

# **Warren City School District**

*Audited Financial Statements*

*June 30, 2006*





Mary Taylor, CPA  
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Warren City School District, Trumbull County, prepared by Rea & Associates, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

May 7, 2007

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**WARREN CITY SCHOOL DISTRICT  
TRUMBULL COUNTY**

**JUNE 30, 2006**

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TRUMBULL COUNTY**

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**Rea & Associates, Inc.**  
ACCOUNTANTS AND BUSINESS CONSULTANTS

March 27, 2007

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

**Independent Auditor's Report**

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Warren City School District (the "District"), Trumbull County, Ohio as of and for the year ended June 30, 2006, 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, each major fund and the aggregate remaining fund information of the Warren City School District, Trumbull County, Ohio as of June 30, 2006, and the respective changes in financial position and the cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we also have issued our report dated March 27, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Warren City School District  
Independent Accountants' Report  
March 27, 2007  
Page 2

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Hea & Associates, Inc.*



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities increased \$6,789,406 which represents a 4.30% increase from 2005.
- General revenues accounted for \$60,529,209 in revenue or 79.43% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$15,673,776 or 20.57% of total revenues of \$76,202,985.
- The District had \$69,413,579 in expenses related to governmental activities; \$15,673,776 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 \$60,529,209 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and classroom facilities fund. The general fund had \$54,944,332 in revenues and \$54,236,113 in expenditures and other financing uses. During fiscal 2006, the general fund's fund balance increased \$708,219 from \$8,868,606 to \$9,576,825.
- The classroom facilities fund had \$15,874,818 in revenues and \$7,456,795 in expenditures and other financing uses. During fiscal 2006, the classroom facilities fund's fund balance increased \$8,418,023 from \$36,176,909 to \$44,594,932.

**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 and classroom facilities fund are by far the most significant funds, and the only governmental funds reported as major funds.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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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 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

*Fund Financial Statements*

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

*Governmental Funds*

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

*Proprietary Funds*

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED

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

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

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-52 of this report.

**The District as a Whole**

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

The table below provides a summary of the District's net assets for 2006 and 2005.

	<b>Net Assets</b>	
	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 205,420,054	\$ 210,237,470
Capital assets	<u>30,903,316</u>	<u>22,316,568</u>
Total assets	<u>236,323,370</u>	<u>232,554,038</u>
<b><u>Liabilities</u></b>		
Current liabilities	30,111,206	31,843,028
Long-term liabilities	<u>41,647,836</u>	<u>42,936,088</u>
Total liabilities	<u>71,759,042</u>	<u>74,779,116</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	29,311,203	17,474,223
Restricted	121,083,137	128,880,453
Unrestricted	<u>14,169,988</u>	<u>11,420,246</u>
Total net assets	<u>\$ 164,564,328</u>	<u>\$ 157,774,922</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$164,564,328. Of this total, \$14,169,988 is unrestricted in use.

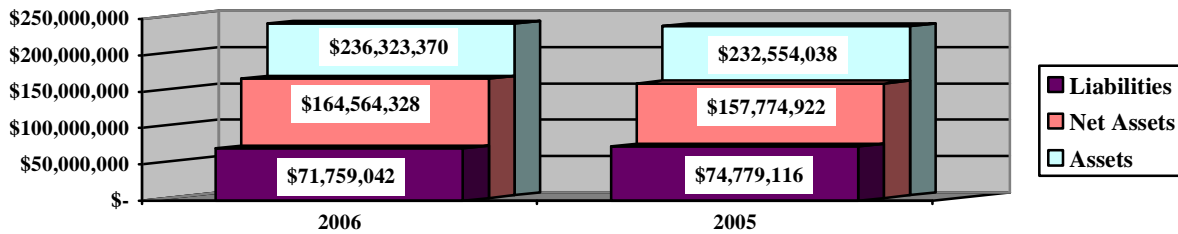
**WARREN CITY SCHOOL DISTRICT  
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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At year-end, capital assets represented 13.08% of total assets. Capital assets include land, buildings and improvements, furniture and equipment, vehicles and construction in progress. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$29,311,203. 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, \$121,083,137, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$14,169,988 may be used to meet the District's ongoing obligations to the students and creditors.

**Governmental Activities**



The table below shows the change in net assets for fiscal years 2006 and 2005.

**Change in Net Assets**

	Governmental Activities 2006	Governmental Activities 2005
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 1,934,803	\$ 1,569,085
Operating grants and contributions	13,476,386	11,962,744
Capital grants and contributions	262,587	-
General revenues:		
Property taxes	20,366,138	16,808,884
Grants and entitlements	37,444,738	36,314,605
Investment earnings	2,312,377	1,348,869
Other	405,956	813,631
Total revenues	<u>76,202,985</u>	<u>68,817,818</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
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	<b>Change in Net Assets</b>	
	Governmental	Governmental
	Activities	Activities
	<u>2006</u>	<u>2005</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 26,939,476	\$ 27,893,403
Special	8,874,239	9,701,410
Vocational	642,762	647,405
Adult/continuing	268,011	294,501
Other	1,640,733	1,042,726
Support services:		
Pupil	3,781,301	3,767,328
Instructional staff	4,913,678	5,079,172
Board of education	44,468	34,772
Administration	4,365,785	4,890,577
Fiscal	1,093,881	1,190,790
Business	685,036	700,266
Operations and maintenance	7,299,599	6,663,123
Pupil transportation	2,459,876	2,370,117
Central	981,753	1,063,365
Food service operations	2,195,204	2,111,695
Operations of non-instructional services	281,070	840,636
Extracurricular activities	1,240,568	1,210,493
Interest and fiscal charges	<u>1,706,139</u>	<u>1,748,168</u>
Total expenses	<u>69,413,579</u>	<u>71,249,947</u>
Special item:	<u>-</u>	<u>(13,373,359)</u>
Change in net assets	6,789,406	(15,805,488)
Net assets at beginning of year	<u>157,774,922</u>	<u>173,580,410</u>
Net assets at end of year	<u>\$ 164,564,328</u>	<u>\$ 157,774,922</u>

**Governmental Activities**

Net assets of the District's governmental activities increased \$6,789,406. Total governmental expenses of \$69,413,579 were offset by program revenues of \$15,673,776 and general revenues of \$60,529,209. Program revenues supported 22.58% 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 75.86% of total governmental revenue.

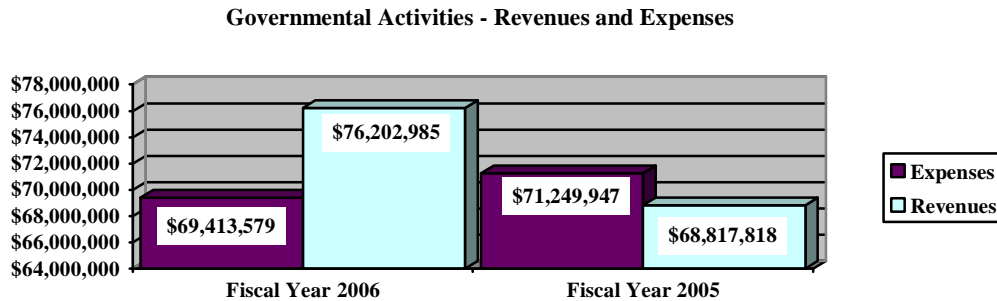
The District's financial condition has remained constant in recent years. Taxpayers have supported Emergency Levy renewals and State support has increased yearly. However, the District's personal property tax base is eroding due to business financial difficulties, revaluation reviews or moving from the 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 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, 2006  
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The largest expense of the District is for instructional programs. Instruction expenses totaled \$38,365,221 or 55.27% of total governmental expenses for fiscal 2006.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2006 and 2005.



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

**Governmental Activities**

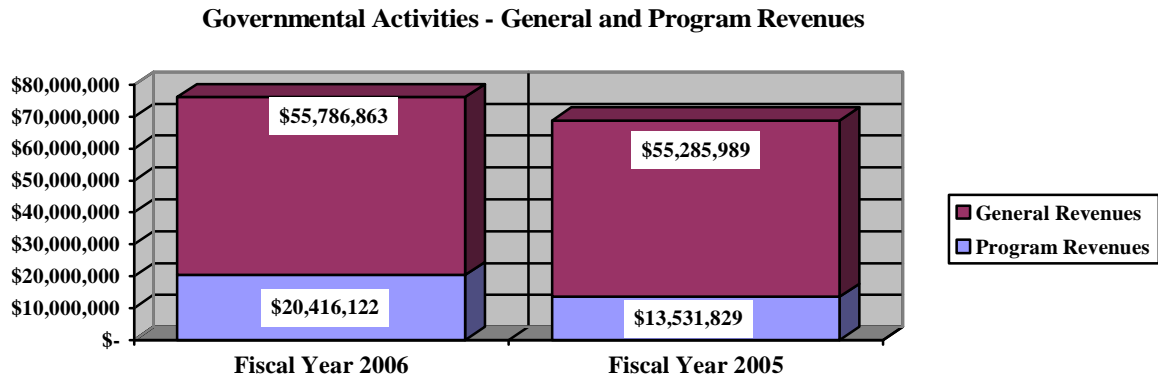
	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
<b>Program expenses</b>				
Instruction:				
Regular	\$ 26,939,476	\$ 24,849,377	\$ 27,893,403	\$ 26,632,642
Special	8,874,239	2,936,174	9,701,410	3,829,944
Vocational	642,762	402,864	647,405	644,377
Adult/continuing	268,011	(8,350)	294,501	195,247
Other	1,640,733	1,588,351	1,042,726	827,485
Support services:				
Pupil	3,781,301	2,606,757	3,767,328	3,100,421
Instructional staff	4,913,678	2,588,063	5,079,172	3,174,398
Board of education	44,468	44,468	34,772	34,772
Administration	4,365,785	4,140,962	4,890,577	4,760,373
Fiscal	1,093,881	946,777	1,190,790	1,098,667
Business	685,036	685,036	700,266	700,266
Operations and maintenance	7,299,599	7,298,580	6,663,123	6,662,367
Pupil transportation	2,459,876	2,305,041	2,370,117	2,229,621
Central	981,753	979,649	1,063,365	1,063,133
Food service operations	2,195,204	(26,314)	2,111,695	(4,189)
Other non-instructional services	281,070	(285,684)	840,636	118,932
Extracurricular activities	1,240,568	981,913	1,210,493	901,556
Interest and fiscal charges	1,706,139	1,706,139	1,748,168	1,748,168
<b>Total expenses</b>	<u>\$ 69,413,579</u>	<u>\$ 53,739,803</u>	<u>\$ 71,249,947</u>	<u>\$ 57,718,180</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED

The dependence upon tax and other general revenues for governmental activities is apparent, 77.59% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 77.42%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2006 and 2005.



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$64,225,217, which is greater than last year's total of \$53,704,488. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance <u>June 30, 2006</u>	Fund Balance <u>June 30, 2005</u>	<u>Increase</u>	<u>Percentage Change</u>
General	\$ 9,576,825	\$ 8,868,606	\$ 708,219	7.99 %
Classroom Facilities	44,594,932	36,176,909	8,418,023	23.27 %
Other Governmental	<u>10,053,460</u>	<u>8,658,973</u>	<u>1,394,487</u>	16.10 %
Total	<u>\$ 64,225,217</u>	<u>\$ 53,704,488</u>	<u>\$ 10,520,729</u>	19.59 %

**General Fund**

The District's general fund balance increased \$708,219. The increase in fund balance can be attributed to several items related to increasing revenues still outpacing increased expenditures. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Increase</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 17,234,492	\$ 16,102,834	\$ 1,131,658	7.03 %
Tuition	698,250	603,543	94,707	15.69 %
Earnings on investments	867,118	514,278	352,840	68.61 %
Intergovernmental	35,600,710	34,624,809	975,901	2.82 %
Other revenues	<u>543,762</u>	<u>407,459</u>	<u>136,303</u>	33.45 %
 Total	 <u>\$ 54,944,332</u>	 <u>\$ 52,252,923</u>	 <u>\$ 2,691,409</u>	 5.15 %
 <b><u>Expenditures</u></b>				
Instruction	\$ 31,149,934	\$ 30,167,090	\$ 982,844	3.26 %
Support services	22,022,991	20,868,343	1,154,648	5.53 %
Extracurricular activities	<u>857,262</u>	<u>816,773</u>	<u>40,489</u>	4.96 %
 Total	 <u>\$ 54,030,187</u>	 <u>\$ 51,852,206</u>	 <u>\$ 2,177,981</u>	 4.20 %

***Classroom Facilities Fund***

The classroom facilities fund had \$15,874,818 in revenues and \$7,456,795 in expenditures and other financing uses. During fiscal 2006, the classroom facilities fund's fund balance increased \$8,418,023 from \$36,176,909 to \$44,594,932.

***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 2006, the District amended its general fund budget several times. For the general fund, original budgeted revenues and financing sources were \$53,167,137 and final budgeted revenues and other financing sources were \$57,468,767. Actual revenues and other financing sources for fiscal 2006 was \$55,813,903. This represents a \$1,654,864 decrease from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$52,976,765 were increased to \$57,930,517 in the final appropriations. The actual budget basis expenditures for fiscal year 2006 totaled \$57,346,975, which was \$583,542 less than the final budget appropriations. The District made a great effort to cut expenses throughout fiscal year 2006.



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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal 2006, the District had \$30,903,316 invested in land, buildings and improvements, furniture and equipment, vehicles and construction in progress. This entire amount is reported in governmental activities. The following table shows fiscal 2006 balances compared to 2005:

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

	Governmental Activities	
	2006	2005
Land	\$ 1,568,402	\$ 1,568,402
Construction in progress	12,327,021	4,449,939
Building and improvements	10,016,382	9,355,242
Furniture and equipment	6,026,273	5,875,667
Vehicles	965,238	1,067,318
Total	\$ 30,903,316	\$ 22,316,568

The overall increase in capital assets of \$8,586,748 is due to capital outlays of \$9,818,621 exceeding depreciation expense of \$1,091,149 and disposals of \$140,724 (net of accumulated depreciation) in the fiscal year.

*Debt Administration*

At June 30, 2006, the District had \$36,860,000 in general obligation bonds and \$159,583 in an installment purchase obligation outstanding. Of this total, \$664,583 is due within one year and \$36,355,000 is due within greater than one year. The following table summarizes the bonds outstanding.

**Outstanding Debt, at Year End**

	Governmental Activities	Governmental Activities
	2006	2005
General obligation bonds	\$ 36,860,000	\$ 37,325,000
Installment purchase obligation	159,583	303,611
Total	\$ 37,019,583	\$ 37,628,611

At June 30, 2006, the District's legal voted debt margin was \$5,967,257 with an unvoted debt margin of \$461,633.

See Note 9 to the basic financial statements for additional information on the District's debt administration.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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**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 2007. 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 2009. The District is currently continuing its plan to control spending for the future. The District's \$3,918,802 emergency levy can be renewed as early as May 2008 and as late as November 2009 for collection in calendar year 2010.

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

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

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

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

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

**Contacting the District's Financial Management**

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

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

STATEMENT OF NET ASSETS  
JUNE 30, 2006

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 48,036,216
Investments . . . . .	26,951,789
Receivables:	
Taxes . . . . .	24,832,146
Accounts . . . . .	34,065
Intergovernmental . . . . .	104,452,662
Accrued interest . . . . .	298,241
Materials and supplies inventory . . . . .	342,610
Unamortized bond issue costs . . . . .	472,325
Capital assets:	
Land . . . . .	1,568,402
Construction in progress . . . . .	12,327,021
Depreciable capital assets, net . . . . .	17,007,893
Capital assets, net. . . . .	30,903,316
 Total assets. . . . .	 236,323,370
<b>Liabilities:</b>	
Accounts payable. . . . .	528,317
Contracts payable. . . . .	708,942
Accrued wages and benefits . . . . .	5,447,362
Pension obligation payable. . . . .	1,372,278
Intergovernmental payable . . . . .	665,622
Deferred revenue . . . . .	19,946,350
Accrued interest payable . . . . .	138,135
Claims payable . . . . .	1,304,200
Long-term liabilities:	
Due within one year. . . . .	1,158,651
Due within more than one year . . . . .	40,489,185
Total liabilities . . . . .	71,759,042
<b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	29,311,203
Restricted for:	
Capital projects . . . . .	117,850,234
Debt service. . . . .	1,652,757
Classroom facilities and maintenance. . . . .	566,235
State funded programs . . . . .	379,442
Federally funded programs . . . . .	280,298
Student activities . . . . .	25,525
Other purposes . . . . .	328,646
Unrestricted. . . . .	14,169,988
Total net assets . . . . .	\$ 164,564,328

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, 2006

		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 . . . . .	\$ 26,939,476	\$ 972,425	\$ 918,447	\$ 199,227	\$ (24,849,377)
Special . . . . .	8,874,239	35,600	5,902,465	-	(2,936,174)
Vocational . . . . .	642,762	-	239,898	-	(402,864)
Adult/continuing . . . . .	268,011	91,482	184,879	-	8,350
Other . . . . .	1,640,733	39,237	13,145	-	(1,588,351)
Support services:					
Pupil . . . . .	3,781,301	-	1,174,544	-	(2,606,757)
Instructional staff . . . . .	4,913,678	-	2,262,255	63,360	(2,588,063)
Board of education . . . . .	44,468	-	-	-	(44,468)
Administration . . . . .	4,365,785	-	224,823	-	(4,140,962)
Fiscal . . . . .	1,093,881	-	147,104	-	(946,777)
Business . . . . .	685,036	-	-	-	(685,036)
Operations and maintenance . . . . .	7,299,599	-	1,019	-	(7,298,580)
Pupil transportation . . . . .	2,459,876	104,002	50,833	-	(2,305,041)
Central . . . . .	981,753	-	2,104	-	(979,649)
Operation of non-instructional services:					
Food service operations . . . . .	2,195,204	435,825	1,785,693	-	26,314
Other non-instructional services . . . . .	281,070	-	566,754	-	285,684
Extracurricular activities . . . . .	1,240,568	256,232	2,423	-	(981,913)
Interest and fiscal charges . . . . .	1,706,139	-	-	-	(1,706,139)
<b>Total governmental activities . . . . .</b>	<b>\$ 69,413,579</b>	<b>\$ 1,934,803</b>	<b>\$ 13,476,386</b>	<b>\$ 262,587</b>	<b>(53,739,803)</b>
<b>General Revenues:</b>					
Property taxes levied for:					
General purposes . . . . .					17,715,511
Special revenue . . . . .					145,264
Debt service . . . . .					2,331,381
Capital projects . . . . .					173,982
Grants and entitlements not restricted					
to specific programs . . . . .					37,444,738
Investment earnings . . . . .					2,312,377
Miscellaneous . . . . .					405,956
<b>Total general revenues . . . . .</b>					<b>60,529,209</b>
Change in net assets . . . . .					6,789,406
<b>Net assets at beginning of year . . . . .</b>					<b>157,774,922</b>
<b>Net assets at end of year . . . . .</b>					<b>\$ 164,564,328</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 14,848,180	\$ 18,153,323	\$ 10,734,952	\$ 43,736,455
Investments . . . . .	-	26,951,789	-	26,951,789
Receivables:				
Taxes. . . . .	21,387,622	-	3,444,524	24,832,146
Accounts . . . . .	33,896	-	169	34,065
Intergovernmental . . . . .	20,548	102,634,298	1,797,816	104,452,662
Accrued interest . . . . .	115,059	183,182	-	298,241
Interfund loans . . . . .	563,694	-	-	563,694
Materials and supplies inventory . . . . .	-	-	66,409	66,409
Restricted assets:				
Equity in pooled cash and cash equivalents . . . . .	328,646	-	-	328,646
Total assets . . . . .	<u>\$ 37,297,645</u>	<u>\$ 147,922,592</u>	<u>\$ 16,043,870</u>	<u>\$ 201,264,107</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 320,810	\$ -	\$ 206,475	\$ 527,285
Contracts payable . . . . .	-	636,825	72,117	708,942
Accrued wages and benefits . . . . .	4,173,993	-	1,273,369	5,447,362
Compensated absences payable . . . . .	204,935	-	-	204,935
Pension obligation payable. . . . .	1,076,203	-	296,075	1,372,278
Intergovernmental payable. . . . .	623,186	-	42,436	665,622
Interfund loan payable . . . . .	-	-	563,694	563,694
Deferred revenue. . . . .	21,321,693	102,690,835	3,536,244	127,548,772
Total liabilities . . . . .	<u>27,720,820</u>	<u>103,327,660</u>	<u>5,990,410</u>	<u>137,038,890</u>
<b>Fund Balances:</b>				
Reserved for encumbrances . . . . .	517,712	41,550,748	529,461	42,597,921
Reserved for materials and supplies inventory. . . . .	-	-	66,409	66,409
Reserved for tax revenue available for appropriation . . . . .	129,172	-	20,804	149,976
Reserved for budget stabilization. . . . .	328,646	-	-	328,646
Unreserved, undesignated, reported in:				
General fund . . . . .	8,601,295	-	-	8,601,295
Special revenue funds. . . . .	-	-	2,697,280	2,697,280
Debt service fund . . . . .	-	-	1,264,092	1,264,092
Capital projects funds. . . . .	-	3,044,184	5,475,414	8,519,598
Total fund balances . . . . .	<u>9,576,825</u>	<u>44,594,932</u>	<u>10,053,460</u>	<u>64,225,217</u>
Total liabilities and fund balances . . . . .	<u>\$ 37,297,645</u>	<u>\$ 147,922,592</u>	<u>\$ 16,043,870</u>	<u>\$ 201,264,107</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2006

<b>Total governmental fund balances</b>		\$	64,225,217
<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.			30,903,316
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	4,735,820	
Intergovernmental revenue		102,746,822	
Accrued interest		119,780	
Total		107,602,422	107,602,422
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(138,135)
Unamortized premiums on bond issuance is not recognized in the funds.			(909,045)
Unamortized bond issuance costs are not recognized in the funds.			472,325
Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.			2,942,084
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds payable		36,860,000	
Installment purchase obligation		159,583	
Compensated absences		3,514,273	
Total		(40,533,856)	(40,533,856)
<b>Net assets of governmental activities</b>		\$	164,564,328

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, 2006

	<b>General</b>	<b>Classroom Facilities</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 17,234,492	\$ -	\$ 2,670,317	\$ 19,904,809
Tuition . . . . .	698,250	-	91,482	789,732
Transportation fees . . . . .	104,002	-	-	104,002
Charges for services . . . . .	-	-	429,808	429,808
Earnings on investments . . . . .	867,118	1,265,100	89,639	2,221,857
Extracurricular . . . . .	-	-	244,130	244,130
Classroom materials and fees . . . . .	-	-	39,237	39,237
Other local revenues . . . . .	439,760	-	592,330	1,032,090
Other revenue . . . . .	-	-	11,032	11,032
Intergovernmental - State . . . . .	35,425,175	14,609,718	7,228,012	57,262,905
Intergovernmental - Federal . . . . .	175,535	-	8,498,612	8,674,147
Total revenue . . . . .	<u>54,944,332</u>	<u>15,874,818</u>	<u>19,894,599</u>	<u>90,713,749</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	23,023,451	-	4,443,157	27,466,608
Special . . . . .	5,862,935	-	3,289,201	9,152,136
Vocational . . . . .	682,191	-	-	682,191
Adult/continuing . . . . .	2,401	-	272,988	275,389
Other . . . . .	1,578,956	-	58,465	1,637,421
Support services:				
Pupil . . . . .	2,765,829	-	1,084,318	3,850,147
Instructional staff . . . . .	2,696,877	-	2,251,509	4,948,386
Board of education . . . . .	44,468	-	-	44,468
Administration . . . . .	4,148,971	-	255,015	4,403,986
Fiscal . . . . .	859,070	21,712	194,323	1,075,105
Business . . . . .	705,387	-	581	705,968
Operations and maintenance . . . . .	7,590,627	970	113,090	7,704,687
Pupil transportation . . . . .	2,287,645	-	52,800	2,340,445
Central . . . . .	924,117	-	71,272	995,389
Operation of non-instructional services:				
Food service operations . . . . .	-	-	2,210,678	2,210,678
Other non-instructional services . . . . .	-	-	533,802	533,802
Extracurricular activities . . . . .	857,262	-	380,724	1,237,986
Facilities acquisition and construction . . . . .	-	7,302,975	1,277,090	8,580,065
Debt service:				
Principal retirement . . . . .	-	-	609,028	609,028
Interest and fiscal charges . . . . .	-	-	1,724,478	1,724,478
Total expenditures . . . . .	<u>54,030,187</u>	<u>7,325,657</u>	<u>18,822,519</u>	<u>80,178,363</u>
Excess of revenues over expenditures . . . . .	<u>914,145</u>	<u>8,549,161</u>	<u>1,072,080</u>	<u>10,535,386</u>
<b>Other financing sources (uses):</b>				
Transfers in . . . . .	-	-	337,064	337,064
Transfers (out) . . . . .	<u>(205,926)</u>	<u>(131,138)</u>	-	<u>(337,064)</u>
Total other financing sources (uses) . . . . .	<u>(205,926)</u>	<u>(131,138)</u>	<u>337,064</u>	<u>-</u>
Net change in fund balances . . . . .	708,219	8,418,023	1,409,144	10,535,386
<b>Fund balances at beginning of year . . . . .</b>	<b>8,868,606</b>	<b>36,176,909</b>	<b>8,658,973</b>	<b>53,704,488</b>
<b>Decrease in reserve for inventory . . . . .</b>	<b>-</b>	<b>-</b>	<b>(14,657)</b>	<b>(14,657)</b>
<b>Fund balances at end of year . . . . .</b>	<b><u>\$ 9,576,825</u></b>	<b><u>\$ 44,594,932</u></b>	<b><u>\$ 10,053,460</u></b>	<b><u>\$ 64,225,217</u></b>

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, 2006

<b>Net change in fund balances - total governmental funds</b>	\$	10,535,386
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation expense in the current period.		
Capital asset additions	\$ 9,818,621	
Current year depreciation	(1,091,149)	
Total		8,727,472
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		
		(140,724)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	461,329	
Intergovernmental revenue	(15,062,613)	
Interest revenue	90,520	
Total		(14,510,764)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		
		(14,657)
Repayment of note and bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		609,028
Premiums on debt issuances are recognized as revenues in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		
		35,766
Bond issuance costs are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		
		(18,583)
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.		
		1,156
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		91,732
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.		
		1,473,594
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b>6,789,406</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, 2006

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Negative)</u>
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 16,374,873	\$ 17,699,666	\$ 17,189,988	\$ (509,678)
Tuition . . . . .	645,567	697,796	677,702	(20,094)
Transportation fees . . . . .	109,377	118,226	114,822	(3,404)
Earnings on investments . . . . .	759,076	820,488	796,862	(23,626)
Other local revenues . . . . .	394,523	426,441	414,161	(12,280)
Intergovernmental - State . . . . .	33,745,383	36,475,520	35,425,175	(1,050,345)
Intergovernmental - Federal . . . . .	209,048	225,961	219,454	(6,507)
Total revenue . . . . .	<u>52,237,847</u>	<u>56,464,098</u>	<u>54,838,164</u>	<u>(1,625,934)</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	22,404,211	24,499,182	24,115,284	383,898
Special . . . . .	5,504,702	6,019,436	6,019,396	40
Vocational . . . . .	616,465	674,109	674,109	-
Other . . . . .	1,408,829	1,540,566	1,540,566	-
Support services:				
Pupil . . . . .	2,598,062	2,841,002	2,841,001	1
Instructional staff . . . . .	2,506,090	2,740,429	2,740,425	4
Board of education . . . . .	52,752	57,685	57,685	-
Administration . . . . .	3,904,455	4,269,553	4,269,553	-
Fiscal . . . . .	1,006,588	1,100,712	907,637	193,075
Business . . . . .	694,364	759,293	759,293	-
Operations and maintenance . . . . .	7,377,139	8,066,961	8,066,960	1
Pupil transportation . . . . .	2,291,217	2,505,464	2,505,464	-
Central . . . . .	952,302	1,041,350	1,041,350	-
Extracurricular activities . . . . .	806,345	881,745	881,695	50
Total expenditures . . . . .	<u>52,123,521</u>	<u>56,997,487</u>	<u>56,420,418</u>	<u>577,069</u>
Excess of revenues over (under) expenditures . . . . .	<u>114,326</u>	<u>(533,389)</u>	<u>(1,582,254)</u>	<u>(1,048,865)</u>
<b>Other financing sources (uses):</b>				
Transfers in . . . . .	140,051	151,382	147,023	(4,359)
Transfers (out) . . . . .	(329,089)	(359,862)	(352,863)	6,999
Advances in . . . . .	737,761	797,449	774,486	(22,963)
Advances (out) . . . . .	(515,010)	(563,168)	(563,694)	(526)
Refund of prior year expenditure . . . . .	50,189	54,250	52,688	(1,562)
Other (uses) of funds . . . . .	(9,145)	(10,000)	(10,000)	-
Sale of capital assets . . . . .	1,469	1,588	1,542	(46)
Total other financing sources (uses) . . . . .	<u>76,226</u>	<u>71,639</u>	<u>49,182</u>	<u>(22,457)</u>
Net change in fund balance . . . . .	190,552	(461,750)	(1,533,072)	(1,071,322)
<b>Fund balance at beginning of year . . . . .</b>	14,583,639	14,583,639	14,583,639	-
<b>Prior year encumbrances appropriated . . . . .</b>	1,271,462	1,271,462	1,271,462	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 16,045,653</u>	<u>\$ 15,393,351</u>	<u>\$ 14,322,029</u>	<u>\$ (1,071,322)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2006

	<b>Governmental Activities - Internal Service Funds</b>
<b>Assets:</b>	
Current assets:	
Equity in pooled cash and cash equivalents. . . . .	\$ 3,971,115
Materials and supplies inventory . . . . .	276,201
Total assets . . . . .	4,247,316
<b>Liabilities:</b>	
Current liabilities:	
Accounts payable. . . . .	1,032
Claims payable . . . . .	1,304,200
Total liabilities . . . . .	1,305,232
<b>Net assets:</b>	
Unrestricted. . . . .	2,942,084
Total net assets . . . . .	\$ 2,942,084

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, 2006

	<b>Governmental Activities - Internal Service Funds</b>
<b>Operating revenues:</b>	
Charges for services . . . . .	\$ 7,967,837
Other . . . . .	159,130
Total operating revenues . . . . .	<u>8,126,967</u>
 <b>Operating expenses:</b>	
Personal services . . . . .	3,249
Purchased services . . . . .	17,029
Materials and supplies. . . . .	175,147
Claims. . . . .	6,457,948
Total operating expenses . . . . .	<u>6,653,373</u>
 Change in net assets. . . . .	1,473,594
 <b>Net assets at beginning of year . . . . .</b>	 <u>1,468,490</u>
 <b>Net assets at end of year . . . . .</b>	 <u><u>\$ 2,942,084</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<b>Governmental Activities - Internal Service Funds</b>
<b>Cash flows from operating activities:</b>	
Cash received from charges for services . . . . .	\$ 7,979,609
Cash received from other operating revenues. . . . .	159,130
Cash payments for personal services . . . . .	(3,249)
Cash payments for purchased services . . . . .	(17,029)
Cash payments for materials and supplies. . . . .	(212,736)
Cash payments for claims. . . . .	<u>(6,681,148)</u>
 Net cash provided by operating activities . . . . .	 <u>1,224,577</u>
 Net increase in cash and cash equivalents . . . . .	 1,224,577
 <b>Cash and cash equivalents at beginning of year. . .</b>	 <u>2,746,538</u>
 <b>Cash and cash equivalents at end of year . . . . .</b>	 <u><u>\$ 3,971,115</u></u>
 <b>Reconciliation of operating income to net cash provided by operating activities:</b>	
 Operating income . . . . .	 \$ 1,473,594
 Changes in assets and liabilities:	
Decrease in accounts receivable . . . . .	11,772
Increase in materials and supplies inventory. . . . .	(10,652)
Decrease in accounts payable. . . . .	(26,937)
Decrease in claims payable . . . . .	<u>(223,200)</u>
 Net cash provided by operating activities. . . . .	 <u><u>\$ 1,224,577</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, 2006

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 27,739	\$ 58,625
Receivables:		
Accounts . . . . .	-	1,497
Total assets. . . . .	27,739	\$ 60,122
<b>Liabilities:</b>		
Accounts payable. . . . .	-	\$ 338
Due to students . . . . .	-	59,784
Total liabilities . . . . .	-	\$ 60,122
<b>Net Assets:</b>		
Held in trust for scholarships . . . . .	27,739	
Total net assets . . . . .	\$ 27,739	

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, 2006

	<b>Private-Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest . . . . .	\$ 328
Total additions. . . . .	328
Change in net assets . . . . .	328
<b>Net assets at beginning of year . . . . .</b>	<b>27,411</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 27,739</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, 2006**

**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 49<sup>th</sup> largest by enrollment among the 615 public and community school districts in the state. The District employs 326 non-certified and 539 certified employees to provide services to approximately 6,348 students and community groups. The District provides regular, vocational and special instruction. The District also provides support services for the pupils, instructional staff, general and school administration, business and fiscal services, facilities acquisitions and construction services, operation and maintenance of plant, student transportation, food services, extracurricular activities and non-programmed services.

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

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

**A. Reporting Entity**

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise have access to the organizations' resources; (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; (4) 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, 2006

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

*JOINTLY GOVERNED ORGANIZATIONS*

Trumbull Career and Technical Center

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

Northeast Ohio Management Information Network (NEOMIN)

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

Superintendents of the participating school districts are eligible to be voting members of the Governing Board, which consists of ten members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County school districts, three superintendents from Trumbull County districts, and a treasurer from each county. The District was not represented on the Governing Board during fiscal year 2006. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. A complete set of separate financial statements may be obtained from the Trumbull County Educational Service Center, 6000 Youngstown-Warren Road, Niles, Ohio 44446.

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

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

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

North East Ohio Instructional Media Center (NEOIMC)

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



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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

Region 12 Professional Development Center (RPDC)

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

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

*PUBLIC ENTITY RISK POOL*

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

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

**B. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**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.

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

Other governmental funds of the District are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

*PROPRIETARY FUNDS*

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

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

*FIDUCIARY FUNDS*

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

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

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

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

**D. Basis of Accounting**

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

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

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

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

**E. Budgets**

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2006 is as follows.

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Trumbull County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the final budgeted amount in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2006.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.)

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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

**F. Cash and Investments**

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

During fiscal year 2006, 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 2006. 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, 2006.

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 2006 amounted to \$867,118, which includes \$303,239 assigned from other District funds.

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

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

**G. Inventory**

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

**H. Capital Assets**

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

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

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

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

**I. Interfund Balances**

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

**J. Compensated Absences**

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2006, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least fifteen years or more of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2006, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

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

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

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

**L. Fund Balance Reserves**

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

**M. Restricted Assets**

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

**N. Estimates**

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



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

**O. Net Assets**

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

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

**P. Operating Revenues and Expenses**

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

**Q. Interfund Activity**

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

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2006.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Changes in Accounting Principles**

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

**WARREN CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

**B. Deficit Fund Balances**

Fund balances at June 30, 2006 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Teacher Development	\$ 5,942
SchoolNet Professional Development	14,317
Alternative Schools	8,360
Poverty Aid	339,331

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.

**C. Legal Compliance**

Ohio Revised Code 5705.41(B) provides that no subdivision or taxing unit is to expend money unless it is appropriated. At June 30, 2006, expenditures plus encumbrances exceeded appropriations in the Classroom Facilities Fund by \$35,776,047.

Ohio Rev. Code Section 5705.10 requires that money paid into a fund must be used only for the purposes for which such fund has been established. Although all funds had positive cash fund balances at June 30, 2006, the School District had numerous negative cash fund balances throughout the year. The following funds had negative cash fund balances:

<u>Fund</u>	<u>Range of Deficit</u>
Student Intervention (460)	\$24,901 to \$27,889
Alternative Schools (463)	32,659
Title VI-B (516)	231,777 to 463,519
Title I (572)	864,325 to 1,279,968
Title V (573)	14,856 to 16,139
Drug Free School Grant (584)	12,159 to 15,707
Improving Teacher Quality (590)	72,571 to 140,663
Miscellaneous Federal Grants (599)	4,288

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

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

**WARREN CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**A. Cash on Hand**

At year-end, the District had \$5,520 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

**B. Deposits with Financial Institutions**

At June 30, 2006, the carrying amount of all District deposits was \$2,804,123, exclusive of the \$3,521,111 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$3,541,801 of the District's bank balance of \$3,757,009 was exposed to custodial risk as discussed below, while \$215,208 was covered by Federal Deposit Insurance Corporation.

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

**WARREN CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**C. Investments**

As of June 30, 2006, the District had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities</u>			
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>
FHLB	\$ 2,980,620	\$ -	\$ 2,980,620	\$ -	\$ -
FHLMC	10,893,258	-	6,998,518	3,894,740	-
FNMA	9,904,358	5,970,608	-	3,933,750	-
FHLBC	5,430,195	2,469,055	980,940	-	1,980,200
FNMA DN	7,407,168	4,410,088	2,997,080	-	-
FHLMC DN	4,053,840	4,053,840	-	-	-
Repurchase agreements	3,521,111	3,521,111	-	-	-
U.S. Government money market mutual fund	376,355	376,355	-	-	-
STAR Ohio	<u>27,697,821</u>	<u>27,697,821</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 72,264,726</u>	<u>\$ 48,498,878</u>	<u>\$ 13,957,158</u>	<u>\$ 7,828,490</u>	<u>\$ 1,980,200</u>

The weighted average maturity of investments is .38 years.

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

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

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

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2006:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
FHLB	\$ 2,980,620	4.12%
FHLMC	10,893,258	15.07%
FNMA	9,904,358	13.71%
FHLBC	5,430,195	7.51%
FNMA DN	7,407,168	10.25%
FHLMC DN	4,053,840	5.61%
Repurchase Agreements	3,521,111	4.87%
U.S. Government money market mutual fund	376,355	0.52%
STAR Ohio	<u>27,697,821</u>	<u>38.34%</u>
	<u>\$ 72,264,726</u>	<u>100.00%</u>

**D. Reconciliation of Cash and Investments to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and Investments per footnote</u>		
Carrying amount of deposits	\$	2,804,123
Investments		72,264,726
Cash on hand		<u>5,520</u>
Total	\$	<u>75,074,369</u>
 <u>Cash and investments per Statement of Net Assets</u>		
Governmental activities	\$	74,988,005
Private-purpose trust fund		27,739
Agency fund		<u>58,625</u>
Total	\$	<u>75,074,369</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

**A.** Interfund balances consisted of the following at June 30, 2006, as reported on the fund statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 563,694

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, 2006 are reported on the Statement of Net Assets.

**WARREN CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 5 - INTERFUND TRANSACTIONS - (Continued)**

- B.** Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:

General Fund	\$ 205,926
Classroom Facilities Fund	131,138

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 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, 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 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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, 2006, are available to finance fiscal year 2006 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, 2006 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, 2006 was \$129,172 in the general fund, \$16,171 in the debt service fund, \$1,501 in the classroom maintenance facilities fund, and \$3,132 in the permanent improvement fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2005 was \$84,668 in the general fund, \$11,311 in the debt service fund, \$1,033 in the classroom facilities maintenance fund, and \$771 in the permanent improvement fund.

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

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 330,817,900	76.53%	\$ 356,126,660	77.14%
Public utility personal	20,340,220	4.71%	22,295,110	4.83%
Tangible personal property	<u>81,089,713</u>	<u>18.76%</u>	<u>83,211,495</u>	<u>18.03%</u>
Total	<u>\$ 432,247,833</u>	<u>100.00%</u>	<u>\$ 461,633,265</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$ 61.65		\$ 60.45	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2006 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:



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 7 - RECEIVABLES (Continued)**

**Governmental Activities:**

Property taxes	\$ 24,832,146
Accounts	34,065
Accrued interest	298,241
Intergovernmental	<u>104,452,662</u>
Total	<u>\$ 129,617,114</u>

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

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance at 06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at 06/30/06</u>
<b>Governmental Activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,568,402	\$ -	\$ -	\$ 1,568,402
Construction in progress	<u>4,449,939</u>	<u>7,877,082</u>	<u>-</u>	<u>12,327,021</u>
Total capital assets, not being depreciated	<u>6,018,341</u>	<u>7,877,082</u>	<u>-</u>	<u>13,895,423</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	16,876,005	1,037,633	(451,388)	17,462,250
Furniture and equipment	13,439,764	823,946	-	14,263,710
Vehicles	<u>2,672,193</u>	<u>79,960</u>	<u>-</u>	<u>2,752,153</u>
Total capital assets, being depreciated	<u>32,987,962</u>	<u>1,941,539</u>	<u>(451,388)</u>	<u>34,478,113</u>
<i>Less: accumulated depreciation:</i>				
Buildings and improvements	(7,520,763)	(235,769)	310,664	(7,445,868)
Furniture and equipment	(7,564,097)	(673,340)	-	(8,237,437)
Vehicles	<u>(1,604,875)</u>	<u>(182,040)</u>	<u>-</u>	<u>(1,786,915)</u>
Total accumulated depreciation	<u>(16,689,735)</u>	<u>(1,091,149)</u>	<u>310,664</u>	<u>(17,470,220)</u>
Governmental activities capital assets, net	<u>\$ 22,316,568</u>	<u>\$ 8,727,472</u>	<u>\$ (140,724)</u>	<u>\$ 30,903,316</u>

**WARREN CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 291,550
Special	52,274
Vocational	4,010
Adult/Continuing Education	246
Other	7,005
<u>Support Services:</u>	
Pupil	25,441
Instructional staff	239,440
Administration	93,511
Fiscal	14,791
Business	29,286
Operations and maintenance	104,684
Pupil transportation	141,791
Central	2,035
Non-instructional	46,494
Food service operations	25,791
Extracurricular activities	<u>12,800</u>
Total depreciation expense	<u>\$ 1,091,149</u>

**NOTE 9 - LONG-TERM OBLIGATIONS**

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

	<u>Balance</u>			<u>Balance</u>	<u>Amounts</u>
	<u>6/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>6/30/06</u>	<u>Due in</u>
					<u>One Year</u>
<b>Governmental Activities</b>					
Compensated absences payable	\$ 4,362,666	\$ 710,970	\$ (1,354,428)	\$ 3,719,208	\$ 494,068
Installment purchase obligation	303,611	-	(144,028)	159,583	159,583
G.O. Bonds payable	<u>37,325,000</u>	<u>-</u>	<u>(465,000)</u>	<u>36,860,000</u>	<u>505,000</u>
Total governmental activities long-term liabilities	<u>\$ 41,991,277</u>	<u>\$ 710,970</u>	<u>\$ (1,963,456)</u>	40,738,791	<u>\$ 1,158,651</u>
				<u>909,045</u>	
				<u>\$ 41,647,836</u>	

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

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

**WARREN CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)**

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

<u>Year Ended</u>	<u>Phillip Mazza Principal</u>	<u>William Mazza Principal</u>	<u>DAF Corporation Principal</u>	<u>Total</u>
2007	\$ 22,500	\$ 22,500	\$ 114,583	\$ 159,583
Total	<u>\$ 22,500</u>	<u>\$ 22,500</u>	<u>\$ 114,583</u>	<u>\$ 159,583</u>

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

These bonds represent the amount of the Construction Project that the District itself was required to finance, in accordance with the terms of a facilities grant from the Ohio School Facilities Commission (OSFC). OSFC will make quarterly disbursements to the District as the project is completed. As of June 30, 2006, the total estimated cost of the Construction Project is \$152,983,888, of which OSFC will pay approximately \$123,916,860.

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

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

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

<u>Year Ended</u>	<u>General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 505,000	\$ 1,714,778	\$ 2,219,778
2008	550,000	1,703,540	2,253,540
2009	595,000	1,689,171	2,284,171
2010	695,000	1,670,565	2,365,565
2011	745,000	1,648,965	2,393,965
2012 - 2016	5,075,000	7,742,925	12,817,925
2017 - 2021	6,185,000	6,415,375	12,600,375
2022 - 2026	7,915,000	4,712,875	12,627,875
2027 - 2031	11,750,000	2,256,000	14,006,000
2032	<u>2,845,000</u>	<u>71,125</u>	<u>2,916,125</u>
Total	<u>\$ 36,860,000</u>	<u>\$ 29,625,319</u>	<u>\$ 66,485,319</u>

**WARREN CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)**

**C. 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, 2006, are a voted debt margin of \$5,967,257 and an unvoted debt margin of \$461,633.

**NOTE 10 - COMPENSATED ABSENCES**

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

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

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

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

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

**NOTE 11 - RISK MANAGEMENT**

**A. General Risk**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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

**B. Workers' Compensation**

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

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

**C. Health Insurance**

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

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

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

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

Liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using expected future investment assumptions as determined by the third party administrator. These liabilities are reported at their present value of \$1,304,200 at June 30, 2006.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2006	\$ 1,527,400	\$ 6,457,948	\$ (6,681,148)	\$ 1,304,200
2005	837,000	8,923,509	(8,233,109)	1,527,400

**NOTE 12 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, [www.ohsers.org](http://www.ohsers.org), under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2006, 2005, and 2004 were \$827,995, \$805,930, \$677,142; 42.09 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$479,474 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

**B. State Teachers Retirement System**

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$3,923,110, \$3,935,615 and \$3,909,149; 85.44 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$571,099 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2006 were \$22,325 made by the District and \$44,750 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$301,778 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282.743 million and STRS Ohio had 119,184 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$427,139 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006 were \$158.751 million. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million, which is about 221 percent of next years projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 59,492 participants currently receiving health care benefits.



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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

**Net Change in Fund Balance**

	<u>General Fund</u>
Budget basis	\$ (1,533,072)
Net adjustment for revenue accruals	106,168
Net adjustment for expenditure accruals	1,553,874
Net adjustment for other sources/uses	(255,108)
Adjustment for encumbrances	<u>836,357</u>
GAAP basis	<u>\$ 708,219</u>

**NOTE 15 - CONTINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds; however, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District at June 30, 2006.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 15 - CONTINGENCIES - (Continued)**

**B. Litigation**

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

**NOTE 16 - STATUTORY RESERVES**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2006, the reserve activity was as follows:

	Textbooks/ Instructional <u>Materials</u>	Capital <u>Acquisition</u>	Budget <u>Stabilization</u>
Restated set-aside cash balance as of June 30, 2005	\$ (360,726)	\$ (38,000,000)	\$ 328,646
Current year set-aside requirement	992,339	992,339	-
Current year offsets	-	-	-
Qualifying disbursements	<u>(899,882)</u>	<u>(1,931,183)</u>	<u>-</u>
Total	<u>\$ (268,269)</u>	<u>\$ (38,938,844)</u>	<u>\$ 328,646</u>
Balance carried forward to FY 2007	<u>\$ (268,269)</u>	<u>\$ (38,000,000)</u>	<u>\$ 328,646</u>

A schedule of the Governmental Fund restricted assets at June 30, 2006 follows:

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 17 - CONTRACTUAL COMMITMENTS**

As of June 30, 2006, the District had contractual purchase commitments for the following projects:

Contractor	Purchase Commitments	Amount Paid as of 6/30/2006	Amount Remaining on Contracts
Pro Quality Land Development - Demolition of Willard Elementary	\$ 130,923	\$ 123,651	\$ 7,272
Lincoln Elementary School:			
Gibson Construction - General Contractor	11,375,904	1,682,768	9,693,136
Fire Foe Corporation - Fire Protection	30,043	-	30,043
Conti Corporation - HVAC / Electrical	4,530,500	192,857	4,337,643
Valley Electrical - Technology	214,550	5,343	209,207
W.G. Tomko - Plumbing	918,803	152,968	765,835
Warren G. Harding High School:			
Mike Coates Construction - General Contractor	21,304,697	0	21,304,697
Stonecreek Interior Systems - Casework	1,109,200	0	1,109,200
High Tech Pools, Inc. - Pool	965,954	0	965,954
Fire Foe Corporation - Fire Protection	588,165	0	588,165
W.G. Tomko - Plumbing	2,650,000	0	2,650,000
Antenucci Inc. - HVAC	5,800,000	0	5,800,000
Valley Electrical - Electrical	8,223,700	0	8,223,700
<i>Totals</i>	<u>\$ 57,842,439</u>	<u>\$ 2,157,587</u>	<u>\$ 55,684,852</u>

**NOTE 18 - SIGNIFICANT SUBSEQUENT EVENTS**

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

Contracts were awarded to the following companies at the January 30, 2007 meeting for technology systems at the new high school, Lincoln, and Willard Elementaries.

1. Valley Electrical Consolidated -- \$528,750
2. MCPC, Inc. -\$427,113
3. Warwick Communications -\$235,616

March 27, 2007

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Warren City School District (the "District") as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 27, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 2006-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, none of the reportable conditions described above are considered to be material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the District in a separate letter dated March 27, 2007.

Warren City School District  
Independent Auditor's Report on Compliance and Internal Control  
Over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards*  
March 27, 2007  
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2006-002 and 2006-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated March 27, 2007.

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

*Hea & Associates, Inc.*

March 27, 2007

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

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

Compliance

We have audited the compliance of the Warren City School District (the "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, 2006. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the 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 with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 each of its major federal programs for the year ended June 30, 2006.

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.

Warren City School District  
Independent Auditor's Report On Compliance With Requirements  
Applicable To Each Major Program And Internal Control Over  
Compliance In Accordance With OMB Circular A-133  
March 27, 2007  
Page 2

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over compliance and operations that we have reported to management of the District in a separate letter dated March 27, 2007.

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

*Hea & Associates, Inc.*

WARREN CITY SCHOOL DISTRICT  
TRUMBULL COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor/ <i>Pass Through Grantor</i> Program Title	CFDA Number	Pass Through Entity 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>						
Food Distribution Program	10.550	N/A		\$ 314,709		\$ 314,709
Nutrition Cluster:						
School Breakfast Program	10.553	05PU-2005 05PU-2006	\$ 127,840 279,629 <u>407,469</u>		\$ 127,840 279,629 <u>407,469</u>	
National School Lunch Program	10.555	LLP1-2005 LLP4-2005 LLP1-2006 LLP4-2006	1,050 345,280 4,469 <u>785,052</u> 1,135,851		1,050 345,280 4,469 <u>785,052</u> 1,135,851	
Summer Food Service Program for Children	10.559	23PU-2005 24PU-2005	30,193 <u>3,126</u> 33,319		30,193 <u>3,126</u> 33,319	
Total Nutrition Cluster			<u>1,576,639</u>		<u>1,576,639</u>	
Total U.S. Department of Agriculture			<u>1,576,639</u>	<u>314,709</u>	<u>1,576,639</u>	<u>314,709</u>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>Passed through Ohio Department of Education:</i>						
Adult Education - State Grant Program	84.002	ABS1-2005 ABS1-2005C ABS1-2006	140,187 0 <u>142,374</u> 282,561		3,507 23,629 <u>239,940</u> 267,076	
Title I Grants to Local Educational Agencies	84.010	C1S1 - 2005 C1S1 - 2006 C1SD - 2005 C1SD - 2006 C1SN - 2005 C1SN - 2006	602,606 2,723,498 (7,410) 83,926 (2,396) <u>18,991</u> 3,419,215		431,135 2,590,129 6,509 65,359 (401) <u>13,164</u> 3,105,895	
Special Education Grants to States	84.027	6BSF - 2005 6BSF - 2006 6BPB - 2006	597,403 1,400,306 <u>25,000</u> 2,022,709		512,973 1,599,527 <u>16,859</u> 2,129,359	
Safe and Drug-Free Schools and Communities - State Grants	84.186	DRS1 - 2005 DRS1 - 2006	11,843 <u>43,885</u> 55,728		15,583 <u>34,264</u> 49,847	
State Grants for Innovative Programs	84.298	C2S1-2005 C2S1-2006	1,956 <u>30,630</u> 32,586		5,916 <u>26,681</u> 32,597	



WARREN CITY SCHOOL DISTRICT  
TRUMBULL COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor/ <i>Pass Through Grantor</i> Program Title	CFDA Number	Pass Through Entity Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
Education Technology State Grants	84.318	TJS1-2005 TJS1-2006	\$ 7,061 39,336 <u>46,397</u>		\$ 13,297 30,675 <u>43,972</u>	
Comprehensive School Reform Demonstration	84.332	RFCC-2005 RFK2-2003 RFK3-2005 RFS2-2004	19,116 13,316 18,108 - <u>50,540</u>		26,613 - 30,801 29,188 <u>86,602</u>	
Improving Teacher Quality State Grants	84.367	TRS1-2005 TRS1-2006	129,833 488,562 <u>618,395</u>		75,611 520,845 <u>596,456</u>	
Vocational Education - Occupational and Employment Information State Grants	84.346	N/A	901		0	
<i>Direct Federal Programs:</i>						
Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	84.334	FY 2004 FY 2005 FY 2006	0 255,041 145,193 <u>400,234</u>		43,123 213,981 134,325 <u>391,429</u>	
Safe and Drug-Free Schools and Communities - National Programs	84.184	T4S1-2005	<u>115,574</u>		<u>108,715</u>	
Total U.S. Department of Education			<u>7,044,840</u>		<u>6,811,948</u>	
 <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	93.778	FY 2006	125,700		125,700	
State Children's Health Insurance Program (SCHIP)	93.767	FY 2006	13,864		13,864	
<i>Passed through the Trumbull County Educational Service Center:</i>						
Medical Assistance Program	93.778	FY 2006	<u>63,809</u>		<u>63,809</u>	
Total U.S. Department of Health and Human Services			<u>203,373</u>		<u>203,373</u>	
Total Federal Financial Assistance			<u>\$ 8,824,852</u>	<u>\$ 314,709</u>	<u>\$ 8,591,960</u>	<u>\$ 314,709</u>

WARREN CITY SCHOOL DISTRICT  
TRUMBULL COUNTY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2006

NOTE A: SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B: NUTRITION CLUSTER

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

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

NOTE C: MATCHING REQUIREMENTS

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

WARREN CITY SCHOOL DISTRICT  
TRUMBULL COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2006

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

A-133 Ref.  
.505(d)

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d) (1) (iii)	Was there any reported material non- compliance at the financial statement level (GAGAS)?	Yes
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any reportable conditions reported for major programs which were not considered to be material?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510(a) of Circular A-133?	No
(d) (1) (vii)	Major Programs (list): Special Education Grants to States Improving Teacher Quality State Grants	CFDA # 84.027 CFDA # 84.367
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

WARREN CITY SCHOOL DISTRICT  
TRUMBULL COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2006

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

**Reportable Condition**

<b>FINDING NUMBER</b>	<b>2006-001</b>
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**Capital Assets**

Statement No. 34 of the Governmental Accounting Standards Board, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments defines capital assets as land, improvements to land, buildings, improvements other than buildings, infrastructure, vehicles, furniture, machinery, and equipment which are used in operations and that have initial lives extending beyond a single reporting period. Capitalization is a method of allocating the cost of a tangible asset throughout its useful life by an annual depreciation expense. Substantial financial resources have been used to acquire and maintain the capital assets of the District, and therefore, priority should be placed over their accountability. The District did not maintain a complete and accurate record of their capital assets, including capital asset additions and disposals during the year ended June 30, 2006.

The District’s capital asset additions for fiscal year 2006 were those items purchased from the 600 and 700 expenditure object codes. However, these additions included assets with a cost below the capitalization threshold of \$1,000 and omitted capital assets charged to other object codes. The District did not report any disposals of capital assets because of a lack of records. Depreciation expense for the year ended June 30, 2006 was calculated by adding the depreciation expense for the fiscal year 2006 additions to the prior fiscal year 2005 depreciation expense because the District’s capital asset records did not record annual depreciation expense for each capital asset.

Although we determined the capital assets were materially stated correctly on the financial statements, these calculation methods and lack of records do not provide proper systems and assurances over the completeness and accuracy of the District’s capital assets.

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

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

WARREN CITY SCHOOL DISTRICT  
TRUMBULL COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2006

<b>FINDING NUMBER</b>	<b>2006-001 (continued)</b>
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- Proper documentation was not maintained for disposal of assets as required by the policies, and, therefore, the Board approved disposals could not be verified.

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

**Non-Compliance Citations**

<b>FINDING NUMBER</b>	<b>2006-002</b>
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**Ohio Rev. Code Section 5705.10** requires that money paid into a fund must be used only for the purposes for which such fund has been established. During the fiscal year, the District was not requesting grant monies on a monthly basis. Although all funds had positive cash fund balances at June 30, 2006, the District had numerous negative cash fund balances throughout the year. The following funds had negative cash fund balances:

Fund	Range of Deficit
Student Intervention (460)	\$24,901 to \$27,889
Alternative Schools (463)	32,659
Title VI-B (516)	231,777 to 463,519
Title I (572)	864,325 to 1,279,968
Title V (573)	14,856 to 16,139
Drug Free School Grant (584)	12,159 to 15,707
Improving Teacher Quality (590)	72,571 to 140,663
Miscellaneous Federal Grants (599)	4,288

Negative fund cash balances indicate that money from one fund was used to cover the expenses of another fund. Fund activity should be monitored to prevent future expenditures in excess of available resources. Grants funds' cash balances should be monitored to ensure cash requests are made monthly as needed. Grant funds often could run in the red awaiting expense reimbursement from granting sources. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund in accordance with the Ohio Revised Code.

WARREN CITY SCHOOL DISTRICT  
TRUMBULL COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2006

<b>FINDING NUMBER</b>	<b>2006-003</b>
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**Ohio Rev. Code Section 5705.41(B)** states no subdivision or taxing unit is to expend money unless it has been appropriated.

At June 30, 2006, expenditures plus encumbrances exceeded appropriations in the Classroom Facilities Fund by \$35,776,047.

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

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

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A-133, SECTION .315(b)  
JUNE 30, 2006**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain</b>
2005-001	The District did not maintain a complete and accurate record of capital assets, including additions and deletions.	No	Re-issued as Finding 2006- 001
2005-002	Ohio Revised Code Section 5705.41(B), the District had multiple funds in which expenditures plus outstanding encumbrances exceeded appropriations during the year.	No	Re-issued as Finding 2006- 003
2005-003	Ohio Revised Code Section 5705.39, multiple District funds had appropriations exceeding estimated resources.	No	Amounts were not material for fiscal year 2006. Re-issued in management letter.



# WARREN CITY SCHOOLS

## OFFICE OF THE TREASURER

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

### CORRECTIVE ACTION PLAN IN RESPONSE TO THE 2006 AUDIT FINDINGS

#### **2006-001 Reportable Condition in Capital Assets**

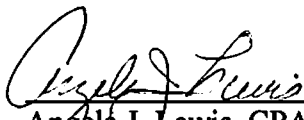
Warren City School District has experienced a high level of employee turnover in key management positions since 2002. There have been four different Treasurers between 2002 and 2006 and a new Business Manager replaced the prior one in October of 2005. During this transition period, capital assets records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

#### **2006-002 Ohio Rev. Code Section 5705.10**

During fiscal year 2006, an interim Treasurer was named to replace the outgoing Treasurer. Due to the change in personnel, appropriations and estimated resources were not monitored on a regular basis. In 2007, appropriations are being monitored and adjusted regularly to ensure compliance with budgetary laws and regulations. Estimated resources are analyzed throughout the year and adjusted accordingly if needed. Actual expenditures and available resources will be monitored and transfers and advances will be made accordingly as needed.

#### **2006-003 Ohio Rev. Code Section 5705.41(B)**

During fiscal year 2006, an interim Treasurer was named to replace the outgoing Treasurer. Due to the change in personnel, appropriations were not monitored on a regular basis. In 2007, appropriations are being monitored and adjusted regularly to ensure compliance with budgetary laws and regulations.

  
\_\_\_\_\_  
Angela J. Lewis, CPA  
Treasurer  
Warren City Schools

4/13/2007  
Date





**Mary Taylor, CPA**  
Auditor of State

**WARREN CITY SCHOOL DISTRICT**

**TRUMBULL COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 17, 2007**