

**WARREN COUNTY SCHOOL DISTRICT
WARREN, PENNSYLVANIA**

AUDIT REPORT

JUNE 30, 2011

WARREN COUNTY SCHOOL DISTRICT

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Independent Auditors' Report

To the Members of the Board
Warren County School District
Warren, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Warren County School District as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Warren County School District's management. Our responsibility is to express an opinion 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. 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Warren County School District as of June 30, 2011, and the respective changes in financial position and 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

February 1, 2012
Erie, Pennsylvania

WARREN COUNTY SCHOOL DISTRICT

Management Discussion and Analysis

For the Year Ended June 30, 2011

The discussion and analysis of the WARREN COUNTY SCHOOL DISTRICT'S financial performance is provided as an overall review of the financial activities for the fiscal year ended June 30, 2011. It is intended to have this discussion and analysis presented as a look at the District's financial performance as a whole. To gain a greater appreciation and understanding of the District's financial performance, the reader should also review the financial statements and notes.

FINANCIAL HIGHLIGHTS:

Key financial highlights for 2010-2011 include:

Total 2010-2011 general fund revenues amounted to \$69,482,373, compared to 2009-2010 total revenue of \$69,094,084. This represented a 0.50% increase in revenues.

The general fund expenses, including transfers, of the District amounted to \$70,411,000 in 2010-2011, compared to total expenses in 2009-2010 of \$71,582,025. This represented a 1.70% decrease in expenses.

The General Fund Total Fund Balance at fiscal year ending 2010-2011 was \$4,273,898, which represented an unfavorable change of (\$928,627) (-17.77%) from the prior year's fund balance of \$5,202,174. Included in the Total Fund Balance is \$850,000 for PSERS Retirement Contributions and \$500,000 for School Board and tax contingencies. The Unassigned Fund Balance of \$2,177,733 at fiscal year ending June 30, 2011 represented 6.48% of the total expenses in the fiscal year compared to the fund balance at fiscal year ended June 30, 2010, which represented 4.33% of the expenses for that period.

Again, as in the recent past, expenditures fell below original projections in a number of areas. Due to the receipt of unanticipated grants, cost containment measures, non-use of contingent budgetary reserve, and a number of contingent staff positions and professional development exercises were funded outside the regular general fund budget.

USING THE ANNUAL FINANCIAL REPORT:

The annual financial report consists of a series of financial statements and notes to those statements.

The organization of these reports is intended to provide the reader with an understanding of the Warren County School District as a financial whole and an entire operating entity.

The statements progress into a more detailed look at the specific financial activities during the fiscal year 2010-2011.

The *Statement of Net Assets* and *Statement of Activities* provide information about the whole District, presenting both an aggregate view of the District's finances and longer-term view of those finances. The next level of detail is presented in the fund financial statements. For the governmental funds, these statements explain how services were financed in the short-term, as well as what remains for future spending. The District's most significant funds are also viewed through the fund financial statements. The general fund is by far the most significant fund of the Warren County School District.

REPORTING THE SCHOOL DISTRICT AS A WHOLE:

Government-Wide Financial Statements

Statement of Net Assets and the *Statement of Activities*

This document contains all the funds used by the District to provide programs and activities and attempts to answer the question, "How did we do financially during the 2010-2011 fiscal year?" The answer is available in the *Statement of Net Assets* and the *Statement of Activities*. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector organizations. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or disbursed.

These two statements report the District's net assets and changes in those assets over the course of the 2010-2011 fiscal year. The reports will show whether the District as a whole has seen an increase or decrease in its financial position. The causes for this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, student enrollment, facility conditions, required educational programs and other factors.

The *Statement of Net Assets* and the *Statement of Activities* divide the District into two distinct types of activities:

- **Governmental Activities** – Most of the District's programs and services are reported here and include instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.
- **Business-Type Activities** – These services are provided on a charge for goods or services basis to recover the expenses of the goods or services provided. The District's Food Services operations are reported as business activities.

The Statement of Net Assets provides the perspective of the School District taken as a whole. The School District total net assets were \$24,910,930 at June 30, 2011, compared to \$27,213,301 for 2010.

	2011 Governmental Activities	2011 Business- Type Activities	Total	2010 Governmental Activities	2010 Business- Type Activities	Total
Current	\$ 11,092,323	\$ (219,771)	\$ 10,872,552	\$ 14,306,788	\$ (293,642)	\$ 14,013,146
Capital assets and other assets	42,158,687	235,421	42,394,108	40,873,461	270,306	41,143,767
Total Assets	<u>\$ 53,251,010</u>	<u>\$ 15,650</u>	<u>\$ 53,266,660</u>	<u>\$ 55,180,249</u>	<u>\$ (23,336)</u>	<u>\$ 55,156,913</u>
Current and other liabilities	\$ 7,021,025	\$ 18,233	\$ 7,039,258	\$ 5,303,887	\$ 36,522	\$ 5,340,409
Long-term liabilities	21,316,472	-	21,316,472	22,603,202	-	22,603,202
Total Liabilities	<u>28,337,497</u>	<u>18,233</u>	<u>28,355,730</u>	<u>27,907,089</u>	<u>36,522</u>	<u>27,943,611</u>
Net Assets						
Invested in capital assets, net of related debt	22,324,709	235,421	22,560,130	18,403,461	-	18,403,461
Unrestricted	<u>2,588,804</u>	<u>(238,004)</u>	<u>2,350,800</u>	<u>8,869,699</u>	<u>(59,858)</u>	<u>8,809,841</u>
Total Net Assets	<u>24,913,513</u>	<u>(2,583)</u>	<u>24,910,930</u>	<u>27,273,160</u>	<u>(59,858)</u>	<u>27,213,302</u>
Total Liabilities & Net Assets	<u>\$ 53,251,010</u>	<u>\$ 15,650</u>	<u>\$ 53,266,660</u>	<u>\$ 55,180,249</u>	<u>\$ (23,336)</u>	<u>\$ 55,156,913</u>

The following table shows the revenues, expenses and changes in net assets for fiscal years ended 2011 and 2010:

	2011 Governmental Activities	2011 Business- Type Activities	Total	2010 Governmental Activities	2010 Business- Type Activities	Total
Revenues						
Operating grants and contributions	\$ 46,706,533	\$ 1,057,383	\$ 47,763,916	\$ 46,134,265	\$ 1,069,167	\$ 47,203,432
Charges for services	227,247	825,607	1,052,854	166,313	848,719	1,015,032
General revenues						
Property taxes	18,588,305	-	18,588,305	19,619,177	-	19,619,177
Earned income and local services taxes	3,159,805	-	3,159,805	3,283,397	-	3,283,397
Other taxes	270,198	-	270,198	268,246	-	268,246
Interest earnings	50,485	-	50,485	98,507	-	98,507
Transfers	<u>(350,000)</u>	<u>350,000</u>	<u>-</u>	<u>(100,038)</u>	<u>100,038</u>	<u>-</u>
Total Revenues	<u>68,652,573</u>	<u>2,232,990</u>	<u>70,885,563</u>	<u>69,469,867</u>	<u>2,017,924</u>	<u>71,487,791</u>
Expenses						
Instruction	43,121,615	-	43,121,615	43,669,032	-	43,669,032
Pupil personnel	1,370,389	-	1,370,389	1,375,254	-	1,375,254
Instructional student support and pupil health	3,732,711	-	3,732,711	3,131,033	-	3,131,033
Administrative/business support	5,421,885	-	5,421,885	4,924,351	-	4,924,351
Operation of plant	6,815,105	-	6,815,105	6,310,224	-	6,310,224
Student transportation	5,780,537	-	5,780,537	5,500,529	-	5,500,529
Central services	108,092	-	108,092	114,923	-	114,923
Student activities	1,467,817	-	1,467,817	1,302,373	-	1,302,373
Community services	37,932	-	37,932	31,060	-	31,060
Other	75,392	-	75,392	75,275	-	75,275
Interest on debt	558,817	-	558,817	754,676	-	754,676
Depreciation	2,513,963	-	2,513,963	2,631,911	-	2,631,911
Refund of prior year receipts	7,965	-	(7,965)	121,424	-	121,424
Food services	<u>-</u>	<u>2,175,714</u>	<u>2,175,714</u>	<u>-</u>	<u>2,138,880</u>	<u>2,138,880</u>
Total Expenses	<u>71,012,221</u>	<u>2,175,714</u>	<u>73,187,935</u>	<u>69,942,065</u>	<u>2,138,880</u>	<u>72,080,945</u>
Increase (Decrease) In Net Assets	<u>\$ (2,359,648)</u>	<u>\$ 57,276</u>	<u>\$ (2,302,372)</u>	<u>\$ (472,198)</u>	<u>\$ (120,956)</u>	<u>\$ (593,154)</u>

Governmental Activities

Governmental activities for 2010-2011 resulted in a decrease in net assets of \$2,359,648. The decrease resulted primarily from less grant money and contributions in comparison to the prior year.

Business-Type Activities

Business-type activities relate to the District's food service program. The food service program receives direct funding support from the state and federal divisions dealing with the National School Lunch Program. Additional revenues derived from the sale of meals to students and staff account for the operational funds to operate without support from tax revenues. The general fund, from time-to-time, through a transfer of funds to maintain the majority of capital equipment needs for food service operations, makes a direct contribution to the food service fund.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS:

The analysis of the District's major funds begins on page 16. Detailed information about the District's major funds is reported through the fund financial reports. The major funds will focus on the general fund and the capital projects fund.

Government Funds – Most District activities are reported in governmental funds, which focus on the flow of funds into and out of those funds. The balances at the end of the fiscal year represent what is available for funding in future periods. The modified accrual basis of accounting is used to report the financial activities in these funds and measures cash and all other financial assets that can readily be converted to cash. The governmental funds statements provide a detailed short-term view of the District's general government operations and the basic services it provides. An analysis of the governmental fund helps to determine what funds may be available in the near future to finance continued educational programs.

Proprietary Funds – Proprietary funds use the same basis of accounting as business-type activities; therefore, these fund financial statements will essentially match the government-wide financial statements.

Fiduciary Funds – The District is the trustee for an established Trust Fund. Funds within the trust are monitored by the District and distributed as monetary awards or through purchases for educational supplies and materials in accordance with the specifications and restrictions of each trust agreement. Due to the trust arrangement, these funds can only be used for trust beneficiaries and cannot be utilized by the District to finance its operations.

General Fund Revenue

The District's revenues continue to reflect a similar basic breakdown: local (taxes and other), 33 percent; State and Federal revenues, 67 percent.

	2010-2011	2009-2010
Local Revenue	\$22,775,838 (33%)	\$22,973,118 (33%)
State Revenue	\$39,270,240 (57%)	\$38,666,579 (56%)
Federal & Other	\$7,436,295 (10%)	\$7,454,387 (11%)
TOTAL	\$69,482,373	\$69,094,084

General Fund Expenses

The District's program expenses are 61 percent instruction; 33 percent support; and 6 percent non-instructional (including debt payments and transfers).

	2010-2011	2009-2010
Instruction	\$42,598,516 (61%)	\$43,774,204 (61%)
Support Services	\$23,138,181 (33%)	\$23,973,577 (34%)
Non-Instruction & Debt	\$4,674,303 (6%)	\$3,834,245 (5%)
TOTAL	\$70,411,000	\$71,582,026

The 2010-2011 fiscal year again saw little growth in the local economy. The numbers of appeals and eventual granting of decreased real estate assessments continue to have a significant impact on the local real estate tax base. Consequently, the District's reliance on state and federal grants becomes more and more evident in an effort to meet program needs in order to avoid further financial hardship to the local taxpayer.

School District's Funds

The governmental funds of the District are accounted for using the modified accrual basis of accounting. The following is a breakdown of District fund balances:

	2010-2011
General Fund	\$4,273,898
Capital Projects	\$ 674,553
Total	\$4,948,451

General Fund Budget Highlights

The \$69,482,373 of revenues in the general fund in 2010-2011 applied against the total general fund expenditure outlay of \$70,411,000 resulted in a net decrease to the fund balance of \$928,667. Although the District recognizes a fund balance of \$4,273,898, it also realizes that a liability for **post-retirement benefits** (see Note 10 to the financial statements) needs to be considered as a designation of that fund balance and \$1,350,000 is designated for other purposes (\$850,000 for PSERS retirement contributions and \$500,000 for Board contingencies).

Comparison of Transfer Out Accounts

	2010-2011	2009-2010
Contribution to Athletics	\$ -	\$ 1,002,421
Contribution to Capital Resv	\$ 368,820	\$ 1,343,519
Debt Service Payments	\$ 2,589,015	\$ 3,037,777
TOTALS	\$ 2,957,835	\$ 5,383,717

For 2011, the Athletic Fund is combined with the General Fund.

Capital Asset and Debt Administration

At the end of fiscal year 2010-2011, the District had approximately \$42.4 million invested in land, buildings, equipment and construction-in-process (\$79.9 million, less accumulated depreciation of \$38.8 million).

Debt Administration

The existing bonds payable at June 30, 2011 totaled \$20,445,000. The debt payments for the fiscal year totaled \$2,589,015.

At June 30, 2011, the District's non-electoral limit for debt (225% of borrowing base) was \$148 million, less existing debt of \$22 million, leaves the District with a borrowing capacity of \$124 million.

Factors Expected to have an Effect on Future Operations

The stagnant status of the local real estate assessments, coupled with continued appeals from local businesses and industries, concerns the District as current operational expenses continue to rise without any normal inflationary increases in revenues. The impact of uncertain economic conditions upon government entitlement, stimulus, and subsidy revenues and the continued imposition of State and Federal mandates significantly inhibit the administration's resources. With continued projections for declining student enrollment, the challenge to reduce operational costs while maintaining the expected high levels of educational programming is a continuing challenge for the District Board and administration.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the District's accountability for the financial resources it receives. If you have questions about the report or wish to request additional financial information, please contact the District's Business Administrator, 185 Hospital Drive, Warren, PA; telephone (814) 723-6903.

WARREN COUNTY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2011

	Governmental Activities	Business-Type Activities	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 2,476,169	\$ 20,627	\$ 2,496,796
Investments	482,450	-	482,450
Taxes receivable, net	3,466,781	-	3,466,781
Internal balances	511,293	(511,293)	-
Due from other governments	2,046,171	133,396	2,179,567
Other receivables	1,300,499	122,700	1,423,199
Inventories	-	6,819	6,819
Prepaid expenses	749,774	7,980	757,754
Other current assets	59,186	-	59,186
Total Current Assets	<u>11,092,323</u>	<u>(219,771)</u>	<u>10,872,552</u>
Noncurrent Assets			
Land	498,983	-	498,983
Construction in progress	762,830	-	762,830
Capital assets, net	<u>40,896,874</u>	<u>235,421</u>	<u>41,132,295</u>
Total Noncurrent Assets	<u>42,158,687</u>	<u>235,421</u>	<u>42,394,108</u>
Total Assets	<u><u>\$ 53,251,010</u></u>	<u><u>\$ 15,650</u></u>	<u><u>\$ 53,266,660</u></u>
Liabilities and Net Assets			
Current Liabilities			
Accounts payable	\$ 2,081,100	\$ 16,537	\$ 2,097,637
Current portion of long-term debt	2,540,000	-	2,540,000
Accrued salaries and benefits	1,752,827	1,696	1,754,523
Payroll deductions and withholdings	27,817	-	27,817
Other current liabilities	<u>619,282</u>	<u>-</u>	<u>619,282</u>
Total Current Liabilities	<u>7,021,026</u>	<u>18,233</u>	<u>7,039,259</u>
Noncurrent Liabilities			
Bonds payable	17,905,000	-	17,905,000
Other post-employment benefits	2,792,223	-	2,792,223
Long-term portion of compensated absences	<u>619,249</u>	<u>-</u>	<u>619,249</u>
Total Noncurrent Liabilities	<u>21,316,472</u>	<u>-</u>	<u>21,316,472</u>
Total Liabilities	<u>28,337,498</u>	<u>18,233</u>	<u>28,355,731</u>
Net Assets			
Invested in capital assets net of debt	21,713,687	235,421	21,949,108
Unrestricted (deficit)	<u>3,199,825</u>	<u>(238,004)</u>	<u>2,961,821</u>
Total Net Assets	<u>24,913,512</u>	<u>(2,583)</u>	<u>24,910,929</u>
Total Liabilities and Net Assets	<u><u>\$ 53,251,010</u></u>	<u><u>\$ 15,650</u></u>	<u><u>\$ 53,266,660</u></u>

The accompanying notes are an integral part of these statements.

WARREN COUNTY SCHOOL DISTRICT

Statement of Activities For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction:				
Regular instruction	\$ 31,884,478	\$ 227,247	\$ 31,005,790	\$ -
Special instruction	9,452,238	-	11,306,306	-
Vocational instruction	1,406,399	-	392,540	-
Other instructional programs	378,500	-	198	-
Total Instructional Services	43,121,615	227,247	42,704,834	-
Support Services:				
Pupil personnel	1,370,389	-	71,363	-
Instructional staff	3,020,054	-	157,270	-
Administration	4,602,242	-	235,962	-
Pupil health	712,657	-	136,324	-
Business services	819,643	-	42,683	-
Operation and maintenance of plant services	6,815,105	-	116,652	-
Student transportation	5,780,537	-	3,215,168	-
Central services	108,092	-	5,629	-
Other support services	75,392	-	-	-
Total Support Services	23,304,111		3,981,051	-
Non-instructional Services:				
Student activities	1,467,817	-	18,673	-
Community services	37,932	-	1,975	-
Payments on long-term debt	558,817	-	-	-
Refund of prior year receipts	7,965	-	-	-
Unallocated depreciation expense	2,513,963	-	-	-
Total Non-instructional Services	4,586,494	-	20,648	-
Total Governmental Activities	71,012,221	227,247	46,706,533	-
Business-Type Activities:				
Food service	2,175,714	825,607	1,057,383	-
Total	\$ 73,187,935	\$ 1,052,854	\$ 47,763,916	\$ -

The accompanying notes are an integral part of these statements.

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (651,441)	\$ -	\$ (651,441)
1,854,068	-	1,854,068
(1,013,859)	-	(1,013,859)
(378,302)	-	(378,302)
<u>(189,534)</u>	<u>-</u>	<u>(189,534)</u>
(1,299,026)	-	(1,299,026)
(2,862,784)	-	(2,862,784)
(4,366,280)	-	(4,366,280)
(576,333)	-	(576,333)
(776,960)	-	(776,960)
(6,698,453)	-	(6,698,453)
(2,565,369)	-	(2,565,369)
(102,463)	-	(102,463)
(75,392)	-	(75,392)
<u>(19,323,060)</u>	<u>-</u>	<u>(19,323,060)</u>
(1,449,144)	-	(1,449,144)
(35,957)	-	(35,957)
(558,817)	-	(558,817)
(7,965)	-	(7,965)
(2,513,963)	-	(2,513,963)
<u>(4,565,846)</u>	<u>-</u>	<u>(4,565,846)</u>
<u>(24,078,441)</u>	<u>-</u>	<u>(24,078,441)</u>
-	(292,724)	(292,724)
<u>(24,078,441)</u>	<u>(292,724)</u>	<u>(24,371,165)</u>

Schedule continued on next page.

WARREN COUNTY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2011

(Continued)

General Revenues:

Taxes:

Property taxes, levied for general purposes, net

Earned income and local services taxes

Other taxes

Investment earnings

Transfers

Total General Revenues, Special Items, Extraordinary Items and Transfers

Change in Net Assets

Net Assets, Beginning

Net Assets, Ending

The accompanying notes are an integral part of these statements.

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Governmental</u>	<u>Business-Type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Total</u>
\$ 18,588,305	\$ -	\$ 18,588,305
3,159,805	-	3,159,805
270,198	-	270,198
50,485	-	50,485
<u>(350,000)</u>	<u>350,000</u>	<u>-</u>
<u>21,718,793</u>	<u>350,000</u>	<u>22,068,793</u>
(2,359,648)	57,276	(2,302,372)
<u>27,273,161</u>	<u>(59,858)</u>	<u>27,213,303</u>
<u><u>\$ 24,913,513</u></u>	<u><u>\$ (2,583)</u></u>	<u><u>\$ 24,910,930</u></u>

WARREN COUNTY SCHOOL DISTRICT

Balance Sheet Governmental Funds June 30, 2011

	General Fund	Capital Projects	Debt Service	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,223,753	\$ 1,252,416	\$ -	\$ 2,476,169
Investments	482,450	-	-	482,450
Taxes receivable, gross	3,313,448	-	-	3,313,448
Due from other funds	525,138	-	-	525,138
Due from proprietary fund	511,293	-	-	511,293
Due from other governments	2,046,171	-	-	2,046,171
Other receivables	1,300,499	-	-	1,300,499
Prepaid expenses	749,774	-	-	749,774
Other current assets	59,187	-	-	59,187
Total Assets	\$ 10,211,713	\$ 1,252,416	\$ -	\$ 11,464,129
Liabilities and Fund Balances				
Liabilities				
Due to other funds	\$ -	\$ 525,138	\$ -	\$ 525,138
Accounts payable	2,028,375	52,725	-	2,081,100
Accrued salaries and benefits	1,752,827	-	-	1,752,827
Payroll deductions and withholdings	27,817	-	-	27,817
Deferred revenues	2,040,065	-	-	2,040,065
Other current liabilities	88,731	-	-	88,731
Total Liabilities	5,937,815	577,863	-	6,515,678
Fund Balances				
Nonspendable	749,774	-	-	749,774
Committed	133,292	674,553	-	807,845
Assigned	1,350,000	-	-	1,350,000
Unassigned	2,040,832	-	-	2,040,832
Total Fund Balances	4,273,898	674,553	-	4,948,451
Total Liabilities and Fund Balances	\$ 10,211,713	\$ 1,252,416	\$ -	\$ 11,464,129

The accompanying notes are an integral part of these statements.

WARREN COUNTY SCHOOL DISTRICT
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2011

Total fund balances - governmental funds	\$	4,948,451
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of assets is \$79,967,769, and the accumulated depreciation is \$37,809,083		42,158,687
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Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds		2,040,065
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Allowance for doubtful accounts - taxes receivable		(141,667)
--	--	-----------

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Bonds payable	\$ (20,445,000)	
Accrued interest on the bonds	(195,228)	
Other post-employment benefits	(2,792,223)	
Compensated absences	(954,572)	
		(24,387,023)

Other:

Earned income tax receivable from self-employed individuals		295,000
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Total Net Assets - Governmental Activities		\$ 24,913,513
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The accompanying notes are an integral part of these statements.

WARREN COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

	General Fund	Capital Projects	Debt Service	Total Governmental Funds
Revenues				
Local sources				
Property taxes	\$ 19,385,307	\$ -	\$ -	\$ 19,385,307
Income and other taxes	3,068,184	-	-	3,068,184
Other local sources	322,348	235,986	-	558,334
State sources	39,270,240	-	-	39,270,240
Federal sources	7,436,295	-	-	7,436,295
Total Revenues	69,482,373	235,986	-	69,718,359
Expenditures				
Instruction	42,598,516	-	-	42,598,516
Support services	23,138,181	-	-	23,138,181
Noninstructional services	1,358,503	-	-	1,358,503
Capital outlay	-	3,886,581	-	3,886,581
Bond issuance costs	-	-	285,820	285,820
Debt service (principal and interest)	-	-	15,105,686	15,105,686
Total Expenditures	67,095,200	3,886,581	15,391,506	86,373,287
Excess (deficiency) of revenues over expenditures	2,387,173	(3,650,595)	(15,391,506)	(16,654,928)
Other Financing Sources (Uses)				
Interfund transfers	(2,957,835)	368,820	2,589,015	-
Bond proceeds	-	-	12,685,000	12,685,000
Bond premium	-	-	117,491	117,491
Transfer to proprietary fund	(350,000)	-	-	(350,000)
Refunds of prior year receipts	(7,965)	-	-	(7,965)
Total Other Financing Sources (Uses)	(3,315,800)	368,820	15,391,506	12,444,526
Net Change in Fund Balances	(928,627)	(3,281,775)	-	(4,210,402)
Fund Balance, July 1, 2010	5,202,525	3,956,328	-	9,158,853
Fund Balance, June 30, 2011	\$ 4,273,898	\$ 674,553	\$ -	\$ 4,948,451

The accompanying notes are an integral part of these statements.

WARREN COUNTY SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balance
to the Statement of Activities
For the Year Ended June 30, 2011

Total net change in fund balances - governmental funds \$ (4,210,402)

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlays in the period.

Depreciation expense	\$ (2,513,963)	
Capital outlays	<u>3,801,922</u>	1,287,959

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues decreased by this amount this year. (724,133)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 2,025,000

Other:

Change in other post-employment benefits	(743,270)	
Change in accrued interest payable	<u>5,198</u>	

Change in Net Assets of Governmental Activities \$ (2,359,648)

The accompanying notes are an integral part of these statements.

WARREN COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Local revenues	\$ 26,521,317	\$ 23,867,813	\$ 22,775,839	\$ (1,091,974)
State program revenues	40,973,787	40,707,031	39,270,240	(1,436,791)
Federal program revenues	3,292,669	6,175,486	7,436,295	1,260,809
Total Revenues	70,787,773	70,750,330	69,482,374	(1,267,956)
Expenditures				
Regular programs	31,003,116	31,026,839	31,361,811	(334,972)
Special programs	9,522,040	9,456,990	9,452,238	4,752
Vocational programs	1,566,058	1,565,936	1,406,399	159,537
Other instructional programs	238,206	332,737	378,068	(45,331)
Non-public school programs	14,612	11,654	-	11,654
Pupil personnel services	1,349,336	1,349,336	1,370,389	(21,053)
Instructional staff services	2,662,828	2,536,769	3,020,054	(483,285)
Administrative services	4,175,133	4,232,533	4,531,179	(298,646)
Pupil health	789,845	730,955	712,657	18,298
Business services	851,786	881,143	819,643	61,500
Operation and maintenance of plant services	6,453,313	6,453,313	6,720,238	(266,925)
Student transportation services	5,420,139	5,420,139	5,780,537	(360,398)
Central and other support services	147,125	129,837	108,092	21,745
Media services	81,000	81,000	75,392	5,608
Student activities	347,496	347,496	283,194	64,302
Athletics	1,043,646	1,043,646	1,037,377	6,269
Community services	21,850	18,064	37,932	(19,868)
Debt service	3,350,243	3,350,243	2,589,015	761,228
Total Expenditures	69,037,772	68,968,630	69,684,215	(715,585)
Excess (deficiency) of revenues over expenditures	1,750,001	1,781,700	(201,841)	(1,983,541)
Other Financing Sources (Uses)				
Fund transfers	(1,250,000)	(1,250,000)	(718,820)	(531,180)
Contingencies	(500,000)	-	-	-
Refund of prior year's receipts	-	-	(7,965)	7,965
Budgetary reserve	-	(491,000)	-	(491,000)
Total Other Financing Sources (Uses)	(1,750,000)	(1,741,000)	(726,785)	(1,014,215)
Net Change in Fund Balances	1	40,700	(928,627)	(969,327)
Fund Balance - July 1, 2010	7,750,000	7,750,000	5,202,525	(2,547,475)
Fund Balance - June 30, 2011	\$ 7,750,001	\$ 7,790,700	\$ 4,273,898	\$ (3,516,802)

The accompanying notes are an integral part of these statements.

WARREN COUNTY SCHOOL DISTRICT

Statement of Net Assets

Proprietary Funds

June 30, 2011

	<u>Food Service</u>
Assets	
Current Assets	
Cash and cash equivalents	\$ 20,627
Due from other governments	133,396
Other receivables	122,700
Inventories	6,819
Prepaid expenses	<u>7,980</u>
Total Current Assets	<u>291,522</u>
Noncurrent Assets	
Machinery and equipment, net	<u>235,421</u>
Total Noncurrent Assets	<u>235,421</u>
Total Assets	<u><u>\$ 526,943</u></u>
Liabilities and Net Assets	
Current Liabilities	
Due to other funds	\$ 511,293
Accrued salaries and benefits	1,696
Accounts payable	<u>16,537</u>
Total Current Liabilities	<u>529,526</u>
Total Liabilities	<u>529,526</u>
Net Assets	
Invested in capital assets, net of debt	235,421
Unrestricted	<u>(238,004)</u>
Total Net Assets	<u>(2,583)</u>
Total Liabilities and Net Assets	<u><u>\$ 526,943</u></u>

The accompanying notes are an integral part of these statements.

WARREN COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2011

	<u>Food Service</u>
Operating Revenues:	
Food service revenue	\$ 825,607
Total Operating Revenues	<u>825,607</u>
Operating Expenses:	
Salaries	529,538
Employee benefits	316,967
Other purchased services	1,185,238
Supplies	732
Depreciation	120,035
Other operating expenditures	<u>23,204</u>
Total Operating Expenses	<u>2,175,714</u>
Operating Income (Loss)	<u>(1,350,107)</u>
Nonoperating Revenues (Expenses)	
State sources	90,348
Federal sources	<u>967,035</u>
Total Nonoperating Revenues (Expenses)	<u>1,057,383</u>
Change in Net Assets before Transfers	(292,724)
Transfers in	<u>350,000</u>
Change in net assets	57,276
Net Assets, June 30, 2010	<u>(59,859)</u>
Net Assets, June 30, 2011	<u><u>\$ (2,583)</u></u>

The accompanying notes are an integral part of these statements.

WARREN COUNTY SCHOOL DISTRICT

Combined Statement of Cash Flows -

Proprietary Fund Type

For the year ended June 30, 2011

	<u>Food Service</u>
Cash Flows From Operating Activities	
Cash received from users	\$ 827,232
Cash payments to employees for services	(846,506)
Cash payments to suppliers for goods and services	(1,482,333)
Cash payments for other operating expenses	<u>(23,204)</u>
Net Cash Provided By (Used For) Operating Activities	<u>(1,524,811)</u>
Cash Flows From Non-Capital Financing Activities	
State sources	104,253
Federal sources	1,104,774
Transfers in	<u>350,000</u>
Net Cash Provided By (Used For) Non-Capital Financing Activities	<u>1,559,027</u>
Cash Flows From Capital and Related Financing Activities	
Equipment purchase	<u>(85,150)</u>
Net Cash Provided By (Used For) Capital and Related Financing Activities	<u>(85,150)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(50,934)
Cash and Cash Equivalents at Beginning of Year	<u>71,561</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 20,627</u></u>
Reconciliation of Operating Income to Net Cash (Used For) Operating Activities	
Operating Income (Loss)	<u>\$ (1,350,107)</u>
Depreciation and net amortization	120,035
(Increase) decrease in accounts receivable	1,625
(Increase) decrease in prepaid expenses	37,884
(Increase) in other current assets	(19,985)
Increase (decrease) in accounts payable	1,695
(Decrease) increase in due to other funds	<u>(315,958)</u>
Total Adjustments	<u>(174,704)</u>
Cash Provided By (Used For) Operations	<u><u>\$ (1,524,811)</u></u>

The accompanying notes are an integral part of these statements.

WARREN COUNTY SCHOOL DISTRICT

Statement of Net Assets - Fiduciary Funds

June 30, 2011

	Agency Funds			
	Student	Earned Income		
	Activities	Tax Office	Trust Funds	Total
Assets				
Cash and cash equivalents	\$ 169,202	\$ 975,332	\$ 32,312	\$ 1,176,846
Investments	-	-	203,241	203,241
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 169,202</u>	<u>\$ 975,332</u>	<u>\$ 235,553</u>	<u>\$ 1,380,087</u>
Liabilities and Net Assets				
Liabilities				
Accounts payable	\$ 169,202	\$ 975,332	\$ -	\$ 1,144,534
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>169,202</u>	<u>975,332</u>	<u>-</u>	<u>1,144,534</u>
Net Assets				
Restricted for legal purposes	-	-	235,553	235,553
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Net Assets	<u>-</u>	<u>-</u>	<u>235,553</u>	<u>235,553</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Net Assets	<u>\$ 169,202</u>	<u>\$ 975,332</u>	<u>\$ 235,553</u>	<u>\$ 1,380,087</u>

The accompanying notes are an integral part of these statements.

WARREN COUNTY SCHOOL DISTRICT
Statement of Changes in Net Assets - Fiduciary Funds
For the Year Ended June 30, 2011

	<u>Trust Funds</u>
Additions	
Gifts and contributions	\$ 3,149
Earnings/(loss) on investments	<u>9,355</u>
	<u>12,504</u>
Deductions	
Scholarships awarded	<u>(5,572)</u>
Change in Net Assets	6,932
Net Assets, July 1, 2010	<u>228,621</u>
Net Assets, June 30, 2011	<u><u>\$ 235,553</u></u>

The accompanying notes are an integral part of these statements.

WARREN COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) as applied to governmental units prescribed in the statements issued by the Government Accounting Standards Board (GASB) and other recognized authoritative sources. In the government-wide financial statements and in enterprise funds, the District also applies Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989, except those that conflict with GASB pronouncements.

A. Financial Reporting Entity

For financial reporting purposes, Warren County School District includes all funds that are controlled by or dependent on the administrative and legislative branches (the Administration or School Board, respectively). Control by or dependence on the School District is determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenues or general obligation of the School District to finance any deficits that may occur, or receipt of significant subsidies from the School District, and reporting responsibility of the entity in question.

The School District includes the Tax Collection Fund of Warren County as an agency fund of the District. Furthermore, the Warren County Area Vocational Technical School, which serves primarily the Warren County School District, is included in the general fund of the District.

B. Fund Accounting

The accounts of the School District are maintained and the accompanying fund financial statements have been prepared on the basis of accounting practices prescribed or permitted by the Manual of Accounting and Related Financial Procedures for Pennsylvania School Systems, issued by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania. These practices, as they apply to the Warren County School District, are in conformity with accounting principles generally accepted in the United States of America.

The financial transactions of the School District are recorded in individual funds, each of which is considered a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to specific District functions or activities. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The District reports the following major governmental funds:

The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

The Capital Projects Fund is used to account for certain repairs and maintenance of the District's buildings and facilities.

The Debt Service Fund is used to account for the payment of principal and interest related to the various outstanding General Obligation Bonds of the District.

The government reports the following major enterprise funds:

The Food Service Fund is used to account for all financial transactions related to the food service activities of the District. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Additionally, the District reports the following funds:

Fiduciary Funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds.

These include the Student Activity Funds, Trust Funds, and the District's Earned Income Tax Office. The student activity funds and the earned income tax office are both classified as Agency Funds as they are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid overstatement of revenues and expenses. The statements distinguish between governmental and business-type activities of the District.

The government-wide financial statements are reported using the *economic resources measurement focus*. This is the same approach used in the preparation of proprietary fund financial statements, but differs from the manner in which governmental fund 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.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each identifiable activity of the business-type and 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 are, 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. All taxes and revenues not classified as program revenues are presented as general revenues of the District.

Fund Financial Statements

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

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by 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. Their reported fund balance (net current assets) is considered a measure of "available spendable resources." Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities (whether current or noncurrent) associated with the operations of these funds are included on the balance sheet. Proprietary fund operating statements present increases (revenues) and decreases (expenses) in net total assets.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. Government-wide financial statements are prepared using the accrual basis of accounting. The fund financial statements are prepared using either modified accrual for governmental funds or accrual basis for proprietary and fiduciary funds.

Revenue resulting from exchange transactions is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recognized in the accounting period when they become both measurable and available. Available means collectible within the current period or soon enough, thereafter, to be used to pay liabilities of the current fiscal year. The available period of the District is sixty days after year end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met. On the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

In applying the susceptible to accrual concept under the modified concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: property taxes available for advance, investment earnings, tuition, grants and student fees.

The District reports deferred revenue on its statements of net assets and governmental funds balance sheet. In both government-wide and governmental fund statements, taxes received that are "intended to finance" a future period are reported as deferred revenue. In subsequent periods, the liability for deferred revenue is removed from the statements of net assets and governmental funds balance sheet and revenue is recognized.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

On the accrual basis of accounting, expenses are recorded at the time they are incurred. The measurement focus of governmental fund accounting is on a flow of current financial resources. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred except for (1) principal and interest on long-term debt, which is recorded when due, and (2) the costs related to compensated absences, which are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

E. Property Taxes

The School District levies taxes on July 1 based on assessed values established by Warren County. Taxes paid prior to October 1 are eligible for a 2% discount and subject to a 10% penalty if paid after November 30. Under Act 1 of 2006, taxpayers may pay their taxes in three installments beginning August 31.

The District levied real estate taxes of \$19,385,307 on July 1, 2011 based on a gross taxable valuation of \$403,860,563 at 48.0 mills. Taxes are collectible through May 1 each year. Subsequent to that date, taxes are turned over to the Warren County Tax Claim Bureau and the property is liened.

F. Budgets and Budgetary Accounting

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to May 31, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted for twenty (20) days prior to the date set for adoption.
- c. Prior to June 30, the budget is legally enacted through passage of a resolution.
- d. The budget is adopted on the modified accrual basis of accounting.
- e. Formal budgetary integration is employed as a management control device during the year for the General Fund. Formal budgetary integration is not employed by other funds because effective budgetary control is alternatively achieved through direct authorization by the School Board or expenditures are all fixed in nature.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- f. The Business Manager is authorized to transfer budgeted amounts between functional areas within the fund, but such action shall be taken only during the last nine (9) months of the fiscal year. Any revisions that alter the total expenditures of the fund require School Board approval.
- g. Unencumbered appropriations lapse at year end.

G. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed as an extension of formal budgetary integration.

H. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers all temporary investments with initial maturities of three months or less to be cash equivalents.

I. Investments

Investments are reported at fair market value based on quoted market prices.

J. Inventory

The District's inventory consists of donated and purchased food of the Enterprise Fund. Purchased food is valued at cost while donated commodities are presented at market value figures provided by the federal government. The Enterprise Fund uses the consumption method of inventory. Under this method, inventory is charged to expenditures when used.

K. Capital Assets and Depreciation

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets are reported in the government-wide statement of net assets, but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported on both statement types.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The District defines capital assets as assets with an initial, individual cost of \$5,000 or more. Donated fixed assets are recorded at their fair market value as of the date received. The District does not possess any infrastructure.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All reported capital assets, with the exception of land, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

	<u>Life - Years</u>
Buildings and improvements	20-40
Machinery and equipment	5-20

L. Interfund Transactions

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Sales of goods and services between funds are reported as revenues in the seller funds and as expenses/expenditures 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 non-operating revenues/expenses in proprietary funds.

On fund financial statements, advances between funds are accounted for in the appropriate interfund receivable and payable accounts. These advances are considered available and spendable resources and current obligations of the respective funds. These amounts are eliminated in the statement of net assets, except for amounts due between governmental and business-type activities, which are presented as internal balances.

M. Compensated Absences

Unpaid sick and personal days accrue at a rate of \$8.00 to \$50.00 per day and are paid on separation from service. The entire compensated absences liability is reported in the government-wide financial statements.

For governmental funds, vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the appropriate fund. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available resources are not reported in the fund financial statements. Unpaid compensated absences consist of \$825,873 for unused sick pay and \$128,699 for accumulated vacation pay.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Accrued Liabilities and Long-Term Debt

All accrued liabilities and long-term debt are reported in the government-wide financial statements, as well as the proprietary fund financial statements. For governmental fund financial statements, the accrued liabilities are generally reported as a fund liability if due for payment as of the balance sheet date regardless of whether they will be liquidated with current financial resources. Long-term debt paid from governmental funds is not recognized as a liability in the financial statements until due.

O. Concentration of Credit Risk

The District maintains various deposits presented on the balance sheet as cash and investments with several local banks. The amounts on deposit with certain banks exceed the \$250,000 federally insured limit.

Also, the District has amounts receivable arising from property tax delinquencies and levies. These amounts are due from citizens of Warren County, Pennsylvania and are, thus, subject to the economic conditions of this geographical area.

P. Estimates in Financial Statements

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Q. Pension Plan Description

The Warren County School District contributes to the Public School Employees' Retirement System (the System), a Governmental cost-sharing multiple-employer defined benefit pension plan. The System provides retirement and disability, legislative mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying annuitants. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 PA. C. S. 8101-8535) holds the authority to establish and amend benefit provisions. The System issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Barbara D. Flurie, Office of Financial Management, Public School Employees' Retirement System, P.O. Box 125, Harrisburg, PA 17108-0125.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Funding Policy

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth. Most active members contribute at 5.25% or 6.50% of the member's qualifying compensation. Members joining the system on or after July 22, 1983 contribute 6.25% or 7.50%. Members joining the system after June 30, 2001 contribute at 7.50%. Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2011, the rate of employer contribution was 5.64% of covered payroll. The 5.64% rate is composed of a pension contribution rate of 5.0% for pension benefits and .76% for healthcare insurance premium assistance. The School District's contributions to the system for the years ending June 30, 2011, 2010 and 2009 were \$2,177,358, \$2,188,425 and \$1,698,783, respectively, equal to the required contributions for each year.

NOTE 2 - NON-POOLED CASH AND INVESTMENTS

The District's cash and investments consist of deposits with financial institutions and investments through brokers. The District's investment policies are governed by state statute and District policy. Permissible investments include United States treasury bills and other federal instruments, time accounts or share accounts of institutions insured by the Federal Deposit Insurance Corporation, and certificates of deposit to the extent such certificates are secured by a proper bond or secured by such proper collateral.

A. Deposits

Custodial credit risk is the risk that, in event of a bank failure, the District's deposits may not be returned. As of June 30, 2011, the bank balance of the District's deposits that are exposed to custodial credit risk is \$5,046,819 and their carrying amount is \$2,496,796. These amounts are uninsured. However, they are collateralized with securities held by the trust department or agent but not in the District's name.

Reconciliation to Financial Statements

Insured amount	\$ 250,630
Uninsured and collateralized held by the pledging bank's Trust Department not in the District's name	5,046,819
Plus: Deposits in transit	498,681
Less: outstanding checks	(3,306,334)
Ending amount of cash in banks	2,489,796
Plus: petty cash	7,000
Total cash per financial statements	\$ <u>2,496,796</u>

NOTE 2 - NON-POOLED CASH AND INVESTMENTS (CONTINUED)

B. Investments

As of June 30, 2011, the District had the following investments:

Investment	Maturities	Fair Value
PA Local Gov't Investment Trust	N/A	\$ 1,525
Cash held by Broker	N/A	480,925
		<u>\$482,450</u>

Interest Rate Risk - The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The District has no investment policy that limits its choices to certain credit ratings. The District's investment policy does limit investments to those allowed by the Pennsylvania School Code.

Custodial Credit Risk - For an investment, custodial risk is the risk that, in the event of a bank 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. As of June 30, 2011, all of the District's investments are held by the broker or dealer, or by its trust department or agent, but not in the District's name.

Concentration of Credit Risk - The District places no limit on the amount that may be invested in any one issuer.

NOTE 3 - TAXES RECEIVABLE

Taxes receivable consist of the following at June 30, 2011:

	Government- Wide Statements	Fund Statements
Delinquent real estate taxes	\$ 3,269,408	\$ 3,269,408
Delinquent per capita	44,040	44,040
Earned income tax	295,000	-
Allowance for doubtful accounts	(141,666)	-
	<u>\$ 3,466,781</u>	<u>\$ 3,313,448</u>

In accordance with the modified accrual basis of accounting, the above has been recognized as revenue only to the extent that they are measurable and available. Accordingly, \$2,040,065 of the delinquent real estate taxes deemed not available as of June 30, 2011 has been recorded as deferred revenue on the governmental funds balance sheet.

NOTE 4 - INTERGOVERNMENTAL RECEIVABLES

Amounts due from other governments consist of the following:

	General Fund	Food Service Fund	Total
Federal	\$ 1,510,317	\$ 121,877	\$ 1,632,194
State	535,854	11,519	547,373
	<u>\$ 2,046,171</u>	<u>\$ 133,396</u>	<u>\$ 2,179,567</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund receivables and payables on the fund statements at June 30, 2011 consist of the following:

	Interfund Receivable	Interfund Payable
General fund	\$ 1,036,432	\$ -
Capital Project fund	-	525,139
Food Service fund	-	511,293
	<u>\$ 1,036,432</u>	<u>\$ 1,036,432</u>

Interfund transfers on the fund statements at June 30, 2011 consist of the following:

	Transfer In	Transfer Out
General fund	\$ -	\$ 2,957,835
Capital Project fund	368,820	-
Debt Service fund	2,589,015	-
	<u>\$ 2,957,835</u>	<u>\$ 2,957,835</u>

The purpose of the transfer from the General Fund to the Debt Service Fund was to make principal and interest payments related to the District's outstanding General Obligation Bonds. The transfers from the General Fund to the Capital Project Fund were made to fund certain repairs and maintenance of the District's buildings and facilities.

NOTE 6 - CAPITAL ASSETS

A summary of capital asset activity during the year is as follows:

	June 30, 2010	Additions	Deletions	June 30, 2011
Governmental Activities				
Capital assets not depreciated:				
Construction in progress	\$ 383,809	\$ 785,465	\$ 406,444	\$ 762,830
Land	498,983	-	-	498,983
Total capital assets not depreciated	<u>\$ 882,792</u>	<u>\$ 785,465</u>	<u>\$ 406,444</u>	<u>\$ 1,261,813</u>
Capital assets depreciated:				
Buildings and improvements	\$ 63,640,752	\$ 2,551,769	\$ -	\$ 66,192,521
Furniture and equipment	11,645,038	868,397	-	12,513,435
Total Assets Depreciated	<u>75,285,790</u>	<u>3,420,166</u>	<u>-</u>	<u>78,705,956</u>
Less accumulated depreciation				
Buildings and improvements	(28,942,276)	(1,430,831)	-	(30,373,107)
Furniture and equipment	(6,352,844)	(1,083,133)	-	(7,435,977)
Total Accumulated Depreciation	<u>(35,295,120)</u>	<u>(2,513,963)</u>	<u>-</u>	<u>(37,809,083)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 39,990,670</u>	<u>\$ 906,203</u>	<u>\$ -</u>	<u>\$ 40,896,873</u>
Business-Type Activities				
Capital assets being depreciated:				
Equipment	\$ 1,162,881	\$ 85,151	\$ -	\$ 1,248,032
Less: accumulated depreciation	(892,576)	(120,035)	-	(1,012,611)
Total Capital Assets Being Depreciated, Net	<u>\$ 270,305</u>	<u>\$ (34,884)</u>	<u>\$ -</u>	<u>\$ 235,421</u>

Detailed information needed to allocate depreciation expense to the various functions of the District is not available.

NOTE 7 - OTHER CURRENT LIABILITIES

Other current liabilities on the statement of net assets consist of the following:

Accrued interest payable	\$ 195,228
Retirees prepaid health insurance	88,731
Current portion of compensated absences	<u>335,323</u>
	<u>\$ 619,282</u>

NOTE 8 - NONCURRENT LIABILITIES

A. General Obligation Bonds

The General Obligation Bonds consist of the following as of June 30, 2011:

Series of 2010

The Series of 2010 bonds were issued on October 21, 2010 in the amount of \$12,685,000. The bonds mature serially at various amounts through October 1, 2023 and bear interest ranging from 2.00% to 3.25%. These bonds were issued to provide resources to refund the Series of 2003 and 2004 bonds.

Series of 2008

The Series of 2008 bonds were issued on October 31, 2008 in the amount of \$10,000,000. The bonds mature serially at various amounts through September 1, 2017 and bear interest ranging from 3.00% to 3.50%. The bonds were issued to retire the 2001 bonds and a portion of the 2002 bonds.

B. Lease Obligations

The District leases its office space under a lease agreement expiring in 2011. The District has the option of renewing the lease annually and is expected to do so in future years. The terms of the lease call for annual rental payments of \$1 and monthly utility charges of \$6,708.

NOTE 8 - NONCURRENT LIABILITIES (CONTINUED)

The changes in noncurrent liabilities for the year ended June 30, 2011 consist of the following:

	Balance at June 30, 2010	Increases	Decreases	Balance at June 30, 2011	Due in One Year
General Obligation Bonds, Series of					
2002	\$ 170,000	\$ -	\$ 170,000	\$ -	\$ -
2003	7,770,000	-	7,770,000	-	-
2004	5,080,000	-	5,080,000	-	-
2008	9,450,000	-	1,325,000	8,125,000	1,325,000
2010	-	12,685,000	365,000	12,320,000	1,215,000
	<u>22,470,000</u>	<u>12,685,000</u>	<u>14,710,000</u>	<u>20,445,000</u>	<u>2,540,000</u>
Compensated Absences					
Sick pay	853,002	-	27,129	825,873	86,171
Vacation pay	<u>260,046</u>	<u>-</u>	<u>131,347</u>	<u>128,699</u>	<u>249,152</u>
	<u>1,113,048</u>	<u>-</u>	<u>158,476</u>	<u>954,572</u>	<u>335,323</u>
	23,583,048	12,685,000	14,868,476	21,399,572	<u>\$ 2,875,323</u>
Less: Current Portion	<u>(2,870,323)</u>	<u>(5,000)</u>	<u>-</u>	<u>(2,875,323)</u>	
Total Noncurrent Liabilities	<u>\$ 20,712,725</u>	<u>\$ 12,680,000</u>	<u>\$ 14,868,476</u>	<u>\$ 18,524,249</u>	

The following is a summary of future debt service requirements to maturity for General Obligation Bonds:

	Principal	Interest	Total
<u>June 30,</u>			
2012	\$ 2,540,000	\$ 523,325	\$ 3,063,325
2013	2,805,000	448,444	3,253,444
2014	2,880,000	371,406	3,251,406
2015	2,065,000	305,744	2,370,744
2016	1,870,000	254,244	2,124,244
2017-2021	6,225,000	625,145	6,850,145
2022-2025	<u>2,060,000</u>	<u>96,103</u>	<u>2,156,103</u>
	<u>\$20,445,000</u>	<u>\$ 2,624,411</u>	<u>\$23,069,411</u>

NOTE 9 – FUND BALANCE

The District's fund balance is classified under the following components under GASB Statements No. 54:

- **Nonspendable.** The nonspendable fund balance classification includes amounts that cannot be spent because they are either (1) not in spendable form, or (2) legally or contractually required to be maintained intact. The District's nonspendable fund balance consists of prepaid expenses and inventories.
- **Committed.** Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. The School Board of Directors has committed a portion of fund balance to cover projected future increase in PSERS pension contributions, other post-employment benefits, unemployment expenses, and building renovations.
- **Unassigned.** Unassigned fund balance is the residual classification for the general fund. The School District does not currently have a minimum fund balance policy. The School District policy is that committed funds will be reduced first and then unassigned amounts.

NOTE 10 - POST-EMPLOYMENT BENEFITS

Plan Description

In addition to the Pension benefits described in Note 1, the School District provides post-employment health insurance and prescription drug benefits through a single-employee defined benefit plan. The benefits are established in accordance with the requirements set forth by the School Board and Pennsylvania Act 110. The Plan is not accounted for as a trust fund, an irrevocable trust has not been established, the Plan does not issue a separate report and activity of the Plan is reported in the School District's General Fund.

Benefit coverage as a retiree will be equivalent (single or dependent coverage) to that held by the individual at the time of retirement. As of June 30, 2011, 141 retired employees are covered under the Plan. The School District's expenses for benefits were \$1,312,171 in the year ended June 30, 2011.

Funding Policy

The benefits are expensed when incurred and are financed on a pay-as-you-go basis. Retirees currently pay a portion of the monthly premium depending on the level of coverage. The School District covers the balance of the premium not paid by the retiree. Retiree and dependent coverage, group plans, and costs to the retiree are subject to change. A spouse may be covered as a dependent until the earlier of the death of the retiree or Medicare eligibility.

NOTE 10 - POST-EMPLOYMENT BENEFITS (CONTINUED)

The School District's annual OPEB cost is calculated based on the annual required contribution of the employees (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No 45. The ARC is the normal cost plus the portion of the unfunded actuarial accrued liability to be amortized in the current period. The ARC is an amount that is actuarially determined in accordance with the requirements so that if paid on an ongoing basis, it would be expected to provide sufficient resources to fund both normal cost for each year and the amortized unfunded liability.

The following table shows the component of the School District's annual OPEB cost for the year, the amount actually contributed, and changes in the School District's net OPEB obligation:

Annual required contribution (ARC)	\$ 2,169,506
Interest on net OPEB obligation	75,619
Adjustment to ARC	<u>(31,202)</u>
Annual OPEB cost	2,213,923
Contribution made	<u>(1,312,177)</u>
Increase in net OPEB obligation	901,746
Net OPEB obligation - beginning of year	<u>1,890,477</u>
Net OPEB obligation - end of year	<u>\$ 2,792,223</u>

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation were as follows:

Fiscal Year Ending	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
June 30, 2011	\$ 2,213,923	60.2%	\$ 2,792,223
June 30, 2010	2,184,262	60.2%	1,890,477
June 30, 2009	2,209,506	53.8%	1,021,287

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, present multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

NOTE 10 - POST-EMPLOYMENT BENEFITS (CONTINUED)

The ARC for the current year was computed as of July 1, 2008 using the following actuarial assumptions: (1) actuarial cost method entry age normal; (2) interest rate 4.5%; (3) salary increases are composed of a 3% cost of living adjustment, 1% real wage growth and merit increases for teacher and administrators between .25% and 3%; (4) retiree contributions to increase at the same rate as the Health Care cost trend rate; (5) the Health Care cost trend rate is 9.0% in 2008, decreasing to an ultimate rate of 5% in 2014 and later; (6) amortization is based on level dollar, thirty year open period.

The schedule of funding progress for the post-employment benefits is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-(b)	Unfunded Actuarial Accrued Liability (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
July 1, 2008	N/A	\$ 20,871,113	\$ 20,871,113	0.00%	\$ 35,688,718	58%
July 1, 2007	N/A	N/A	N/A	N/A	N/A	N/A

N/A - not applicable

NOTE 11 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and injuries to employees for which the District purchases commercial insurance. Settled claims have not exceeded insurance coverage in any of the past three years. There were no significant reductions in coverage compared to prior years.

NOTE 12 - CONTINGENT LIABILITIES

The School District participates in both state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The District is potentially liable for any expenditure which may be disallowed pursuant to the terms of these grant programs. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the District believes such amounts to be immaterial. The District may also be subject to claims by creditors, employees or others. The District does not believe that liabilities arising from such claims, if any, are significant and have no accrual for such claims has been made.