Deductions</u>	Balance at <u>06/30/03</u>
<b>Governmental Activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 443,356	\$ -	\$ -	\$ 443,356
Total capital assets, not being depreciated	<u>443,356</u>	<u>-</u>	<u>-</u>	<u>443,356</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	16,551,237	-	-	16,551,237
Furniture and equipment	12,754,135	291,312	(42,386)	13,003,061
Vehicles	<u>2,449,713</u>	<u>197,683</u>	<u>-</u>	<u>2,647,396</u>
Total capital assets, being depreciated	<u>31,755,085</u>	<u>488,995</u>	<u>(42,386)</u>	<u>32,201,694</u>
<i>Less: accumulated depreciation:</i>				
Buildings and improvements	(6,928,547)	(193,023)	-	(7,121,570)
Furniture and equipment	(5,799,353)	(588,297)	30,625	(6,357,025)
Vehicles	<u>(1,076,949)</u>	<u>(175,562)</u>	<u>-</u>	<u>(1,252,511)</u>
Total accumulated depreciation	<u>(13,804,849)</u>	<u>(956,882)</u>	<u>30,625</u>	<u>(14,731,106)</u>
Governmental activities capital assets, net	<u>\$ 18,393,592</u>	<u>\$ (467,887)</u>	<u>\$ (11,761)</u>	<u>\$ 17,913,944</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 250,486
Special	47,202
Vocational	160
Other	6,690

Support Services:

Pupil	23,474
Instructional staff	233,507
Administration	91,248
Business	26,377
Fiscal	14,027
Operations and maintenance	61,262
Pupil transportation	138,853
Central	1,919
Non-instructional	28,240
Food service operations	22,449
Extracurricular activities	<u>10,988</u>
Total depreciation expense	<u>\$ 956,882</u>



**WARREN CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 9 - LONG-TERM OBLIGATIONS**

- A. The balance of the District's governmental activities long-term obligations at June 30, 2002 has been restated. The compensated absences liability increased \$367,038 from \$3,247,116 to \$3,614,154 due to the implementation of GASB Interpretation No. 6 and due to fund reclassifications described in Note 3.A. In addition, pension obligations of \$477,004 at June 30, 2002 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2002 was a decrease of \$37,519 from \$3,724,120 to \$3,686,601. During the fiscal year 2003, the following changes occurred in governmental activities long-term obligations:

	<u>Restated Balance at 06/30/02</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 06/30/03</u>	<u>Amounts Due in One Year</u>
<b>Governmental Activities:</b>					
Compensated absences	\$ 3,686,601	\$ 76,953	\$ (151,568)	\$ 3,611,986	\$ 515,135
Total governmental activities long-term liabilities	<u>\$ 3,686,601</u>	<u>\$ 76,953</u>	<u>\$ (151,568)</u>	<u>\$ 3,611,986</u>	<u>\$ 515,135</u>

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

**B. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 2003, are a voted debt margin of \$39,522,542 and an unvoted debt margin of \$439,139.

**NOTE 10 - COMPENSATED ABSENCES**

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

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

**WARREN CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 10 - COMPENSATED ABSENCES - (Continued)**

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

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

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

**NOTE 11 - RISK MANAGEMENT**

**A. General Risk**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers. General liability insurance is maintained in the amount of \$2,000,000 for each occurrence and \$5,000,000 in the aggregate. In addition, the District maintains a \$2,000,000 umbrella liability policy.

The District maintains fleet insurance in the amount of \$2,000,000 for any one accident or loss.

**B. Workers' Compensation**

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

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

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**NOTE 11 - RISK MANAGEMENT - (Continued)**

**C. Health Insurance**

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

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

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

Liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using expected future investment assumptions as determined by the third party administrator. These liabilities are reported at their present value of \$1,198,000 at June 30, 2003.

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

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2003	\$ 903,000	\$ 7,787,022	\$ (7,492,022)	\$ 1,198,000
2002	520,000	5,206,001	(4,823,001)	903,000

**NOTE 12 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

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

**WARREN CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)**

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute at an actuarially determined rate of 14% for 2003, 8.17% was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,064,368, \$1,059,936, and \$1,108,632, respectively; 52.16% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$509,172, represents the unpaid contribution for fiscal year 2003.

**B. State Teachers Retirement System**

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

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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)**

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$4,278,020, \$4,144,704, and \$4,042,464, respectively; 83.08% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$723,736, represents the unpaid contribution for fiscal year 2003.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2003, certain members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$591,085 during fiscal 2003.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002 (the latest information available), net health care costs paid by STRS were \$354.697 million and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 5.83% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$14,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

**WARREN CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)**

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2003 were \$204.91 million and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$305,573 during the 2003 fiscal year.

**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING**

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

The Combined Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis); and
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).
- (d) Certain funds that are classified as part of the general fund (GAAP basis) are reported in other fund types on a cash basis (budget basis). These items are reflected as "fund reclassifications".

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

<b>Net Change in Fund Balance</b>	<u>General Fund</u>
Budget basis	\$ (275,441)
Net adjustment for revenue accruals	4,321
Net adjustment for expenditure accruals	287,872
Net adjustment for other sources/uses	(198,892)
Adjustment for encumbrances	951,182
Adjustment for fund reclassification	<u>285,524</u>
GAAP basis	<u>\$ 1,054,566</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 15 - CONTINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds; however, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District at June 30, 2003.

**B. Litigation**

The District is not a party to any legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending at June 30, 2003.

**C. School Funding Decision**

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

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

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

**NOTE 16 - STATUTORY RESERVES**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2003, the reserve activity was as follows:

	Textbooks/ Instructional <u>Materials</u>	Capital <u>Acquisition</u>	Budget <u>Stabilization</u>
Set-aside cash balance as of June 30, 2002	\$ -	\$ -	\$ 328,646
Current year set-aside requirement	981,289	981,289	-
Current year offsets	-	-	-
Qualifying disbursements	<u>(1,189,546)</u>	<u>(2,063,014)</u>	<u>-</u>
Total	<u>\$ (208,257)</u>	<u>\$ (1,081,725)</u>	<u>\$ 328,646</u>
Balance carried forward to FY 2004	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 328,646</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 16 - STATUTORY RESERVES - (Continued)**

The District had qualifying expenditures during the year that reduced the set-aside amounts for textbooks and capital acquisition to below zero. The extra amount for textbooks may be used to reduce the set-aside requirements in future years. However, negative amounts are not presented as being carried forward to the next fiscal year.

A schedule of the Governmental Fund restricted assets at June 30, 2003 follows:

Amount restricted for budget stabilization	<u>\$ 328,646</u>
Total restricted assets	<u><u>\$ 328,646</u></u>



WARREN CITY SCHOOL DISTRICT  
TRUMBULL COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2003

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550		\$303,947		\$303,947
School Breakfast Program	05PU-2002 05PU-2003	10.553	\$92,079 \$257,568		\$92,079 \$257,568	
National School Lunch Program	LLP1-2002 LLP1-2003 LLP4-2002 LLP4-2003 VGS1-2003	10.555	33 2,321 310,171 800,471 11,644		33 2,321 310,171 800,471 11,644	
Summer Food Service Program	23PU-2002 24PU-2002	10.559	24,299 2,791		24,299 2,791	
Total U.S. Department of Agriculture - Nutrition Cluster			1,501,377	303,947	1,501,377	303,947
<b><u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u></b>						
<i>Passed Through City of Warren, Ohio:</i>						
Community Development Block Grant	N/A	14.218	54,601		54,601	
Total U.S. Department of Housing and Urban Development			54,601		54,601	
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Adult Education- State Grant Program	ABS1-2001C ABS1-2002 ABS1-2002C	84.002	54,162		7,177 29,436 62,728	
Subtotal - Adult Education			54,162		99,341	
Grants to Local Educational Agencies (ESEA Title I)	C1S1-2002 C1SD-2001C C1SD-2002 C1S1-2001C C1S1-2003 C1SD-2003 C1SK-2003	84.010	2,124,878 32,640		741,975 348 6,928 15,895 2,328,003 40,444 12,922	
Subtotal - ESEA Title 1			2,157,518		3,146,515	
Title I Accountability Grant	AKS1-2002	84.348			20,723	
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)	6BSF-2002-P 6BSF-2003-P	84.027	290,838 784,021		248,700 725,212	
Subtotal - Special Education Cluster			1,074,859		973,912	
Safe and Drug-Free Schools - State Grants	DRS1-2001 DRS1-2002 DRS1-2003	84.186	89,427 89,427		6,327 3,756 90,082	
Subtotal - Safe and Drug Free Schools			89,427		100,165	
Goals 2000	G2-S1-01 G2-S9-01 G2-S5-01 G2-S1-00	84.276			5,454 24,879 8,148	
Subtotal - Goals 2000					38,481	
Eisenhower Professional Development State Grants	MS-S1-01 MS-S1-02	84.281			19,430 7,936	
Subtotal - Eisenhower Grant					27,366	
Innovative Education Program Strategies	C2S1-2001 C2S1-2002 C2S1-2003	84.298	42,119 42,119		8,666 14,662 51,989	
Subtotal - Innovative Program Strategies			42,119		75,317	

WARREN CITY SCHOOL DISTRICT  
TRUMBULL COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2003

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
Technology Literacy Challenge Fund	TF(51,2,3)-01 TJS1-2003	84.318	56,060		2,124 33,941	
Subtotal - Technology Fund			56,060		36,065	
Comprehensive School Reform Demonstration	RFS1-2002 RFCC-2003	84.332	75,000 95,000		54,190 10,630	
Subtotal - Comprehensive School Reform			170,000		64,820	
Class Size Reduction	CRS1-2000 CRS1-2001 CRS1-2202	84.340	62,759		576 98,689	
Subtotal - Class Size Reduction			62,759		99,265	
Reading Excellence	RNS1-2000	84.338	22,939		34,738	
Technology Literacy Challenge Fund - Assistive Technology Infusion	ATS1-2002 ATS2-2002 ATS3-2002	84.352A	68,439 12,592		13,261 68,439 10,175	
Subtotal - Assistive Technology Infusion			81,031		91,875	
Improving Teacher Quality State Grants (Title II-A)	TRS1-2003	84.367	496,701		500,402	
<i>Direct Federal Programs:</i>						
Impact Aid	N/A	84.041	1,357		1,357	
21st Century Community Learning Centers	S2-87B-245-02 S2-87B-245-03	84.287	72,952 114,914		85,631 114,883	
Subtotal - 21st Century Learning Centers			187,866		200,514	
Gaining Early Awareness and Readiness For Undergraduate Programs (GEAR-UP)	N/A	84.334	116,440		114,674	
Subtotal - U.S. Department of Education Direct Federal Programs			305,663		316,545	
Total U.S. Department of Education			4,613,238		5,625,530	
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Medical Assistance Program (CAFS)		93.778	571,801		571,801	
Total U.S. Department of Health and Human Services			571,801		571,801	
<b>TOTALS</b>			<b><u>\$6,741,017</u></b>	<b><u>\$303,947</u></b>	<b><u>\$7,753,309</u></b>	<b><u>\$303,947</u></b>

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

**WARREN CITY SCHOOLS  
TRUMBULL COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE A -- SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B -- CHILD NUTRITION CLUSTER**

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

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

**NOTE C -- MATCHING REQUIREMENTS**

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

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**Auditor of State  
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Warren City School District, Trumbull County, Ohio (the "District") as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 3, 2004, wherein we noted the District adopted Governmental Accounting Standards Board Statement Number 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether Warren City School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that we must report under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated November 3, 2004.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Warren City School District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Warren City School District's ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2003-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the Warren City School District's management in a separate letter dated November 3, 2004.

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



**Betty Montgomery**  
Auditor of State

November 3, 2004



## Auditor of State Betty Montgomery

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

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

To the Board of Education:

#### Compliance

We have audited the compliance of Warren City School District, Trumbull County, Ohio (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2003.

#### Internal Control over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted another matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated November 3, 2004.

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



**Betty Montgomery**  
Auditor of State

November 3, 2004



**WARREN CITY SCHOOL DISTRICT  
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2003**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iii)</b>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	CFDA # 84.010 Title I CFDA # 84.367 Title II Part A
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes

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

<b>Finding Number</b>	<b>2003-001</b>
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**REPORTABLE CONDITION**

**Capital Assets**

Statement No. 34 of the Governmental Accounting Standards Board, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* defines capital assets as land, improvements to land, buildings, improvements other than buildings, infrastructure, vehicles, furniture, machinery, and equipment which are used in operations and that have initial lives extending beyond a single reporting period. Capitalization is a method of allocating the cost of a tangible asset throughout its useful life by an annual depreciation expense. Substantial financial resources have been used to acquire and maintain the capital assets of the District and, therefore, priority should be placed over their accountability. The District maintains records of their capital assets, however, we noted several deficiencies as follows:

**WARREN CITY SCHOOL DISTRICT  
TRUMBULL COUNTY  
7/01/02 THROUGH 6/30/03**

1. The records do not include two vehicles purchased in FY '03. Three school buses purchased in FY '03 were capitalized at incorrect cost due to misapplication of the trade-ins. The traded vehicles were not deleted from the capital asset list. Several other assets acquired in FY '03 were also capitalized at incorrect costs. These errors caused the capital assets to be overstated by \$124,168.
2. There were assets added to the District's records that were not included in the list of FY '03 additions. Maintenance department assets that had been scrapped or sold were not removed from the capital asset records. These capital assets still improperly listed under the maintenance department have a value of \$136,627.

The value of a capital asset is based upon the historical or estimated cost less the accumulated depreciation expense. Factors, such as date of acquisition, estimated useful life, salvage value, and computation method are components that determine an asset's annual depreciation expense. Depreciation is an important element of the income determination process and should be based upon a realistic useful life that is consistent with the actual life of the asset being depreciated.

The records of capital assets do not follow the District's policy regarding their useful life that is outlined in the annual financial report. Many assets are being depreciated over a longer life than that described in the District's policy. In addition, the District has no policy for estimating salvage value. Of a sample of forty (40) assets tested for FY'03 depreciation expense and accumulated depreciation at June 30, 2003, thirty (30) had a longer useful life than prescribed by the District's policy. As a result, based on current District policy, depreciation expense in 2003 and the value of capital assets at June 30, 2003 were overstated by \$67,225 and \$2,116,890 respectively.

To maintain adequate safeguards over capital assets and reduce the risk that the capital assets will be misstated, we recommend the District's Board and management review the existing capital asset accounting policies. These policies should be updated to reflect specific information such as the useful life of the assets and the method of assigning salvage value. The District is currently in the initial stages of the Classroom Facilities Program whereby a high school and five elementary buildings will be built and furnished in future years. Therefore, it would benefit the District now to establish reliable and acceptable policies.

We also recommend management implement accounting control procedures that will ensure that a complete and accurate list of capital assets may be attained. These procedures should address, at a minimum, additions, deletions, salvage value, transfers, trade-ins, construction-in-progress, and depreciation. Management should closely monitor these procedures for compliance with District policy and operating effectiveness. Capital asset records should also be reviewed by management on a regular basis for completeness and accuracy.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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**1. Title of Finding**

<b>Finding Number</b>	None to be reported.
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**WARREN CITY SCHOOL DISTRICT  
TRUMBULL COUNTY**

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

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
2002-11178-001	Self Insurance Fund Expenditures exceeded Appropriations	Yes	FY 03 expenditures did not exceed appropriations for the Self Insurance Fund.





**Auditor of State  
Betty Montgomery**

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**WARREN CITY SCHOOL DISTRICT  
TRUMBULL COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 21, 2004**