

Warren City School District
Trumbull County, Ohio
Audited Financial Statements

June 30, 2007



Mary Taylor, CPA
Auditor of State

Board of Education
Warren City School District
261 Monroe Street NW
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, 2006 through June 30, 2007. 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 2, 2008

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**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

JUNE 30, 2007

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**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

JUNE 30, 2007

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122 4th St. NW | PO Box 1020
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February 15, 2008

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"), as of and for the year ended June 30, 2007, 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 District, as of June 30, 2007, 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 have also issued our report dated February 15, 2008 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 on compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Warren City School District
Independent Auditor's Report
February 15, 2008

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 purposes of 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 and, in our opinion, 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, 2007
(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, 2007. 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 2007 are as follows:

- In total, net assets of governmental activities increased \$8,977,354 which represents a 5.89% increase from 2006.
- General revenues accounted for \$64,394,673 in revenue or 80.31% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$15,793,150 or 19.69% of total revenues of \$80,187,823.
- The District had \$71,210,469 in expenses related to governmental activities; \$15,793,150 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 \$64,394,673 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 \$58,456,559 in revenues, other financing sources and \$55,675,883 in expenditures and other financing uses. During fiscal 2007, the general fund's fund balance increased \$2,780,676 from \$9,576,825 to \$12,357,501.
- The classroom facilities fund had \$46,934,821 in revenues and other financing sources and \$41,967,518 in expenditures and other financing uses. During fiscal 2007, the classroom facilities fund's fund balance increased \$4,967,303 from \$44,594,932 to \$49,562,235.

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, 2007
(UNAUDITED)

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2007?" 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, 2007
(UNAUDITED)

Reporting the District's Fiduciary Responsibilities

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

Notes to the Basic Financial Statements

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

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. The District restated net assets as detailed in Note 3.A.

The table below provides a summary of the District's net assets for 2007 and 2006.

	Net Assets	
	Governmental Activities 2007	Restated Governmental Activities 2006
	<u>2007</u>	<u>2006</u>
<u>Assets</u>		
Current and other assets	\$ 174,052,421	\$ 205,420,054
Capital assets	63,000,919	18,807,489
Total assets	<u>237,053,340</u>	<u>224,227,543</u>
<u>Liabilities</u>		
Current liabilities	34,396,670	30,111,206
Long-term liabilities	41,210,815	41,647,836
Total liabilities	<u>75,607,485</u>	<u>71,759,042</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	51,031,265	17,215,376
Restricted	84,569,381	121,083,137
Unrestricted	25,845,209	14,169,988
Total net assets	<u>\$ 161,445,855</u>	<u>\$ 152,468,501</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the District's assets exceeded liabilities by \$161,445,855. Of this total, \$25,845,209 is unrestricted in use.

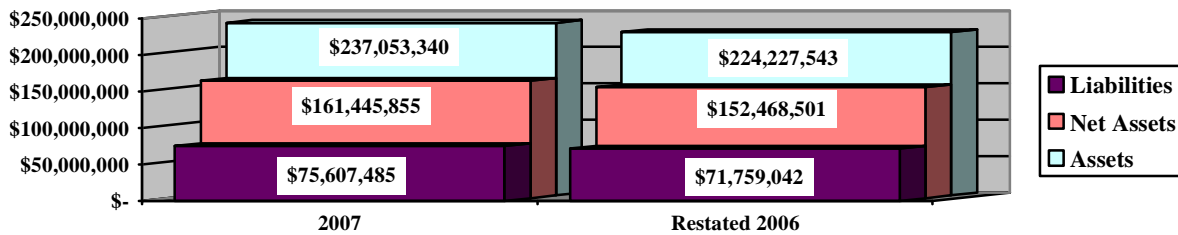
**WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

At year-end, capital assets represented 26.58% 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, 2007, were \$51,031,265. 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, \$84,569,381, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$25,845,209 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 2007 and 2006.

Change in Net Assets

	Governmental Activities 2007	Governmental Activities 2006
Revenues		
Program revenues:		
Charges for services and sales	\$ 2,295,230	\$ 1,934,803
Operating grants and contributions	13,439,058	13,476,386
Capital grants and contributions	58,862	262,587
General revenues:		
Property taxes	20,035,491	20,366,138
Grants and entitlements	40,026,081	37,444,738
Investment earnings	3,827,384	2,312,377
Gain on sale of capital assets	283,937	
Other	221,780	405,956
Total revenues	80,187,823	76,202,985

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

Change in Net Assets (Continued)

	Governmental Activities 2007	Governmental Activities 2006
<u>Expenses</u>	<u>2007</u>	<u>2006</u>
Program expenses:		
Instruction:		
Regular	\$ 27,609,327	\$ 26,939,476
Special	8,392,166	8,874,239
Vocational	610,720	642,762
Adult/continuing	50,874	268,011
Other	3,337,870	1,640,733
Support services:		
Pupil	3,608,856	3,781,301
Instructional staff	5,146,121	4,913,678
Board of education	33,373	44,468
Administration	4,347,164	4,365,785
Fiscal	1,241,495	1,093,881
Business	688,346	685,036
Operations and maintenance	7,105,486	7,299,599
Pupil transportation	2,078,335	2,459,876
Central	1,033,814	981,753
Food service operations	2,421,099	2,195,204
Operations of non-instructional services	545,214	281,070
Extracurricular activities	1,263,519	1,240,568
Interest and fiscal charges	1,696,690	1,706,139
Total expenses	<u>71,210,469</u>	<u>69,413,579</u>
Change in net assets	8,977,354	6,789,406
Net assets at beginning of year (restated)	152,468,501	145,679,095
Net assets at end of year	<u>\$ 161,445,855</u>	<u>\$ 152,468,501</u>

Governmental Activities

Net assets of the District's governmental activities increased \$8,977,354. Total governmental expenses of \$71,210,469 were offset by program revenues of \$15,793,150 and general revenues of \$64,394,673. Program revenues supported 22.18% 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 74.61% of total governmental revenue.

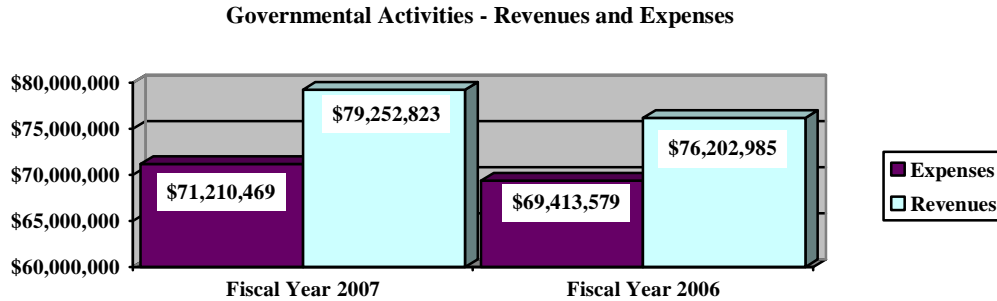
The District's financial condition has remained constant in recent years. Taxpayers have supported Emergency Levy renewals and State support has increased yearly. However, the District's personal property tax base is eroding due to business financial difficulties, revaluation reviews or moving from the 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.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$40,000,957 or 56.17% of total governmental expenses for fiscal 2007.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2007 and 2006.



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

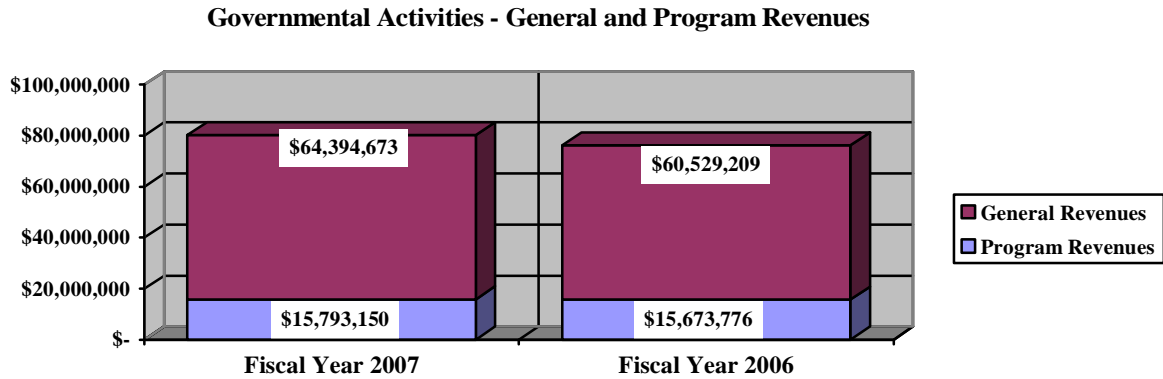
	Total Cost of Services <u>2007</u>	Net Cost of Services <u>2007</u>	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>
Program expenses				
Instruction:				
Regular	\$ 27,609,327	\$ 26,020,277	\$ 26,939,476	\$ 24,849,377
Special	8,392,166	2,229,063	8,874,239	2,936,174
Vocational	610,720	423,600	642,762	402,864
Adult/continuing	50,874	(2,779)	268,011	(8,350)
Other	3,337,870	3,306,505	1,640,733	1,588,351
Support services:				
Pupil	3,608,856	2,661,559	3,781,301	2,606,757
Instructional staff	5,146,121	2,355,074	4,913,678	2,588,063
Board of education	33,373	33,373	44,468	44,468
Administration	4,347,164	4,083,770	4,365,785	4,140,962
Fiscal	1,241,495	1,097,389	1,093,881	946,777
Business	688,346	687,995	685,036	685,036
Operations and maintenance	7,105,486	7,029,294	7,299,599	7,298,580
Pupil transportation	2,078,335	1,703,239	2,459,876	2,305,041
Central	1,033,814	1,033,713	981,753	979,649
Food service operations	2,421,099	41,281	2,195,204	(26,314)
Other non-instructional services	545,214	16,276	281,070	(285,684)
Extracurricular activities	1,263,519	1,001,000	1,240,568	981,913
Interest and fiscal charges	<u>1,696,690</u>	<u>1,696,690</u>	<u>1,706,139</u>	<u>1,706,139</u>
Total expenses	<u>\$ 71,210,469</u>	<u>\$ 55,417,319</u>	<u>\$ 69,413,579</u>	<u>\$ 53,739,803</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 79.94% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 77.82%. The District's taxpayers, as a whole, are by far the primary support for District's students.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

The graph below presents the District's governmental activities revenue for fiscal years 2007 and 2006.



The District's Funds

The District's governmental funds reported a combined fund balance of \$68,734,238, which is greater than last year's total of \$64,225,217. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	Fund Balance June 30, 2007	Fund Balance June 30, 2006	Increase (Decrease)	Percentage Change
General	\$ 12,357,501	\$ 9,576,825	\$ 2,780,676	29.04 %
Classroom Facilities	49,562,235	44,594,932	4,967,303	11.14 %
Other Governmental	6,814,502	10,053,460	(3,238,958)	(32.22) %
Total	\$ 68,734,238	\$ 64,225,217	\$ 4,509,021	7.02 %

General Fund

The District's general fund balance increased \$2,780,676. The increase in fund balance can be attributed to several items related to increasing revenues still outpacing increased expenditures. Tuition increased 63.09% due to open enrollment and earnings on investments increased 40.41% due to higher interest rates. All other revenues and expenditures were consistent with 2006. 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, 2007
(UNAUDITED)

	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Increase</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 17,510,432	\$ 17,234,492	\$ 275,940	1.60 %
Tuition	1,138,795	698,250	440,545	63.09 %
Earnings on investments	1,217,489	867,118	350,371	40.41 %
Intergovernmental	37,732,841	35,600,710	2,132,131	5.99 %
Other revenues	<u>553,224</u>	<u>543,762</u>	<u>9,462</u>	1.74 %
Total	<u>\$ 58,152,781</u>	<u>\$ 54,944,332</u>	<u>\$ 3,208,449</u>	5.84 %
<u>Expenditures</u>				
Instruction	\$ 32,821,753	\$ 31,149,934	\$ 1,671,819	5.37 %
Support services	21,744,906	22,022,991	(278,085)	(1.26) %
Non-instructional services	9,478	-	9,478	100.00 %
Extracurricular activities	<u>889,895</u>	<u>857,262</u>	<u>32,633</u>	3.81 %
Total	<u>\$ 55,466,032</u>	<u>\$ 54,030,187</u>	<u>\$ 1,435,845</u>	2.66 %

Classroom Facilities Fund

The classroom facilities fund had \$46,934,821 in revenues and other financing sources and \$41,967,518 in expenditures and other financing uses. During fiscal 2007, the classroom facilities fund's fund balance increased \$4,967,303 from \$44,594,932 to \$49,562,235.

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 2007, the District amended its general fund budget several times. For the general fund, original budgeted revenues and financing sources were \$56,217,570 and final budgeted revenues and other financing sources were \$59,406,119. Actual revenues and other financing sources for fiscal 2007 was \$60,152,814. This represents a \$748,704 increase from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$57,722,649 were increased to \$58,842,096 in the final appropriations. The actual budget basis expenditures for fiscal year 2007 totaled \$57,467,913, which was \$1,374,183 less than the final budget appropriations. The District made a great effort to cut expenses throughout fiscal year 2007.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

Capital Assets and Debt Administration

Capital Assets

The District restated capital assets at the end of fiscal 2006, see Note 3.A. for details. At the end of fiscal 2007, the District had \$63,000,919 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 2007 balances compared to 2006:

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

	Governmental Activities	
	2007	Restated 2006
Land	\$ 1,645,757	\$ 1,638,007
Construction in progress	56,918,507	12,327,021
Building and improvements	3,710,028	3,938,330
Furniture and equipment	162,973	208,188
Vehicles	563,654	695,943
Total	\$ 63,000,919	\$ 18,807,489

The overall increase in capital assets of \$44,193,430 is due to capital outlays of \$44,654,373 exceeding depreciation expense of \$444,693 and disposals of \$16,250 (net of accumulated depreciation) in the fiscal year.

Debt Administration

At June 30, 2007, the District had \$36,355,000 in general obligation bonds outstanding. Of this total, \$550,000 is due within one year and \$35,805,000 is due within greater than one year. The following table summarizes the bonds outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2007	2006
General obligation bonds	\$ 36,355,000	\$ 36,860,000
Installment purchase obligation	-	159,583
Total	\$ 36,355,000	\$ 37,019,583

At June 30, 2007, the District had no remaining voted debt margin and an unvoted debt margin of \$370,076.

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, 2007
(UNAUDITED)

Current Related Financial Activities

Overall, the District has been financially strong. As the preceding information shows, the District depends upon local property taxes, primarily residential/agricultural class property. The anticipated additional state funding revenue, along with the District's cash balance, will provide the District with the necessary funds to meet its operating expenses in fiscal year 2008. 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 2011. 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 2011. 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, 2007

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 58,831,488
Investments	28,825,134
Cash with escrow agent	986,413
Receivables:	
Taxes	23,068,487
Accounts	9,368
Intergovernmental	61,104,919
Accrued interest	507,549
Materials and supplies inventory	265,321
Unamortized bond issue costs	453,742
Capital assets:	
Land	1,645,757
Construction in progress	56,918,507
Depreciable capital assets, net	4,436,655
Capital assets, net.	63,000,919
 Total assets.	 237,053,340
Liabilities:	
Accounts payable.	295,096
Contracts payable.	6,622,447
Retainage payable	986,413
Accrued wages and benefits	4,938,319
Pension obligation payable.	1,365,446
Intergovernmental payable	722,777
Deferred revenue.	18,043,742
Accrued interest payable	137,230
Claims payable	1,285,200
Long-term liabilities:	
Due within one year.	1,560,892
Due within more than one year	39,649,923
 Total liabilities	 75,607,485
Net Assets:	
Invested in capital assets, net of related debt.	51,031,265
Restricted for:	
Capital projects	79,798,796
Debt service.	2,038,672
Classroom facilities and maintenance.	771,317
State funded programs	355,023
Federally funded programs	1,248,639
Student activities	28,288
Other purposes	328,646
Unrestricted.	25,845,209
 Total net assets	 \$ 161,445,855

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, 2007

		Program Revenues			Net (Expense) Revenue and and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 27,609,327	\$ 934,271	\$ 654,779	\$ -	\$ (26,020,277)
Special	8,392,166	470,632	5,692,471	-	(2,229,063)
Vocational	610,720	2,245	184,875	-	(423,600)
Adult/continuing	50,874	53,653	-	-	2,779
Other	3,337,870	31,365	-	-	(3,306,505)
Support services:					
Pupil	3,608,856	-	947,297	-	(2,661,559)
Instructional staff	5,146,121	4,705	2,786,342	-	(2,355,074)
Board of education	33,373	-	-	-	(33,373)
Administration	4,347,164	4,460	258,934	-	(4,083,770)
Fiscal	1,241,495	-	144,106	-	(1,097,389)
Business	688,346	35	316	-	(687,995)
Operations and maintenance	7,105,486	24,927	29,999	21,266	(7,029,294)
Pupil transportation	2,078,335	86,150	251,350	37,596	(1,703,239)
Central	1,033,814	-	101	-	(1,033,713)
Operation of non-instructional services:					
Food service operations	2,421,099	431,158	1,948,660	-	(41,281)
Other non-instructional services	545,214	129	528,809	-	(16,276)
Extracurricular activities	1,263,519	251,500	11,019	-	(1,001,000)
Interest and fiscal charges	1,696,690	-	-	-	(1,696,690)
Total governmental activities	\$ 71,210,469	\$ 2,295,230	\$ 13,439,058	\$ 58,862	(55,417,319)
General Revenues:					
Property taxes levied for:					
General purposes					17,640,918
Special revenue					201,548
Debt service					2,050,483
Capital projects					142,542
Grants and entitlements not restricted					
to specific programs					40,026,081
Investment earnings					3,827,384
Gain on sale of capital assets					283,937
Miscellaneous					221,780
Total general revenues					64,394,673
Change in net assets					8,977,354
Net assets at beginning of year (Restated - See Note 3)					152,468,501
Net assets at end of year					\$ 161,445,855

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 18,006,199	\$ 26,827,550	\$ 7,654,600	\$ 52,488,349
Investments	-	28,825,134	-	28,825,134
Cash with escrow agent	-	986,413	-	986,413
Receivables:				
Taxes	20,620,285	-	2,448,202	23,068,487
Accounts	9,368	-	-	9,368
Intergovernmental	115,249	58,640,212	2,349,458	61,104,919
Accrued interest	142,740	364,809	-	507,549
Interfund loans	89,042	-	-	89,042
Materials and supplies inventory	-	-	72,003	72,003
Restricted assets:				
Equity in pooled cash and cash equivalents	328,646	-	-	328,646
Total assets	<u>\$ 39,311,529</u>	<u>\$ 115,644,118</u>	<u>\$ 12,524,263</u>	<u>\$ 167,479,910</u>
Liabilities:				
Accounts payable	\$ 155,366	\$ -	\$ 137,501	\$ 292,867
Contracts payable	-	6,323,091	299,356	6,622,447
Retainage payable	-	986,413	-	986,413
Accrued wages and benefits	3,747,624	-	1,190,695	4,938,319
Compensated absences payable	717,819	-	525	718,344
Pension obligation payable	1,064,761	-	300,685	1,365,446
Intergovernmental payable	686,903	-	35,874	722,777
Interfund loan payable	-	-	89,042	89,042
Deferred revenue	20,581,555	58,772,379	3,656,083	83,010,017
Total liabilities	<u>26,954,028</u>	<u>66,081,883</u>	<u>5,709,761</u>	<u>98,745,672</u>
Fund Balances:				
Reserved for encumbrances	264,962	43,920,557	2,755,456	46,940,975
Reserved for materials and supplies inventory	-	-	72,003	72,003
Reserved for tax revenue available for appropriation	95,069	-	11,287	106,356
Reserved for budget stabilization	328,646	-	-	328,646
Unreserved:				
Designation for budget stabilization	295,187	-	-	295,187
Undesignated, reported in:				
General fund	11,373,637	-	-	11,373,637
Special revenue funds	-	-	2,512,472	2,512,472
Debt service fund	-	-	1,760,501	1,760,501
Capital projects funds	-	5,641,678	(297,217)	5,344,461
Total fund balances	<u>12,357,501</u>	<u>49,562,235</u>	<u>6,814,502</u>	<u>68,734,238</u>
Total liabilities and fund balances	<u>\$ 39,311,529</u>	<u>\$ 115,644,118</u>	<u>\$ 12,524,263</u>	<u>\$ 167,479,910</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, 2007

Total governmental fund balances		\$	68,734,238
<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.			63,000,919
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	4,709,162	
Intergovernmental revenue		60,068,607	
Accrued interest		188,506	
Total		64,966,275	64,966,275
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(137,230)
Unamortized premiums on bond issuance is not recognized in the funds.			(873,280)
Unamortized bond issuance costs are not recognized in the funds.			453,742
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.			4,920,382
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		36,355,000	
Compensated absences		3,264,191	
Total		(39,619,191)	(39,619,191)
Net assets of governmental activities		\$	161,445,855

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, 2007

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 17,510,432	\$ -	\$ 2,551,717	\$ 20,062,149
Tuition	1,138,795	-	53,653	1,192,448
Transportation fees	82,733	-	-	82,733
Charges for services	-	-	425,357	425,357
Earnings on investments	1,217,489	2,466,611	95,407	3,779,507
Extracurricular	-	-	242,564	242,564
Classroom materials and fees	-	-	40,474	40,474
Other local revenues	470,491	-	204,775	675,266
Intergovernmental - State	37,607,241	43,784,859	7,667,420	89,059,520
Intergovernmental - Federal	125,600	-	6,854,415	6,980,015
Total revenue	<u>58,152,781</u>	<u>46,251,470</u>	<u>18,135,782</u>	<u>122,540,033</u>
Expenditures:				
Current:				
Instruction:				
Regular	24,008,315	-	4,176,459	28,184,774
Special	6,355,066	-	2,426,699	8,781,765
Vocational	648,695	-	2,198	650,893
Adult/continuing	-	-	50,874	50,874
Other	1,952,482	-	1,385,388	3,337,870
Support services:				
Pupil	2,847,159	-	865,031	3,712,190
Instructional staff	2,952,862	-	2,418,972	5,371,834
Board of education	33,264	-	109	33,373
Administration	4,319,597	-	221,143	4,540,740
Fiscal	1,053,658	-	186,914	1,240,572
Business	683,886	-	560	684,446
Operations and maintenance	7,002,711	61,103	201,413	7,265,227
Pupil transportation	2,061,193	-	51,623	2,112,816
Central	786,976	-	277,227	1,064,203
Operation of non-instructional services:				
Food service operations	-	-	2,512,036	2,512,036
Other non-instructional services	9,478	-	538,916	548,394
Extracurricular activities	889,895	-	319,077	1,208,972
Facilities acquisition and construction	-	41,223,064	3,433,389	44,656,453
Debt service:				
Principal retirement	-	-	664,583	664,583
Interest and fiscal charges	-	-	1,714,778	1,714,778
Total expenditures	<u>55,605,237</u>	<u>41,284,167</u>	<u>21,447,389</u>	<u>118,336,793</u>
Excess (deficiency) of revenues over expenditures	<u>2,547,544</u>	<u>4,967,303</u>	<u>(3,311,607)</u>	<u>4,203,240</u>
Other financing sources (uses):				
Transfers in	142,796	-	209,851	352,647
Transfers (out)	(209,851)	-	(142,796)	(352,647)
Sale of capital assets	300,187	-	-	300,187
Total other financing sources (uses)	<u>233,132</u>	<u>-</u>	<u>67,055</u>	<u>300,187</u>
Net change in fund balances	2,780,676	4,967,303	(3,244,552)	4,503,427
Fund balances at beginning of year	9,576,825	44,594,932	10,053,460	64,225,217
Increase in reserve for inventory	-	-	5,594	5,594
Fund balances at end of year	<u>\$ 12,357,501</u>	<u>\$ 49,562,235</u>	<u>\$ 6,814,502</u>	<u>\$ 68,734,238</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds	\$	4,503,427
<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	\$ 44,654,373	
Current year depreciation	<u>(444,693)</u>	
Total		44,209,680
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		
		(16,250)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	(26,658)	
Intergovernmental revenue	(42,678,215)	
Interest revenue	68,726	
Total	<u>68,726</u>	(42,636,147)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		
		5,594
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.		
		664,583
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.		
		35,765
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.		
		905
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.		
		250,082
The internal service funds used by management to charge the costs of insurance to individual funds are not reported in the statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service funds is allocated among the governmental activities.		
		<u>1,978,298</u>
Change in net assets of governmental activities	\$	<u>8,977,354</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 15,964,433	\$ 17,539,387	\$ 17,544,535	\$ 5,148
Tuition	1,114,760	1,159,446	1,159,343	(103)
Transportation fees	74,994	78,000	77,553	(447)
Earnings on investments	589,991	613,642	1,136,149	522,507
Other local revenues	261,036	271,500	500,201	228,701
Intergovernmental - State	36,161,132	37,610,694	37,607,241	(3,453)
Intergovernmental - Federal	13,460	14,000	10,351	(3,649)
Total revenue	<u>54,179,806</u>	<u>57,286,669</u>	<u>58,035,373</u>	<u>748,704</u>
Expenditures:				
Current:				
Instruction:				
Regular	25,026,908	24,267,052	24,201,028	66,024
Special	6,289,845	6,535,706	6,364,365	171,341
Vocational	739,971	718,483	713,371	5,112
Other	1,937,911	2,386,897	1,984,540	402,357
Support services:				
Pupil	2,910,669	3,172,325	2,956,350	215,975
Instructional staff	2,970,680	3,136,471	2,926,332	210,139
Board of education	42,438	37,513	34,215	3,298
Administration	4,239,782	4,425,405	4,400,766	24,639
Fiscal	1,141,474	1,174,375	1,057,264	117,111
Business	749,011	846,461	736,528	109,933
Operations and maintenance	7,522,577	7,278,181	7,247,198	30,983
Pupil transportation	2,240,633	2,124,536	2,115,437	9,099
Central	1,025,103	1,054,752	1,048,697	6,055
Extracurricular activities	883,147	898,400	896,288	2,112
Total expenditures	<u>57,720,149</u>	<u>58,056,557</u>	<u>56,682,379</u>	<u>1,374,178</u>
Excess (deficiency) of revenues over expenditures	<u>(3,540,343)</u>	<u>(769,888)</u>	<u>1,352,994</u>	<u>2,122,882</u>
Other financing sources (uses):				
Transfers in	862,741	897,325	897,327	2
Transfers (out)	-	(696,447)	(696,447)	-
Advances in	539,901	563,693	563,693	-
Advances (out)	-	(89,042)	(89,042)	-
Refund of prior year expenditure	341,877	353,432	356,234	2,802
Sale of capital assets	293,245	305,000	300,187	(4,813)
Other (uses) of funds	(2,500)	(50)	(45)	5
Total other financing sources (uses)	<u>2,035,264</u>	<u>1,333,911</u>	<u>1,331,907</u>	<u>(2,004)</u>
Net change in fund balance	(1,505,079)	564,023	2,684,901	2,120,878
Fund balance at beginning of year	14,322,029	14,322,029	14,322,029	-
Prior year encumbrances appropriated.	836,357	836,357	836,357	-
Fund balance at end of year	<u>\$ 13,653,307</u>	<u>\$ 15,722,409</u>	<u>\$ 17,843,287</u>	<u>\$ 2,120,878</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007

	Governmental Activities - Internal Service Funds
Assets:	
Current assets:	
Equity in pooled cash	
and cash equivalents.	\$ 6,014,493
Materials and supplies inventory	193,318
 Total assets	 6,207,811
Liabilities:	
Current liabilities:	
Accounts payable.	2,229
Claims payable	1,285,200
 Total liabilities	 1,287,429
Net assets:	
Unrestricted.	4,920,382
 Total net assets	 \$ 4,920,382

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, 2007

	Governmental Activities - Internal Service Funds
Operating revenues:	
Charges for services.	\$ 8,308,003
Other	194,464
Total operating revenues	<u>8,502,467</u>
Operating expenses:	
Personal services	5,483
Purchased services	58,599
Materials and supplies.	245,388
Claims.	<u>6,214,699</u>
Total operating expenses	<u>6,524,169</u>
Change in net assets.	1,978,298
Net assets at beginning of year	<u>2,942,084</u>
Net assets at end of year	<u><u>\$ 4,920,382</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, 2007

	Governmental Activities - Internal Service Funds
Cash flows from operating activities:	
Cash received from charges for services	\$ 8,308,003
Cash received from other operating revenues.	194,464
Cash payments for personal services	(5,483)
Cash payments for purchased services	(58,599)
Cash payments for materials and supplies.	(161,308)
Cash payments for claims.	<u>(6,233,699)</u>
Net cash provided by operating activities	<u>2,043,378</u>
Net increase in cash and cash equivalents	2,043,378
Cash and cash equivalents at beginning of year. . .	<u>3,971,115</u>
Cash and cash equivalents at end of year	<u><u>\$ 6,014,493</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,978,298
Changes in assets and liabilities:	
Decrease in materials and supplies inventory	82,883
Increase in accounts payable.	1,197
Decrease in claims payable	<u>(19,000)</u>
Net cash provided by operating activities.	<u><u>\$ 2,043,378</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, 2007

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 28,107	\$ 63,970
Total assets.	28,107	\$ 63,970
Liabilities:		
Due to students	-	\$ 63,970
Total liabilities	-	\$ 63,970
Net Assets:		
Held in trust for scholarships	28,107	
Total net assets	\$ 28,107	

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, 2007

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 369
Gifts and contributions.	50,212
	50,581
Total additions.	50,581
Deductions:	
Scholarships awarded	50,213
	368
Change in net assets	368
Net assets at beginning of year	27,739
Net assets at end of year	\$ 28,107

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, 2007**

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 50th largest by enrollment among the 876 public and community school districts in the state. The District employs 324 non-certified and 532 certified employees to provide services to approximately 5,751 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 organization's governing 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 organization's 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, 2007

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 2007. 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, 2007

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, 2007

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, 2007

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, 2007

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.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise 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, 2007, but which were levied to finance fiscal year 2008 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2007 are recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2007 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 2007.
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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

7. Appropriation amounts are as originally adopted, or as amended by the Board of Education throughout the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted. The final budget figures, which appear in the statements of budgetary comparisons, represent the permanent appropriation amounts plus all supplemental appropriations legally enacted during the year.
8. At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

F. Cash and Investments

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

During fiscal year 2007, investments were limited to federal agency securities, 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 are reported at cost.

The District has invested funds in STAR Ohio during fiscal year 2007. 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, 2007.

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 2007 amounted to \$1,217,489, which includes \$462,536 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District increased its capitalization threshold from \$1,000 to \$5,000 during fiscal year 2007. 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	20 - 50 years
Furniture and equipment	5 - 20 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, 2007, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least fifteen years or more of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2007, 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 and Designations

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Designated fund balance indicates that portion of fund equity for which management has an intended use of the resources. 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. The amount set-aside by the Board of Education for budget stabilization is reported as a designation of fund balance in the general fund.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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.

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 or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources first 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

Neither type of transaction occurred during 2007.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Prior Period Adjustment - Net Assets

During fiscal year 2007 the District had a reappraisal of its capital assets completed and increased the capitalization threshold to \$5,000. The reappraisal and increase in the capitalization threshold resulted in the restatement of capital assets (see Note 8 for detail) and net assets at June 30, 2006. Net assets as previously reported decreased \$12,095,827 from \$164,564,328 to \$152,468,501.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE (continued)

B. Deficit Fund Balances

Fund balances at June 30, 2007 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Entry Year	\$ 9,600
Ohio Reads	18,754
Alternative Education	1,421
Poverty Aid	334,521
Early Learning Initiative	37,801

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, 2007, expenditures plus encumbrances exceeded appropriations in the Building Fund by \$1,667,658 and in the Classroom Facilities Fund by \$41,497,841.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 items (1) and (2) above 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,
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.

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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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. Cash with Escrow Agent

At fiscal year-end, \$986,413 was on deposit in the District's escrow account and excluded from the total amount of deposits reported below. This amount is not part of the internal cash pool, but reported on the financial statements as "Cash with Escrow Agent".

C. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all District deposits was \$1,946,682, exclusive of the \$5,269,514 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, 2007, \$2,485,735 of the District's bank balance of \$2,600,475 was exposed to custodial risk as discussed below, while \$114,740 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.

D. Investments

As of June 30, 2007, the District had the following investments and maturities:

Investment type	Fair Value	Investment Maturities				
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater than 24 months
FNMA	\$ 10,956,182	\$ 6,261,686	\$ 2,233,706	\$ -	\$ -	\$ 2,460,790
FFCB	2,976,570	-	-	2,976,570	-	-
FFCBC	3,399,744	-	-	-	3,399,744	-
FHLMC	15,330,792	4,967,660	-	7,677,335	2,685,797	-
FHLBC	8,891,190	-	2,983,370	2,970,000	980,940	1,956,880
FNMA DN	4,231,428	-	-	-	4,231,428	-
Repurchase agreements	5,269,514	5,269,514	-	-	-	-
U.S. Government money market mutual fund	579,146	579,146	-	-	-	-
STAR Ohio	34,161,931	34,161,931	-	-	-	-
	<u>\$ 85,796,497</u>	<u>\$ 51,239,937</u>	<u>\$ 5,217,076</u>	<u>\$ 13,623,905</u>	<u>\$ 11,297,909</u>	<u>\$ 4,417,670</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

The weighted average maturity of investments is .63 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 investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the District's name. Of the District's investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the District. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

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, 2007:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
FNMA	\$ 10,956,182	12.77%
FFCB	2,976,570	3.47%
FFCBC	3,399,744	3.96%
FHLMC	15,330,792	17.87%
FHLBC	8,891,190	10.36%
FNMA DN	4,231,428	4.93%
Repurchase Agreements	5,269,514	6.14%
U.S. Government money market mutual fund	579,146	0.68%
STAR Ohio	<u>34,161,931</u>	<u>39.82%</u>
	<u>\$ 85,796,497</u>	<u>100.00%</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

E. 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, 2007:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 1,946,682
Investments	85,796,497
Cash with escrow agent	986,413
Cash on hand	<u>5,520</u>
Total	<u>\$ 88,735,112</u>

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 88,643,035
Private-purpose trust fund	28,107
Agency fund	<u>63,970</u>
Total	<u>\$ 88,735,112</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund balances consisted of the following at June 30, 2007, as reported on the fund statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 89,042

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, 2007 are reported on the Statement of Net Assets.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 5 - INTERFUND TRANSACTIONS – (Continued)

- B.** Interfund transfers for the year ended June 30, 2007, consisted of the following, as reported on the fund financial statements:

<u>Transfers to General Fund from:</u>	
Nonmajor Governmental Funds	\$ 142,796
 <u>Transfers to Nonmajor Governmental Funds from:</u>	
General Fund	209,851

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.

The transfer from Nonmajor Governmental funds represent a transfer from the Adult Education fund that was made to the general fund due to the closing of the Adult Education fund.. This transfer was made in accordance with Ohio Revised Code Section 5705.14D. The transfers from the General Fund to the Nonmajor Governmental funds were all made by Board Resolution and are permitted by Ohio Revised Code Section 5705.14E.

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 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, 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 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 6 - PROPERTY TAXES- (Continued)

Tangible personal property tax revenue received during calendar 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. For 2006, tangible personal property is assessed at 18.75% for property including inventory. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008 and zero for 2009. 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.

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, 2007, are available to finance fiscal year 2007 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, 2007 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, 2007 was \$95,069 in the general fund, \$9,175 in the debt service fund (a nonmajor fund), \$1,056 in the classroom maintenance facilities fund (a nonmajor fund), and \$1,056 in the permanent improvement fund (a nonmajor fund). This amount has been recorded as revenue. The amount that was available as an advance at June 30, 2006 was \$129,172 in the general fund, \$16,171 in the debt service fund (a nonmajor fund), \$1,501 in the classroom facilities maintenance fund (a nonmajor fund), and \$3,132 in the permanent improvement fund (a nonmajor fund).

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 6 - PROPERTY TAXES- (Continued)

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second Half Collections		2007 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 356,126,660	77.14%	\$ 354,769,950	78.23%
Public utility personal	22,295,110	4.83%	21,210,660	4.67%
Tangible personal property	<u>43,211,495</u>	<u>18.03%</u>	<u>77,537,789</u>	<u>17.10%</u>
Total	<u>\$ 421,633,265</u>	<u>100.00%</u>	<u>\$ 453,518,399</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$ 60.45		\$ 60.50	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2007 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:

Property taxes	\$ 23,068,487
Accounts	9,368
Accrued interest	507,549
Intergovernmental	<u>61,104,919</u>
Total	<u>\$ 84,690,323</u>

Receivables have been disaggregated on the face of the financial statements. The intergovernmental receivable in the amount of \$58,640,212 reported in the Classroom Facilities fund is expected to be collected over the next several fiscal years as the Ohio School Facilities Commission construction project is completed. All other receivables are expected to be collected within one year.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 8 - CAPITAL ASSETS

- A. Capital assets were restated at June 30, 2006, due to a reappraisal of the District's capital assets and the increase of the capitalization threshold to \$5,000.

	<u>Balance at</u> 06/30/06	<u>Adjustment</u>	<u>Restated</u> <u>Balance at</u> 06/30/06
Governmental Activities:			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 1,568,402	\$ 69,605	\$ 1,638,007
Construction in progress	<u>12,327,021</u>	<u>-</u>	<u>12,327,021</u>
Total capital assets, not being depreciated	<u>13,895,423</u>	<u>69,605</u>	<u>13,965,028</u>
<i>Capital assets, being depreciated:</i>			
Buildings and improvements	17,462,250	(730,835)	16,731,415
Furniture and equipment	14,263,710	(12,633,710)	1,630,000
Vehicles	<u>2,752,153</u>	<u>(617,688)</u>	<u>2,134,465</u>
Total capital assets, being depreciated	<u>34,478,113</u>	<u>(13,982,233)</u>	<u>20,495,880</u>
<i>Less: accumulated depreciation:</i>			
Buildings and improvements	(7,445,868)	(5,347,217)	(12,793,085)
Furniture and equipment	(8,237,437)	6,815,625	(1,421,812)
Vehicles	<u>(1,786,915)</u>	<u>348,393</u>	<u>(1,438,522)</u>
Total accumulated depreciation	<u>(17,470,220)</u>	<u>1,816,801</u>	<u>(15,653,419)</u>
Governmental activities capital assets, net	<u>\$ 30,903,316</u>	<u>\$ (12,095,827)</u>	<u>\$ 18,807,489</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 8 - CAPITAL ASSETS - (Continued)

B. Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Restated Balance at <u>06/30/06</u>	<u>Additions</u>	<u>Deductions</u>	Balance at <u>06/30/07</u>
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,638,007	\$ 24,000	\$ (16,250)	\$ 1,645,757
Construction in progress	<u>12,327,021</u>	<u>44,591,486</u>	<u>-</u>	<u>56,918,507</u>
Total capital assets, not being depreciated	<u>13,965,028</u>	<u>44,615,486</u>	<u>(16,250)</u>	<u>58,564,264</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	16,731,415	-	(366,044)	16,365,371
Furniture and equipment	1,630,000	9,750	-	1,639,750
Vehicles	<u>2,134,465</u>	<u>29,137</u>	<u>-</u>	<u>2,163,602</u>
Total capital assets, being depreciated	<u>20,495,880</u>	<u>38,887</u>	<u>(366,044)</u>	<u>20,168,723</u>
<i>Less: accumulated depreciation:</i>				
Buildings and improvements	(12,793,085)	(228,302)	366,044	(12,655,343)
Furniture and equipment	(1,421,812)	(54,965)	-	(1,476,777)
Vehicles	<u>(1,438,522)</u>	<u>(161,426)</u>	<u>-</u>	<u>(1,599,948)</u>
Total accumulated depreciation	<u>(15,653,419)</u>	<u>(444,693)</u>	<u>366,044</u>	<u>(15,732,068)</u>
Governmental activities capital assets, net	<u>\$ 18,807,489</u>	<u>\$ 44,209,680</u>	<u>\$ (16,250)</u>	<u>\$ 63,000,919</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 335,543
<u>Support Services:</u>	
Pupil	1,199
Administration	16,231
Fiscal	5,984
Business	8,861
Operations and maintenance	6,333
Pupil transportation	8,582
Food service operations	3,739
Extracurricular activities	<u>58,221</u>
Total depreciation expense	<u>\$ 444,693</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 9 - LONG-TERM OBLIGATIONS

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

	Balance <u>6/30/06</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>6/30/07</u>	Amounts Due in <u>One Year</u>
Governmental Activities					
Compensated absences payable	\$ 3,719,208	\$ 875,362	\$ (612,035)	\$ 3,982,535	\$ 1,010,892
Installment purchase obligation	159,583	-	(159,583)	-	-
G.O. Bonds payable	<u>36,860,000</u>	<u>-</u>	<u>(505,000)</u>	<u>36,355,000</u>	<u>550,000</u>
Total governmental activities long-term liabilities	<u>\$ 40,738,791</u>	<u>\$ 875,362</u>	<u>\$ (1,276,618)</u>	<u>40,337,535</u>	<u>\$ 1,560,892</u>
			Add: Unamortized premium on bond issue	<u>873,280</u>	
			Total on statement of net assets	<u>\$ 41,210,815</u>	

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid, which for the District is primarily the general fund.

Installment Purchase Obligation: On July 24, 2004 the District entered into an installment purchase obligation with Phillip Mazza (\$60,000), William Mazza (\$60,000) and DAF Corporation (\$275,000) to acquire real estate in the amount of \$395,000. The final installment purchase obligation payments were made during fiscal year 2007.

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, 2007, 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

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>
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	800,000	1,623,790	2,423,790
2013 - 2017	5,430,000	7,525,010	12,955,010
2018 - 2022	6,380,000	6,101,250	12,481,250
2023 - 2027	8,625,000	4,299,375	12,924,375
2028 - 2032	12,535,000	1,648,875	14,183,875
Total	<u>\$ 36,355,000</u>	<u>\$ 27,910,541</u>	<u>\$ 64,265,541</u>

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 code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation use in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2007, resulted in no remaining voted debt margin and an unvoted debt margin of \$370,076.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 10 - COMPENSATED ABSENCES - (Continued)

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. Property insurance is maintained in with a \$5,000 deductible. General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$2,000,000 in the aggregate. In addition, the District maintains a \$6,000,000 umbrella liability policy.

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

Settlements have not exceeded coverage in any of the last three fiscal years. There has not been a significant reduction in coverage from the prior year.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 11 - RISK MANAGEMENT - (Continued)

C. Health Insurance

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

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

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

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

Liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using expected future investment assumptions as determined by the third party administrator. These liabilities are reported at their present value of \$1,285,200 at June 30, 2007.

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>
2007	\$ 1,304,200	\$ 6,214,699	\$ (6,233,699)	\$ 1,285,200
2006	1,527,400	6,457,948	(6,681,148)	1,304,200

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, under Forms and Publications.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. 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. 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 contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$859,857, \$827,995, and \$805,930, respectively; 53.45% has been contributed for fiscal year 2007 and 100% for the fiscal years 2006 and 2005. \$400,235 represents the unpaid contribution for fiscal year 2007 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, or by visiting the STRS Ohio website at www.strsoh.org.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

For the fiscal year ended June 30, 2007, 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 STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$3,877,820, \$3,935,615, and \$3,909,149, respectively; 82.90 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$663,297 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2007, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$298,294 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006 (the latest information available), net health care costs paid by STRS Ohio were \$282.743 million and STRS 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. 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 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, District paid \$390,078 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 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. 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. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

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).
- (d) Investments are reported at fair value (GAAP basis) rather than cost (budget basis).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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	\$ 2,684,901
Net adjustment for revenue accruals	117,408
Net adjustment for expenditure accruals	593,097
Net adjustment for other sources/uses	(1,041,093)
Adjustment for encumbrances	426,363
GAAP basis	<u>\$ 2,780,676</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, 2007.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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, 2007, the reserve activity was as follows:

	Textbooks/ Instructional <u>Materials</u>	Capital <u>Acquisition</u>	Budget <u>Stabilization</u>
Set-aside cash balance as of June 30, 2006	\$ (268,269)	\$ (38,000,000)	\$ 328,646
Current year set-aside requirement	973,778	973,778	-
Current year offsets	-	-	-
Qualifying disbursements	<u>(742,832)</u>	<u>(1,556,681)</u>	<u>-</u>
Total	<u>\$ (37,323)</u>	<u>\$ (38,582,903)</u>	<u>\$ 328,646</u>
Balance carried forward to FY 2008	<u>\$ (37,323)</u>	<u>\$ (38,000,000)</u>	<u>\$ 328,646</u>

The negative amounts in the textbooks/instructional materials and capital acquisition reserves are being carried forward to reduce the set-aside requirement for future years.

Monies representing BWC refunds that were received prior to April 10, 2001, have been shown as a restricted asset and reserved fund balance in the general fund since allowable expenditures are restricted by State statute. Monies set-aside by the Board of Education for budget stabilization is reported as a designation of fund balance in the general fund. The balance in the budget stabilization designation at June 30, 2007 was \$295,187.

A schedule of the Governmental Fund restricted assets at June 30, 2007 follows:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 17 - CONTRACTUAL COMMITMENTS

As of June 30, 2007, the District had contractual purchase commitments for the following projects:

Contractor	Purchase Commitments	Amount Paid as of 6/30/2007	Amount Remaining on Contracts
<u>Lincoln Elementary School:</u>			
Conti Corporation	\$ 4,633,330	\$ 4,106,449	\$ 526,881
Jack Gibson Construction	11,444,832	9,873,428	1,571,404
WG Tomko	952,319	806,744	145,575
Valley Electrical	214,550	58,137	156,413
Fire Foe Corporation	282,043	267,388	14,655
<u>Warren G. Harding High School:</u>			
Antenucci Inc.	6,009,425	3,539,239	2,470,186
B&J Electric of Poland, Inc.	182,500	31,339	151,161
Mike Coates Construction	21,618,707	12,424,167	9,194,540
Fire Foe Corporation	588,165	158,140	430,025
High Tech Pools, Inc.	965,954	18,064	947,890
SS Kemp & Co.	562,304	136,844	425,460
Stonecreek Interior Systems	1,109,200	23,825	1,085,375
WG Tomko	2,678,951	1,355,501	1,323,450
Valley Electrical	8,264,301	4,678,890	3,585,411
<u>Willard Elementary School:</u>			
Antenucci, Inc.	3,356,099	254,880	3,101,219
Commercial Appliance	381,613	209,378	172,235
Enertech Electrical	2,620,885	299,606	2,321,279
Fire Foe Corporation	292,000	0	292,000
Hively Construction Co.	10,424,250	627,765	*
Lencyk Masonry Company, Inc.	2,644,684	0	2,644,684
Miller Yount Paving Inc.	1,142,622	0	1,142,622
Independence Excavating	22,360	22,360	0
<i>Totals</i>	<u>\$ 80,391,094</u>	<u>\$ 38,892,144</u>	<u>\$ 31,702,465</u>

* The contract with Hively Construction was terminated May 5, 2007. Any additional amounts due to Hively Construction are unknown at this time and are in legal dispute at June 30, 2007.

NOTE 18 – SIGNIFICANT SUBSEQUENT EVENTS

On August 29 2007, the Board awarded a contract to DeSalvo Construction Company in the amount of \$6,140,000 for general trades for the new Willard building.

In August 2008, the Ohio School Facilities Commission downsized the remaining projects within the District due to declining enrollment. The District has estimated the decrease in monies received will be \$12,136,958. This amount will be reflected as a special item in the 2008 financial statements.



Rea & Associates, Inc.
ACCOUNTANTS AND BUSINESS CONSULTANTS

122 4th St. NW | PO Box 1020
New Philadelphia, OH 44663-5120

February 15, 2008

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 Warren City School District (the "District") as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 15, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompany schedule of findings and questioned costs (2007-001) to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Warren City School District
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
February 15, 2008
Page 2

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the reportable condition identified above to be a material weakness.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the District in a separate letter dated February 15, 2008.

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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2007-002.

We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated February 15, 2008.

This report is intended solely for the information and use of 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.



Rea & Associates, Inc.
ACCOUNTANTS AND BUSINESS CONSULTANTS

122 4th St. NW | PO Box 1020
New Philadelphia, OH 44663-5120

February 15, 2008

To the Board of Education
Warren City Schools
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, 2007. 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 major federal program 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 major federal program for the year ended June 30, 2007.

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 but, not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by any entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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.

Rea & Associates, Inc.

WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	CFDA Number	Grant Number	Federal Receipts	Non-Cash Receipts	Federal Disbursements	Non-Cash Disbursements
<u>U. S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed through Ohio Department of Education:</i>						
Food Distribution Program	10.550	FY07	\$ 0	\$ 115,463	0	\$ 115,463
Nutrition Cluster: School Breakfast Program	10.553	05PU-2006 05PU-2007	157,664 255,357 <u>413,021</u>		157,664 255,357 <u>413,021</u>	
National School Lunch Program	10.555	LLP1-2006 LLP4-2006 LLP1-2007 LLP4-2007	542 440,768 365 820,356 <u>1,262,031</u>		542 365 440,768 820,356 <u>1,262,031</u>	
Summer Food Service Program	10.559	24PU-2006	<u>51,639</u>		<u>51,639</u>	
Total Nutrition Cluster			<u>1,726,691</u>		<u>1,726,691</u>	
Total U.S. Department of Agriculture			<u>1,726,691</u>	<u>115,463</u>	<u>1,726,691</u>	<u>115,463</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed through Ohio Department of Education</i>						
Adult Education - State Grant Program	84.002	ABS1-2006	<u>55,480</u>		<u>25,710</u>	
Title 1 Grants to Local Education Agencies	84.010	C1S1 - 2006 C1S1 - 2007 C1SD - 2006 C1SD - 2007 C1SK - 2007 C1SN - 2006 C1SN - 2007	350,649 2,629,460 (6,450) 76,752 100,000 (5,737) 24,217 <u>3,168,891</u>		484,542 2,482,156 12,117 64,908 100,000 91 13,754 <u>3,157,568</u>	
Total Title 1						
Special Education Grants to States	84.027	6BPB - 2006 6BSF - 2006 6BSF - 2007	0 511,861 1,345,026 <u>1,856,887</u>		8,141 312,639 1,205,323 <u>1,526,103</u>	
Total Special Education Grants to States						
Safe and Drug-Free Schools - State Grants	84.186	DRS1 - 2001 DRS1 - 2006 DRS1 - 2007	0 (4,320) 66,424 <u>62,104</u>		191 12,818 65,570 <u>78,579</u>	
Total Safe and Drug-Free Schools - State Grants						
Innovative Education Program Strategies	84.298	C2S1-2006 C2S1-2007	(3,243) 5,630 <u>2,387</u>		705 2,688 <u>3,393</u>	
Total Innovative Education Program Strategies						

WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	CFDA Number	Grant Number	Federal Receipts	Non-Cash Receipts	Federal Disbursements	Non-Cash Disbursements
Technology Literacy Challenge Fund	84.318	TJS1-2006	\$ 6,175		\$ 14,837	
		TJS1-2007	39,049		26,315	
Total Technology Literacy Challenge Fund			45,224		41,152	
Comprehensive School Reform	84.332	RFCC-2006	0		45	
		RFK3-2005	29,098		16,405	
		RFS1-2002	0		199	
Total Comprehensive School Reform			29,098		16,649	
Improving Teacher Quality State Grant	84.367	TRS1-2006	137,788		105,505	
		TRS1-2007	636,057		590,113	
Total Improving Teacher Quality State Grant			773,845		695,618	
<i>Direct Federal Programs:</i>						
Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	84.334	FY03	0		30	
		FY04	0		2,093	
		FY05	0		18,930	
		FY 06	52,843		63,628	
		FY 07	148,239		150,100	
Total GEAR UP			201,082		234,781	
Safe and Drug-Free Schools - National Programs	84.184	FY06	0		6,859	
		FY07	103,955		103,626	
Total Safe and Drug-Free Schools - National Programs			103,955		110,485	
Total U.S. Department of Education			6,298,953		5,890,038	
<u>INSTITUTE OF MUSEUM AND LIBRARY SERVICES</u>						
<i>Passed through State Library of Ohio</i>						
Grants to States - State of Ohio Library	45.310	FY07	18,535		18,151	
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>Passed through Trumbull County</i>						
<i>Department of Job and Family Services</i>						
Student Readiness Enrichment	93.558	FY 2007	54,940		70,830	
Total Federal Financial Assistance			\$ 8,099,119	\$ 115,463	7,705,710	\$ 115,463

See accompanying notes to the schedule of expenditures of federal awards.

WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2007

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 cost of the commodities to the United States Department of Agriculture (USDA).

Cash receipts from the USDA 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, 2007

1. SUMMARY OF AUDITOR'S RESULTS
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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)?	Yes
(d) (1) (ii)	Were there any other significant deficiencies reported at the financial statement level (GAGAS)?	No
(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 significant deficiencies 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): Nutrition Cluster Improving Teacher Quality State Grants	CFDA # 10.553, 10.555 & 10.559 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, 2007

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

Material Weakness

FINDING NUMBER	2007-001
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In May of 2006, the American Institute of Certified Public Accountants (AICPA), the national professional organization for certified public accountants, issued its Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters Identified in an Audit*. This standard became effective for audits of financial statements for periods ending on or after December 15, 2006.

The AICPA establishes auditing standards generally accepted in the United States that certified public accountants and government auditors must follow in conducting audits of state and local governments. SAS No. 112 establishes standards, responsibilities and guidance for auditors during a financial statement audit engagement for identifying and evaluating a client's internal control over financial reporting. This new standard requires the audit to report *in writing* to management and the governing body any control deficiencies found during the audit that are considered significant deficiencies and/or material weaknesses. To this end, SAS No. 112 lists specific control deficiencies that should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

The compilation and presentation of materially correct financial statements and the related footnotes is the responsibility of management of the District. Independent auditors are not part of the entity's internal control structure and should not be relied upon by management to detect misstatements in the financial statements.

As a result of our audit, we identified material misstatements in the District's financial statements, as well as other misstatements that were not necessarily material, but were more than inconsequential. Material amounts noted above have been subsequently reported in the audited financial statements.

The District is relying on a contracted service provider to compile the financial statements. We recommend the District consider modifying the existing control procedures over the financial reporting process to include an independent review of the financial statements and the related journal entries. The review should be conducted by District personnel that are knowledgeable of generally accepted accounting principles. Additionally, the Treasurer and the contracted service provider should review the adjustments and reclassifications identified during the current audit and ensure that similar errors are not reported on financial statements in subsequent years.

WARREN CITY SCHOOL DISTRICT
TRUMBULL COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2007

Non-Compliance Citation

FINDING NUMBER	2007-002
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Ohio Rev. Code Section 5705.41(B) states no subdivision or taxing unit is to expend money unless it has been appropriated.

At June 30, 2007, expenditures plus encumbrances exceeded appropriations in the following two funds:

Fund	Expenditures	Outstanding Encumbrances	Total	Appropriations	Variance
Building Fund (004)	\$ 3,721,473	\$ 2,808,023	\$ 6,529,496	\$ 4,861,838	\$ (1,667,658)
Classroom Facilities (010)	\$ 34,671,766	\$ 50,243,648	\$ 84,915,414	\$ 43,417,573	\$ (41,497,841)

This noncompliance was due to outstanding encumbrances related to large construction contracts running beyond the end of the fiscal year.

We recommend the District evaluate all outstanding construction purchase orders at year-end to determine the amount required to meet the obligations of the current fiscal year, pursuant to Ohio Rev. Code Section 5705.44. The remaining amount outstanding on the purchase order should be closed out, and included in the annual appropriation measure for the subsequent fiscal year.

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

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133, SECTION .315(b)
JUNE 30, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2006-001	The District did not maintain a complete and accurate record of capital assets, including additions and deletions.	Yes	
2006-002	Ohio Revised Code Section 5705.10, the District had multiple funds in which there were negative fund balances throughout the year.	Yes	
2006-003	Ohio Revised Code Section 5705.41(B), the District had one fund in which expenditures plus outstanding encumbrances exceeded appropriations at year-end.	No	Re-issued as Finding 2007- 002

Corrective Action Plan for Warren City Schools
FY 2007 Audit
Prepared by Angela Lewis, Treasurer
February 27, 2008

Finding Number 2007-001:

Now that the District is aware of the implications of SAS 112, we will work more closely with our contracted service provider to insure that the adjustments and reclassifications identified during the current audit will not be repeated in future years. We will also review the completed GAAP financial statements to look for areas in which material adjustments may occur. However, given the fact that the GAAP conversion deals with estimated figures and interpretations of auditing standards, it is unreasonable to insure that an audit will never have an audit adjustment due to auditors' judgment.

Finding Number 2007-002:

The District has been issuing construction purchase orders pertaining to its OSFC project when a contract is awarded to a vendor. The purchase order has been issued in the full amount of the contract as the contract amount is now an obligation to the school district, regardless of the fact that the contract spans multiple years. This is also a way to determine if the payments on the contract are meeting or exceeding the original award amount without the addition of approved change orders.

Despite the fact that the District believes that its current procedure insures the recognition of the full contract obligation, we will make every effort to expend the additional time and energy necessary to estimate the amount of construction work that will take place under each contract each fiscal year and adjust our OSFC purchase orders accordingly.



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 15, 2008**